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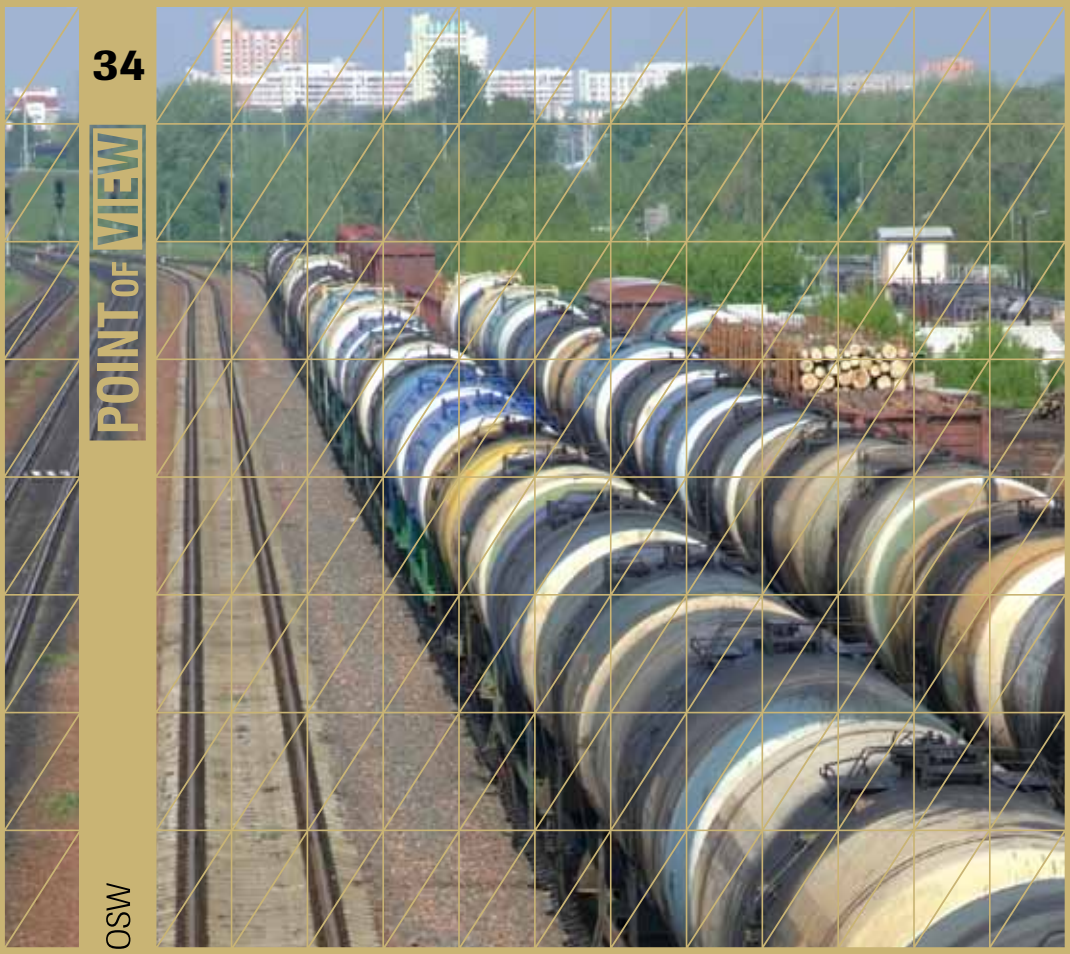
POINT OF VIEW



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# SUPPORT AS A MEANS OF SUBORDINATION

## RUSSIA'S POLICY ON BELARUS

Agata Wierzbowska-Miazga

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OŚRODEK STUDIÓW WSCHODNICH im. **Marka Karpia**

Content editors
Adam Eberhardt, Marek Menkiszak

Editor
Katarzyna Kazimierska

Co-operation
Anna Łabuszewska

Translation
Maciej Kędzierski

Co-operation
Timothy Harrell

Graphic design
PARA-BUCH

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**Ośrodek Studiów Wschodnich im. Marka Karpia**

Centre for Eastern Studies
ul. Koszykowa 6a, Warsaw, Poland
Phone + 48 /22/ 525 80 00
Fax: + 48 /22/ 525 80 40
osw.waw.pl

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## INTRODUCTION

Despite the conflicts and frictions in their bilateral relations, Russia has for years regularly invested in Belarus. Moscow's support has become an important factor allowing the Belarusian economic model to continue, which in turn helps maintain the stability of the Belarusian political system. Russia's continued readiness to offer assistance to its neighbour reflects the importance Moscow attaches to Belarus.

In addition to the highly significant role Minsk plays in Russia's foreign and security policy, and in the transit of Russian raw materials and goods, Belarus also features prominently in Moscow's current policy objectives – especially in relation to two key projects: the Customs Union (CU) and the Common Economic Space (CES). The implementation of these projects is seen as crucial in Russia, particularly because Moscow hopes that Ukraine's involvement in the CU and the CES would limit its options for closer integration with the European Union. For this reason, since 2011 we have been witnessing a rise in Russian aid for Belarus. In 2012, the support intensified and moved beyond purely financial help to include political assistance also.

Moscow's support, however, has come at a price. Alexander Lukashenko has had to finalise the implementation of a number of changes repeatedly stipulated by Russia over the past few years, which have further increased Minsk's dependence on its neighbour. In addition, the mechanisms of Russia's assistance have also changed – by supporting Minsk, Moscow is increasingly pursuing its own national interests. Russia's stopgap solutions to Belarusian problems are therefore designed in such a way as to ultimately achieve the objectives of Moscow's foreign policy – particularly, to further strengthen the links between Belarus and Russia.

Moscow's long-term goal is to establish control over the Belarusian economy, which would also, in effect, allow the Kremlin to

influence the way other areas of the Belarusian state are governed. As a result, in the coming years Russian-Belarusian relations are likely to be marked by conflict. The periodic tensions, however, will not lead to a suspension or break-up of bilateral relations, as the importance Russia attaches to Belarus means that Moscow is ready to support Minsk despite delays in the implementation of changes stipulated by Russia. Nonetheless, as Minsk's dependence on Russian support deepens, Alexander Lukashenko will ultimately have no choice but to gradually accede to Russia's demands.

# I. RUSSIA'S SUPPORT FOR BELARUS IN 2012

According to Moscow[1], the value of Russia's assistance to Belarus exceeded USD $6 billion in 2012 – this is a substantial amount considering that the annual revenue of the Belarusian budget oscillates around the USD $16 billion mark. The assistance comes in the form of preferential pricing of Russian raw materials and low-interest loans. For example, under the terms of a contract signed in November 2011, Belarus has been granted a 40-percent discount on Russian natural gas imports, effective from 2012. Consequently, the price of gas bought by Belarus dropped from USD $263 in the fourth quarter of 2011 to an annual average of just under USD $166 in 2012, saving the Belarusian state approximately USD $2 billion. By way of comparison, in 2012 the price paid for Russian gas by the Republic of Moldova and by Ukraine was set at USD $395 and USD $430 per 1000 $m^3$, respectively. In addition, thanks to Customs Union regulations, Belarus's purchases of Russian oil are exempt from export tariffs. Under a four-year oil contract signed in 2012, Belarus pays an average of USD $404 per tonne (almost 17% less than in 2011). Despite raising official objections, Moscow effectively allowed Minsk to re-export Russian oil products as Belarusian solvents and thinners for a number months – enabling Minsk to sidestep Russia's export tariffs. During the first six months of 2012, the exports of such products earned Belarus USD $2.5 billion[2]. Similar avoidance mechanisms have been used to re-export biofuels and heating oil.

In June 2012, Belarus received USD $440 million from the Russian-controlled Anti-Crisis Fund of the Eurasian Economic Community – this money was the third instalment of a USD $3 billion loan agreed in 2011. In December 2012, the ACF decided to transfer

[1] Interview with the senior adviser at the Russian Embassy in Belarus Valeriy Bondarenko, http://www.interfax.by/printable/exclusive/94718

[2] In response to Russian pressure, in July 2012 such exports were suspended.

another instalment of USD $440[3]. The money was paid out despite the fact that Belarus had failed to fully meet the conditions of the loan agreement, primarily those relating to the privatisation of state-owned enterprises[4]. On 18 June 2012, Belarus and Russia also signed a contract for the construction of a nuclear power plant in Belarus. Moscow has since opened a USD $10 billion credit line for the project[5].

Russia has also demonstrated its political support for the Belarusian president. Moscow has never taken any real steps to remove Alexander Lukashenko from power and has backed him at several crucial points of his presidency. However, the Kremlin's relations with Lukashenko have not always been friendly. During the 2010 presidential elections Moscow ran a downright hostile campaign against the Belarusian leader[6]. At the moment, however, the relations between the Kremlin and the Belarusian president are demonstrably good. Lukashenko continues to enjoy Russia's support in his dealings with the West, and Russia opposes the EU/US sanctions imposed on the Belarusian political and business elite. In February 2012, a declaration of opposition

3 The fourth tranche of the loan was eventually paid out in January 2013, the previous two tranches of USD $800 and 440 million were transferred in June and December 2011.

4 The credit agreement stipulates the privatisation of Belarusian state property worth a total of USD $7.5 billion within three years. The implementation of the plan was to be carried out gradually through privatisation contracts worth $ 2.5 billion a year. To date, the government has only sold off shares in Beltransgaz, which generated the USD $2.5 billion planned for 2011.

5 See K. Kłysiński, M. Menkiszak, 'Will the construction of a nuclear power plant in Belarus exacerbate the country's energy dependence on Russia?' OSW Commentary, No. 87, http://www.osw.waw.pl/en/publikacje/osw-commentary/2012-07-23/will-construction-a-nuclear-power-plant-belarus-exacerbate-coun

6 Russia's NTV broadcast a documentary titled 'Krestniy Batka' ('Godfather'), which presented a series of allegations that for years have been made against the president by the Belarusian opposition. These included suggestions that Lukashenko had ordered the murders of several of his political opponents. On a number of occasions, Russian news bulletins and current affairs programmes also aired comments made by Belarusian opposition politicians who have no access to official media in Belarus.

to the sanctions was filed jointly by Alexander Lukashenko and the then Russian president Dmitry Medvedev. Solidarity with the Belarusian leader was also expressed in a statement issued in March 2012 by the prime ministers of the member-states of the Russian-dominated Common Economic Space, in which they expressed their opposition to the sanctions, arguing that the measures were having a negative effect on all three members of the CES, namely Russia, Kazakhstan and Belarus. Statements of support for Belarus have also been repeatedly issued by Russia's Foreign Ministry. In addition, Belarus had the privilege of hosting Vladimir Putin on his first foreign visit, made in May 2012 at the start of his third presidential term.

## II. THE STRATEGIC IMPORTANCE OF BELARUS FOR RUSSIA

Russia's support for Belarus remains a constant feature of the countries' bilateral relations; the level of Moscow's engagement, however, does vary depending on the quality of these relations at any given time. Moscow's readiness to invest in Belarus reflects the **unchanging strategic importance** of Belarus for the Kremlin's foreign, security and domestic policies, as well as Russia's economic relations with its foreign partners.

The long-lasting domination over its western neighbour is often seen in Russia as proof of its geopolitical standing. **In its relations with the West**, Moscow uses this influence to build an image of Russia as a regional superpower and a centre binding together the post-Soviet territory. This image makes it easier for Russia to convince the West of its natural power of patronage over the CIS area and the fact that the Kremlin should be involved in all decisions concerning the area.

Since the collapse of the Soviet Union, **Belarus has been at the core of the integration processes in the post-Soviet area**. It has been the only CIS member-state to take part in all of the Russian-led integration initiatives. It has also co-founded the Union State of Belarus and Russia – the most advanced regional integration project to date. Although many of the original objectives of the Union State have not been achieved, the project remains both a testing ground and an example of the extent to which particular attributes of sovereignty could potentially be ceded to Moscow and to see what model of integration would be most effective in Russia's relations with the former Soviet Republics[7].

[7] The Union State of Belarus and Russia – a supranational integration structure, envisaged as a federation, established by a treaty of 8 December 1999. The treaty envisages deep political and economic integration of the two countries. Several attempts have been made at adopting the Constitutional Act of Union State, during which the lawmakers considered creating the po-

Belarusian territory also plays an important role in the **transit** of Russian raw materials and goods to the West and to the Kaliningrad region. Although the launch of the Nord Stream gas pipeline and the BTS-2 oil pipeline will in the long term reduce the importance of Belarus as a transit country, for the time being its role remains significant – mainly due to Moscow's desire to limit the volume of gas transported via Ukraine. In 2011-2012 Belarusian pipelines transported 44.3 billion m³ of gas per year[8] to Lithuania, Ukraine, Poland and Kaliningrad, which accounted for 23% of Russia's total gas exports[9]. This means that the Belarusian transit infrastructure has been used at near capacity. Moscow has announced plans to increase the volume of gas pumped via Belarus in 2013 by as much as 25%[10], but without additional pipeline capacity in both Belarus and other transit countries (e.g. Poland), such an increase will not be possible.

The Druzhba (Friendship) oil pipeline, on the other hand, carries app. 50 million tonnes of crude a year, which accounts for about 21% of Russia's total oil exports. The oil is transited through Belarus to consumers in Poland, Germany, the Czech Republic, Hungary, Slovakia and Bosnia. Meanwhile, the Belarusian grid is used to transmit electricity to the Baltic States and the Russian regions of Kaliningrad, Bryansk and Pskov. In 2011, the Belarusian transmission lines carried 2.8 billion kWh of Russian electricity.

sition of a Union State president. On 20 November 2000, Presidents Alexander Lukashenko and Boris Yeltsin signed an agreement on adopting a common currency (Russian rouble) across the Union State, which was planned for 2005. However, due to differences of opinion on the nature of the integration and different national interests of both parties, the Union State has so far failed to reach the envisaged level of integration. Since then, its strategic significance has somewhat diminished and has been replaced by other integration projects covering the entire post-Soviet area.

8 http://www.interfax.by/printable/news/belarus/124917

9 In 2012, Russia's gas exports reached 178.7 billion m³; the Kaliningrad region receives around 1.2 billion m³ of gas a year; http://ria.ru/economy/20130208/921879837.html, http://kaliningrad.ru/news/item/6569

10 http://www.regnum.by/news/1546830.html, http://naviny.by/rubrics/english/2012/06/09/ic_articles_259_178119/

Belarus is also the shortest route for rail and road transit of goods between Russia and Europe – with around 30% of transit cargo being transported via Belarusian territory. Thanks to the strong ties between Minsk and Moscow, Russia is able to ensure the security of its transit cargo and benefits from competitive transit fees. For many years, Belarus's role as a transit country has offered Russia a viable alternative to relying on Ukraine for its transit capacity – which has also helped Moscow achieve its objectives in negotiations with Kyiv.

In addition, Belarus is important to Russia **from the point of view of defence and security policy**. Of great significance is the country's geographical location, which makes it the westernmost territory controlled by Russia (except for the Russian exclave of Kaliningrad). Moscow's control over Belarus extends Russia's security zone and moves the location of any potential Russia-NATO conflict away from its own territory. Under Russia's optic, Belarus remains part of its security buffer zone. The S-300 PS and TOR-M2 missile systems located in Belarus are part of the Russian air defence system, aimed at protecting Russia's western border. Over the next few years, the missiles are likely to be replaced by the new generation S-400 missiles with a range of several hundred kilometres, which, thanks to their location in Belarus, would allow Moscow to control a significant section of NATO airspace. In strategic military terms Belarus's location in close proximity to Kaliningrad is also quite significant. The Russian enclave lies around 300 km west of the Russian border and is separated from Russia by the territories of the two countries. Meanwhile, the distance between Belarus and Kaliningrad is only approximately 80 km. The inclusion of Belarus into the Russian security zone therefore reduces the isolation of the Russian exclave and allows Moscow to create military scenarios based on cooperation between Kaliningrad and Belarusian troops. The inclusion of Belarus in Russia's security zone also means that in the event of a conflict, NATO could find it problematic to deploy its land forces in the nearby Baltic States. The barely 80-km wide corridor between

Belarus and the Kaliningrad region could easily be invaded. In addition, Belarus hosts two Russian military facilities: a radar station in Gantsevichi near Baranovichi, and a Baltic Fleet communications hub in Vileyka. For the time being, however, the facilities are of purely political significance. The Gantsevichi radar has lost its military significance since a more modern facility was opened in Kaliningrad Oblast, while the Vileyka communications centre is currently being transformed into an element of a joint system for radioelectronic warfare[11].

Close relations with Belarus are also important for the Kremlin **in the context of Russia's domestic politics**. The implementation of the integration project across the post-Soviet area enjoys widespread popular support in Russia. For many Russians, these processes confirm the country's superpower status, which can, at least on a psychological level, offer some compensation for the poor living conditions in Russia. With regard to Belarus itself, it is important to stress that the country is commonly perceived through the prism of 'Slavic brotherhood' and 'shared Soviet history'. Over 74% of Russians support closer ties with Belarus[12], while 61% of Russians still do not consider Belarus a foreign country[13]. Consequently, any significant weakening of ties between Russia and Belarus, let alone a complete reorientation of Belarusian foreign policy towards the West, would generally be perceived as a failure of the Russian government.

[11] This paragraph has benefited from consultation with the research fellow for the military aspects of international security Andrzej Wilk at the Centre for Eastern Studies, Warsaw, Poland.

[12] Opinion poll conducted in October 2010 by the Russian Levada Centre, http://www.levada.ru/02-11-2010/za-poslednii-god-rossiya-i-belarus-otdalilis-drug-ot-druga

[13] Opinion poll conducted in October 2011 by the Russian Levada Centre, http://www.newsland.ru/news/detail/id/804528/

## III. BELARUS IN RUSSIA'S CURRENT FOREIGN POLICY

Belarus also plays a **vital role in the implementation of the current objectives** of Russia's foreign policy, which has recently translated into a significant increase in Russian support for its western neighbour.

**Belarus is one of the building blocks of the Eurasian integration project**, which has now become a priority in Russia's relations with the CIS. Moscow's ultimate objective is to develop a Eurasian Economic Community bringing together the countries of the post-Soviet area in a manner similar to that achieved by the European Union, but retaining Russia's current domination in the region. The creation of the Customs Union of Russia, Belarus and Kazakhstan in 2010, followed by the establishment of the Common Economic Space in January 2012, is seen as stepping-stone towards achieving this goal. Since Belarus is the most active participant in these projects, it is being used as an example in the formulation of Moscow's policy in the entire post-Soviet area. The types of benefits obtained by Belarus from participating in the newly created Eurasian integration structures have been designed to encourage other states in the region to follow suit. This is particularly important **in the context of Russian-Ukrainian relations**, as Ukraine's accession to the Customs Union and the Common Economic Space has now become a strategic objective of Russian policy towards Kyiv and the entire CIS region. Ukraine's engagement with these projects would help to increase the viability of the CU and the CES, although Ukraine's integration into these structure is being seen primarily as a way of strengthening Russia's influence over its western neighbour, and at the same time as a means of blocking, or at least limiting, the possibility of closer ties between Ukraine and the European Union.

By participating in the Eurasian integration project, Belarus has also become **instrumental in Russia's dealings with the**

**European Union**. The idea of building an economic community in the post-Soviet area dates back to the 1990s, although the immediate impetus for the implementation of the current concept of Eurasian Economic Union has been the need to respond to the EU's growing interest in Eastern Europe, and the launch of the EU's Eastern Partnership project. Although the EU's interest in its eastern neighbours has since diminished, and it has become clear that the Eastern Partnership will not play a significant role in the post-Soviet region – Russia wants to safeguard its traditional sphere of influence, including its position in Belarus, against a possible new wave of Western activity in the future. By putting in place new structures formalising its geopolitical influence in the region at a time when the EU is busy dealing with its economic crisis and is focusing on maintaining the EU's structural cohesion, Russia can rest assured that its integration initiatives will not provoke a response from Brussels.

Finally, Belarus also has some **significance for Russia's relations with the United States** and for the countries' ongoing dispute over the US missile defence shield. In response to Washington's attempts to revive plans for the construction of the missile shield, and the Obama administration's proposal to deploy mobile elements of the shield in Europe, Russian has warned that it would deploy Iskander missiles in Belarus and would arm Belarusian troops with the S-400 anti-missile systems[14].

[14] This issue became particularly significant during the 2012 US presidential election campaign, when Mitt Romney was a serious contender for presidency. Romney indicated at the time that in case of his victory, Washington would return to the missile shield project, similar to the concept originally proposed by George W. Bush, a design which Russia considered particularly threatening to its national security.

## IV. MAP OF RUSSIAN INFLUENCE IN BELARUS

The benefits that Russia derives from its special relationship with Belarus mean that Minsk can count on Moscow's support, especially in times of economic or social instability. This does not mean, however, that Russia is ready to invest in Belarus without seeking further concessions. For years now, the **Kremlin has been consistently striving to increase its control over specific areas of Belarusian governance and the economy**. By actively strengthening the post-Soviet links between the two countries, Russia has created a system of mutual interdependence that gives it significant influence over the most important processes taking place in Belarus. As a result, Russia possesses significant, though not fully realised, potential to steer the development of the Belarusian economy. To a large extent, Moscow is able to determine the direction of Belarusian foreign policy, and has the capacity to influence political processes inside the country. It also fully controls Belarus's defence policy. The intensification of Russian assistance observed **in 2011-2012** has come at a price though – **Russia has markedly increased the extent of its influence in Belarus**. During this period, the Kremlin substantially strengthened its position within the Belarusian energy sector. It has effectively monopolised the country's gas market by securing not only an exclusive deal for the supply of natural gas to Belarus but also by gaining complete control over the transit and distribution of gas in the country. At the same time, Moscow has blocked the possibility of geographical diversification of energy production in Belarus by taking over the supervision of the construction and operation of a nuclear power plant in Belarus and by ensuring that it has full control over the export of electricity generated at the plant. In addition, Russia has managed to institutionalise some of its economic influence in Belarus, especially by bringing the country into the Customs Union and by applying to it the regulations imposed on Russia by the WTO. Finally, Moscow has also formalised its control over parts of the Belarusian army – namely, the Belarusian Air Force.

## 1. Russia's control over the Belarusian economy

### **1.1.** Economic integration

In the past two years, **Russia has increased its capacity for exerting institutional influence over economic processes within Belarus**. By joining the Customs Union, Belarus undertook to bring its customs policy in line with the rules of the organisation – although it should be noted that around 80% of the CU rates reflect the level of Russian tariffs. Membership of the CU also means that Belarus has had to open its market to Kazakh and Russian goods. At the same time, in 2011 Belarus agreed that the legal system of the Customs Union would be based on the standards set by the WTO, reflecting Russia's accession to the organization. This, however, means further changes to its customs policy, effectively preventing it from implementing protectionist practices that could shield Belarus's inefficient production against competition from imported goods. Under the CU/WTO regulations, Belarus has been forced to, for example, reduce its agricultural subsidies by 2016 from the current 16% to 10% of the production value[15].

Moreover, stabilisation loans are no longer offered directly by Moscow, but instead are granted through the Moscow-controlled Anti-Crisis Fund of the Eurasian Economic Community (ACF EurAsEC). The change has been designed to make any financial assistance for Minsk increasingly contingent on the implementation of specific economic demands. In principle, the ACF operates in a manner similar to the International Monetary Fund, whose support is also dependent on the applicant's progress in implementing the recommended economic reforms. And although in reality the decisions to disburse the individual instalments of an ACF EurAsEC loan are highly politicised, and money has been paid

[15] See: K. Kłysiński, 'Consequences for the Belarusian economy of Russia's entry into the WTO', OSW Eastweek, 2012, http://www.osw.waw.pl/en/publikacje/eastweek/2012-09-12/consequences-belarusian-economy-russia-s-entry-wto

out to Belarus despite its failure to fully meet the conditions of the loan, some attempt has indeed been made to link loan decisions to the success of economic reforms. One of the effects of the pressure exerted on Minsk by the ACF was, for example, the devaluation of the Belarusian rouble in May 2011.

## **1.2.** Investment

Russia is the main source of direct investment in Belarus, particularly due to its involvement in the privatisation of Belarusian state companies. Between 2009-2012, more than 95% of Minsk's proceeds from privatisation came from Russia's purchase of Beltransgaz shares[16]. Russia has also established a presence in the Belarusian petrochemical sector (42.5% stake in the Mozyr refinery and full ownership of LUKoil-Belarus, the owner of a network of petrol stations in the country) as well as in the telecommunication sector (Russia's MTS has a 49% stake in the mobile operator MTS-Belarus). In addition, Moscow controls Belarusian arms producers through the Russian consortium Oboronitelnye Sistemy.

For years Russia has been calling on the government in Minsk to press ahead with the privatisation of the country's most important companies. Lukashenko has so far tried not to give in to these demands, fearing Russia's domination of the Belarusian corporate sector and the loss of the ability to manually manage the economy, which continues to be one of the basic mechanisms used by the president to exercise power. Given this limitation, Moscow has adopted a strategy of waiting out the government in Minsk. Poor investment conditions in Belarus, coupled with the strong dependence of local companies on Russian energy supplies, means that Moscow needn't fear competition from non-Russian investors. It is likely, however, that **the next few years will see a steep rise in the number of Russian investors entering the**

[16] Priorbank report, http://www.priorbank.by/download/info/BIG_2012-08-21-rus.pdf

**ownership structures of Belarusian companies**. Faced with the ever-deepening economic crisis, and without the possibility of support from the West, Belarus will eventually be forced to proceed with the sale of state-owned companies in order to raise the necessary cash to finance the running of the Belarusian state.

The list of enterprises which Moscow appears to be particularly interested in buying includes mainly energy companies: the Navapolatsk oil refinery, the remaining stake in the Mozyr oil refinery, the Belarusian section of the Druzhba oil pipeline, and the Belarusian gas distributor Beltopgas. Moscow would also like to purchase the local lorry manufacturer MAZ and the manufacturer of earth-moving equipment BelAZ, as well the potassium salts mining and processing plant Belkaliy, the chemical plants Polimir and Grodno Azot, the Belarusian Metallurgical Plant BMZ, and Beltelecom – the largest telecom operator in Belarus.

## **1.3.** Energy

The Belarusian economy is entirely dependent on Russian fossil fuels, particularly on Russian gas[17]. Since 2005, **Gazprom has been the sole supplier of natural gas to Belarus**. The monopoly of the Kremlin-controlled company gives Moscow the ability to influence Belarus's energy intensive economy by regulating both gas prices and supply volumes. Russia now controls almost the entire gas transmission infrastructure in Belarus, and owns the Yamal transit gas pipeline, which cuts across Belarusian territory. In 2011, Russia's Gazprom acquired a 100% stake in the Belarus's Beltransgaz, the owner of the country's remaining gas pipelines. This means that **Russia is now the sole owner of the entire gas transit infrastructure in Belarus and exercises almost complete control over the distribution of natural gas in the country**. Only a small part of the internal gas distribution network

[17] Belarus produces only 1% of the gas it consumes, http://www.cdu.ru/articles/detail.php?ID=300388

remains in the hands of Beltopgaz[18] – although Russia has made attempts to acquire this company also. At this stage, Moscow is not making full use of the control it has over Belarusian gas pipelines. However, its hegemonic position gives Moscow the power to influence the price of gas charged to Belarusian end users, and in exceptional circumstances, it has the means to exert pressure on the government or on the managers of specific companies by periodically cutting off gas supplies to selected businesses in order to, for example, obtain approval for a Russian buyout.

**Similarly, Belarus remains heavily dependent on Russian oil** – although unlike in the case of gas, Russia does not have a complete monopoly in this sector. Since oil can be transported by means other than pipelines, Belarus is able, in theory at least, to diversify its sources of crude oil. In 2010, for instance, Minsk began purchasing oil from Venezuela. This move however should be seen more as Minsk's attempt to assert its independence, rather than as a viable alternative to the overreliance on the oil supplies from Russia. The price of the Venezuelan oil shipped to Belarus was set at USD $656 per tonne, significantly higher than the USD $398 charged by Moscow[19]. Consequently, after signing a four-year agreement with Russia on the pricing formula, and after the elimination of export tariffs on Russian crude following the launch of the Common Economic Space, Belarus decided in June 2012 to cease importing oil from Venezuela. As a result, **Russia is now the sole supplier of crude oil to Belarus**. Meanwhile, Belarus's own oil fields produce just 1.8 million tonnes of crude a year. Russia's monopoly on the supply of oil to Belarus has been used by Moscow to link the volume of oil exports to the quality of cooperation between the two counties[20].

[18] The company is also involved in the extraction of peat for energy production.

[19] http://newsland.com/news/detail/id/532825/
In 2012 the difference in the price of Venezuelan and Russian oil was even greater: USD $973 vs. USD $387 per tonne respectively.

[20] http://news.tut.by/economics/329003.html

Belarus has managed to retain control over both its refineries – in Navapolatsk and Mozyr. Russia's Slavneft' currently holds only a minority stake (42.5%) in the Mozyr refinery. Minsk also still owns the Belarusian section of the Druzhba (Friendship) pipeline but the Kremlin remains interested in acquiring the country's transport and oil processing infrastructure. Nonetheless, regardless of who actually owns the remaining infrastructure, **Russia already effectively controls the Belarusian petrochemical industry** thanks to its monopoly on the supply of crude necessary for maintaining a price level that can render the industry profitable.

**Russia also controls the Belarusian electricity market**. The share of direct imports of Russian electricity in Belarus's energy balance remains small. Only about 8-9% of the electricity consumed in the country is imported from Russia – by the Russian state-owned Inter RAO UES[21]. Meanwhile, over 90% of its electricity is produced locally – Belarus has the technical capacity to meet its electricity needs fully and Minsk's decision to import electricity from abroad is motivated purely by economic reasons. In addition, Belarus also has the necessary infrastructure to import electricity from Ukraine and the Baltic States. Minsk's dependence on Russia in this sector, however, stems from the fact that **Belarusian electricity is generated almost exclusively through the burning of natural gas. As a sole supplier of gas to Belarus, Russia can directly influence both the level of production and the price of electricity in Belarus.**

At the same time, **Russia has secured its control over electricity exports out of Belarus**[22]. The 2011 agreement for the sale of

[21] In 2011, 3,173 billion kWh, with an annual consumption of 38 billion kWh – this co-operation, however, is also very important to Russia. Belarus is Inter RAO UES' third largest foreign customer (after Finland and Lithuania).

[22] Currently, in spite of its technical capacity to generate surplus electricity and the existence of the necessary transmission lines, Belarus export only small amounts of electricity due to the high cost gas required for the production.

Beltransgaz included a clause that gives Russia the powers to control the export of electricity produced by burning Russian gas to any countries outside the Customs Union[23]. Although the exact details of this provision have not been made public, it is known that the parties have agreed to share the profits from the export of Belarusian electricity in proportion to their contribution to the production process. Meanwhile, at the time of the signing of the intergovernmental agreement on the construction of a nuclear power plant in March 2011, the countries decided to establish Energoconnect[24] – a joint venture tasked with building the capacity for the export of Belarusian and Russian electricity from within Belarus, including the electricity generated in the future by the Belarusian nuclear power plant. Equal stakes in the joint venture are held by Belarus's Belenergo and Russia's Inter RAO UES[25]. From Moscow's point of view, however, the purpose of the new company is not only to manage the profits generated from the export of electricity, but also to coordinate the exports from the Belarusian NPP with the exports from the planned NPP in the Kaliningrad region. Such coordination would ensure that the Belarusian electricity would not be in direct competition with the electricity produced by Russia.

### **1.4.** Export

Moscow also has a big impact on the other Belarusian export industries. In fact, Russia purchases about 35% of all Belarusian exports[26]. The sale of Belarusian goods is to a large extent controlled by Russia. For example, the sale of tractors in 2011 (worth more than USD $870 million, accounting for approximately 6% of

[23] RAI Novosti, 10 January 2012, http://ria.ru/economy/20120110/536270547.html

[24] The joint venture was registered in June 2011.

[25] T. Manionok, 'Energeticheskij most w Polszu', in: *Belorusy i Rynok*, No. 23 (1007), http://belmarket.by/ru/179/170/14260

[26] In 2011, USD $14.5 billion out of a total of USD $41.4 billion, source: http://www.tsouz.ru/db/stat/iCU201112new/Documents/EBY201112.pdf

Minsk's total exports to Russia)[27] was facilitated largely by the fact that Russia had placed the tractors on Rosagroleasing's list of machines that Russian farmers and agricultural enterprises were able to lease on favourable terms. Similarly, Russia's Sberbank, and since 2013 Russia's VTB Bank also, have been offering preferential loans to Russian businesses interested in purchasing Belarusian industrial products placed on a special list drawn up by the government in Minsk (among them are primarily various types of machine manufacturers). On the other hand, Russia continues to regulate access to its domestic market by periodically placing restrictions on importers. The measures are designed to protect domestic producers, as exemplified by the regularly occurring but temporary bans on the import of Belarusian dairy products. Sometimes the restrictions are put in place to pressure Minsk into agreeing to specific demands. This was the case for instance when the Kremlin suspended all Moscow-Minsk flights operated by the Belarusian national carrier Belavia in March 2012. The suspension of the flights came after the Belarusian government refused to agree to an increase in the number of Russian flights to Minsk.

Russia also has a significant influence on the export of Belarusian goods to other markets. Belarusian exports are competitive mainly due to their low prices; and their prices are low thanks to the relatively low cost of energy used to produce them. By adjusting energy prices for Belarus, Russia is able to affect the competitiveness of Belarusian production. In addition, in 2011-2012 Belarus managed to significantly increase its revenues from the export of petroleum products to the European Union, after it had negotiated particularly favourable terms for the import of Russian oil. As a result, in 2011 the value of Belarusian exports to the EU increased more than 2.1 times on the previous year (reaching USD $15.7 billion). In the first eight months of 2012, the trend continued, with exports growing by another 40%. When Russia stopped Minsk from re-exporting petroleum products in August

[27] http://www.tsouz.ru/db/stat/iCU201112new/Documents/EBY201112.pdf

2012, Belarus recorded a negative trade balance. **Such a high level of dependence on Russia means that by introducing either restrictions or preferential conditions for Belarusian exporters, Moscow can affect the health of the individual production sectors in Belarus. By adjusting the level of Belarusian exports, the Kremlin can directly impact on the amount of foreign currency coming into the Belarusian budget, and by extension, on the level of the country's financial stability and solvency.**

## **1.5.** The banking sector

Russia controls about 25% of the Belarusian banking sector. Currently, all the major Russian banks, especially Gazprombank, Sberbank, Alfa Bank, Vnesheconombank and Vneshtorgbank[28], have established their presence in Belarus either through their subsidiaries or by acquiring stakes in Belarusian banks. Alfa Bank is currently seeking approval from the Belarusian government for the purchase of Belinvestbank – the country's fourth-largest bank. **The Russian banks operating in Belarus are the main source of foreign currency loans for Belarusian companies**. Their international credibility ratings remain much higher than the ratings of Belarusian banks, which makes it easier for them to obtain loans from Western financial markets. Russian banks, however, refuse to finance uneconomic political projects, which Belarusian banks are unable to turn down. By being able to offer loans to selected projects, the banks effectively influence the development of the Belarusian economy. The banks also demand substantial security against the loans. In 2011, the Belarusian potash producer Belaruskali received a USD $1 billion loan from the Russian state-owned Sberbank, but only after it had agreed to secure the loan against a 51% stake in Naftan – an oil refinery which the Russians have for some time now been trying to acquire. In the

[28] The most important assets acquired by Russia in Belarus include: a 71.4% stake in VTB Bank, 98% stake in Belgazprombank (Gazprom), 97.9% stake in Belpromstroibank (Sberbank), 97.4% stake in Belvnesheconombank (VEB Bank), and an 88% stake in Alfa Bank Belarus (Alfa Group).

end, the company was able to refinance the loan in 2012 and Sberbank removed the Naftan shares from the loan agreement. This case, however, is a good example of how risky the overdependence of Belarusian companies on Russian loans could potentially become. Russian banks are also a source of loans feeding directly into the Belarusian budget. Recently, Minsk has asked Russia's Vnesheconombank to finance Belarus's USD $500 million contribution to the construction of a nuclear power plant in the country. Russian banks also used to issue Belarusian government bonds in the Russian securities market. These developments clearly show that the Belarusian financial market and its stability depend to a large extent on Russian banking institutions.

## 2. Russia's influence on domestic political processes in Belarus

### 2.1. Lobbyists in the Belarusian *nomenklatura*

**Russia has been consistently recruiting lobbyists from the Belarusian nomenklatura.** Among the regular practices is the hiring of former high-ranking Belarusian individuals by Russian corporations. In October 2012, for example, the Russian oil company Russneft – controlled by Mikhail Gutseriyev – appointed Siarhei Martynau as special representative for Belarus just weeks after Martynau was dismissed as Belarusian Foreign Minister. Consequently, Russian companies currently employ (or have done so in the past) at least a dozen former senior Belarusian officials:

| Name | Position in Belarusian state apparatus | Place of employment after leaving office |
|---|---|---|
| Ivan Titenkov | Head of Presidential Administration | Itera |
| Vasil Dauhaliou | Belarusian Ambassador to Moscow | Gazprom |

| Name | Position in Belarusian state apparatus | Place of employment after leaving office |
|---|---|---|
| Faryd Cancerau | KGB general | Gazprom |
| Valer Kez | KGB general | Gazprom |
| Viktar Rakhmanka | Head of Belarusian Railways | Gazprom |
| Uladzimir Yarmoshyn | Prime Minister | Vnesheconombank |
| Paval Kallaur | Deputy Head of Belarusian National Bank | Vnesheconombank |
| Ural Latypau | Foreign Affairs Minister and Head of Presidential Administration | Lukoil |
| Valer Kokarau | Deputy Prime Minister | Lukoil |
| Uladzimir Muliak | Head of Belarusneft | Lukoil |
| Leanid Yeryn | Head of Belarusian KGB | Russian Railways |
| Mikhail Drazhin | Governor of Mogilev Region | Russneft |
| Uladzimir Matskevich | Head of Belarusian KGB | Sovkomflot |
| Uladzimir Navumau | Minister of Internal Affairs | Rostekhnologii |
| Siarhei Pasochau | Presidential Advisor | LenSpecSMU (construction holding) |
| Vasil Maciusheuski | Deputy Head of National Bank | BPS-Sbierbank |

By employing former Belarusian officials, the Russian companies hope to first and foremost ensure that the interests of the individual companies are well represented. It is important to stress, however, that these companies are mostly state-owned enterprises, whose interests are in line with the economic policies pursued by the Kremlin. What this practice creates therefore is a powerful **lobby group effectively protecting Russia's economic interests.** And the possibility remains that in the future this constantly expanding group of local representatives of Russian strategic interests **could be used for political goals**.

### **2.2.** Belarus's pro-Russian opposition

Meanwhile, **Russia has not been engaged in attempts to build a permanent lobby within the Belarusian opposition**. Nonetheless, reports suggesting that Russia funds the campaigns of opposition candidates representing parties unopposed to the Kremlin (particularly from Anatol Lebedko's United Civil Party or from Siarhei Kalyakin's Party of Communists of Belarus) do occasionally appear in the media, particularly during periods running up to elections. It also seems likely that with the Kremlin's approval, Russian businesses have unofficially supported Lukashenko's rivals in past presidential elections: Alexander Kozulin in 2006 and Uladzimir Nyaklyayew in 2010. Its **support for Alexander Lukashenko's political opponents is being used by Russia primarily as another means of exerting pressure on the Belarusian president**. Nevertheless, by backing other political figures Russia is also attempting to secure its national interests in the event of unexpected changes within the Belarusian ruling camp – and although the probability of such a change is low, it cannot be completely ruled out. It is therefore in Moscow's interest that any new political constellation is dominated by people willing to pursue a pro-Russian policy.

## **2.3.** Impact on society

Russia has considerable potential to influence Belarusian society. According to the latest census, more than 90% of the population use Russian as a language of everyday communication, which means that they are also quite likely to identify with the Russian cultural area. So far, however, **Russia has not made any conscious effort to project its soft power** in Belarus – by creating and then using ideas of cultural proximity and cultural attractiveness, while pursuing an altogether different policy to ensure that Russia's national interests are protected. Belarus remains the only country in the CIS without a single Russkiy Mir Centre – a centre for the promotion of Russian language and culture (neighbouring Ukraine hosts eight such centres). There are also no Russian NGOs in the country. Unofficial reports suggest, however, that Konstantin Kosachov, the recently appointed head of Rossotrudnichestvo – a Russian federal agency coordinating the 'soft power' project – has stressed the need to develop instruments useful in projecting Russia's soft power in Belarus. 2012 saw a rise in activity among the NGOs run with the support of the Russian embassy in Minsk by the Russian minority in eastern Belarus. These developments might suggest that Moscow will be attempting to step up its soft power efforts.

Belarusian media are now completely dominated by Russian media companies. Three main Russian television channels: Channel One (formerly ORT), Rossiya (formerly RTR) and NTV, are available in Belarus, and tend to be more popular than the Belarusian channels. **The strong presence of Russian media in Belarus has played a direct role in shaping the local worldview in ways that reflect Moscow's opinions on international affairs and a Russian vision for the state. Russia's opinion-making influence with regard to Belarusian internal affairs, however, remains rather limited.** All of the Russian programmes shown in Belarus are rebroadcast with a one-hour delay, which allows Minsk to censor and replace any material critical of Belarus or its

government. Such programmes can therefore only reach those members of society who are willing to look for this type of information online – and generally such individuals are already highly critical of the Belarusian regime. Anti-Lukashenko campaigns on Russian television are invariably used as a means of exerting pressure on the president, and serve as signals of Moscow's determination to achieve its current objectives in its dealings with Minsk. The campaigns also have an impact on the Belarusian *nomenklatura* who, fearing a destabilisation of the situation in Belarus, respond to the signals of a possible crisis in bilateral relations by intensifying their efforts to protect their economic interests. The signals sent out through the Russian media have already led to reshuffles in the Belarusian ruling camp. In the run-up to the 2010 Belarusian presidential election, Russian media conducted an anti-Lukashenko campaign and suggested that the then Belarusian Prime Minister Siarhei Sidorsky could replace Lukashenko. Soon after, the Belarusian president dismissed his head of government, despite the fact that Sidorsky had been one of Lukashenko's most loyal supporters.

## 3. Minsk's reliance on Russia for security and defence

Belarus has become entirely reliant on Russia for security. In operational terms, the **Belarusian armed forces are a *de facto* part of the Russian army**. This applies to all aspects of the operation and command of the Belarusian armed forces. The regional grouping of troops, carried out under integration agreements of the Union State, has effectively brought the Belarusian army under the command of Russia's ground forces. Subsequently, at the end of 2011, Minsk completely abolished its own ground forces command, which in practice makes it impossible for Belarus to pursue independent operations. In addition, in February 2012 Belarus ratified a 2009 agreement on joint air defence, which formally gives Russia complete control over the Belarusian air force. Minsk's reliance on Russia is also evident in terms of army training. For example, in 2012 fewer than 800 people began officer

training in Belarus, while as many as 600 individuals attended such courses at Russian military schools. Currently, Belarusian army units offer only tactical training to its recruits. Meanwhile, operational training involving large numbers of troops and equipment is organised only in cooperation with the Russian armed forces, often on Russian soil. Full dependence on Moscow is also evident in the types of equipment used by Belarusian troops. Essentially all weapons and ammunition come from Russian factories, while the role of local Belarusian arms manufacturers is usually limited to subcontracting[29].

## 4. Coordination of foreign policy

In foreign policy, **Belarus generally adopts the position urged by Russia**. There are regular consultations between the foreign ministers of both countries during which the delegations agree a common position on international affairs, invariably in line with Moscow's views on the matter. In most cases, Belarus's national interests are indeed consistent with Russia's foreign policy objectives. Consequently, Russia can always count on Minsk to vote in support of its position in contexts where such support can prove very useful – for example at the UN or the OSCE, especially when discussions focus on issues of democracy and human rights. **There are however areas of foreign policy where Belarus and Russia have conflicting interests, and in those areas Moscow finds it much harder to realise its objectives**. For example, despite Russia's expectations, Belarus has refused to recognise the sovereignty of Georgia's breakaway regions of Abkhazia and South Ossetia. Belarus did not want to jeopardise its relations with Georgia. As a result of the crisis in Russian-Georgian relations, Minsk took on the role of an intermediary in trade between the two countries, which also generated additional revenue for

[29] This paragraph has benefited from consultation with the research fellow for the military aspects of international security Andrzej Wilk at the Centre for Eastern Studies, Warsaw, Poland.

state coffers. Georgia also plays an important role as Minsk's spokesperson at the Eastern Partnership forum, where it seeks, among other things, to ensure equal representation of all Euronest member-states[30] – the body from which the official Belarusian delegation has so far been excluded.

[30] The Euronest Parliamentary Assembly consists of the European Parliament and the parliaments of the countries participating in the Eastern Partnership programme.

## V. FUTURE OUTLOOK FOR RUSSIAN-BELARUSIAN RELATIONS

Due to the strategic importance of Belarus to Russia, Minsk can **permanently count on Russian support**. This is particularly so since Moscow's financial commitment to helping Belarus is a relatively small part of the Russian budget. It seems that in the near term, while Eurasian integration, and the expansion of this project to new members, remains a priority, Moscow will seek to demonstrate good faith in its relations with Minsk. Any change in Russia's policy is unlikely to happen before the launch of the Eurasian Economic Union in 2015 and/or Ukraine's accession to the Customs Union. Russia is also likely to offer its continued support to Lukashenko. Isolated by the West, Lukashenko is the guarantor of Minsk's pro-Russian foreign policy. Consequently, Russia is never going to back the Western sanctions against Minsk. In fact, by continuing its political support for the Belarusian regime, Russia may further encourage Lukashenko to pursue his current, highly criticised, domestic policy, in order to minimise the risk of improving relations between Belarus and the West.

The Russian-Belarusian relations, however, may also lead to conflict, since the long-term goals of Russia's policy on Belarus and Minsk's national interests are fundamentally conflicting. Bilateral relations between the countries will deteriorate during periods of increased pressure on Minsk to play by Moscow's rules. Nonetheless, **the conflicts will not lead to a permanent or even a temporary suspension of diplomatic relations between Moscow and Minsk**. A breakdown in relations cannot happen because Lukashenko knows that Russia's support is vital to his presidency. Disputes will focus rather on the price that Belarus will have to pay for Moscow's help. As a result of the concessions already made by Minsk, and due to the dependence-building nature of the Kremlin's support mechanisms – **Alexander Lukashenko has very limited capacity to resist Russian demands.**

In its relations with Belarus, Russia will seek primarily to **increase Moscow's control over the Belarusian economy**, particularly by acquiring companies which are seen as strategic and/or which could create competition for Russian businesses. In the long run, Russia's ultimate objective will be to persuade Belarus to adopt the Russian rouble as a common currency of the Union State – with all fiscal control powers staying in Moscow. This would prevent Belarus from pursuing its own monetary policy, which combined with Minsk's overdependence on Russia would allow Moscow to shape Minsk's economic policies. By limiting the Belarusian government's decision-making powers on economic issues, Russia would be able to gain influence over the Belarusian political scene, and in the long term, to directly affect a transition of power in the country. In essence, Russia would like to extend the system of interdependence between the countries, with a view to cementing the existing mechanisms of control and creating new ones, independent of future transformations or of a leadership change in Minsk.

**In the near future, the formal integration between the two countries will proceed on the basis of a multilateral framework**. The creation of the Customs Union and the Common Economic Space, and ultimately the launch of the Eurasian Economic Union, will require the implementation of solutions that will permanently link Belarus and Russia (by opening up their markets, or by introducing common financial, fiscal, and customs policies). By prioritising the project of Eurasian integration in their bilateral relations, however, Belarus is going to lose its special relationship with Russia – which it has been enjoying within the framework of bilateral relations and within the Union State. Russia will try to fit its bilateral relations with Belarus into the overall principles of international relations within the post-Soviet area established by Moscow in the framework of the integration process.

**AGATA WIERZBOWSKA-MIAZGA**