GLOBAL MARKET BRIEFINGS

RUSSIAN FOREIGN ENERGY POLICY

Belarus: Oil, Gas, Transit Pipelines and Russian Foreign Energy Policy

Author:
Dr Margarita M. Balmaceda

Series Editor:
Dr Kevin Rosner

IAGS Institute for the Analysis of Global Security

THEROSNERGROUP®
ENERGY, SECURITY, INTELLIGENCE

BELARUS: OIL, GAS, TRANSIT PIPELINES AND RUSSIAN FOREIGN ENERGY POLICY

Margarita M. Balmaceda

Series editor: Kevin Rosner

GMB

Publisher's note

Every possible effort has been made to ensure that the information contained in this publication is accurate at the time of going to press and neither the publishers nor any of the authors, editors, contributors or sponsors can accept responsibility for any errors or omissions, however caused. No responsibility for loss or damage occasioned to any person acting, or refraining from action, as a result of the material in this publication can be accepted by the editors, authors, the publisher or any of the contributors or sponsors.

GMB Publishing Ltd.
120 Pentonville Road
London N1 9JN
United Kingdom
www.globalmarketbriefings.com

This edition first published 2006 by GMB Publishing Ltd.

Hardcopy ISBN 1-905050-34-8 E-report ISBN 1-905050-83-6

British Library Cataloguing in Publication Data

A CIP record for this book is available from the British Library

Contents

About the author

Dr Margarita M. Balmaceda is tenured Associate Professor at the John C. Whitehead School of Diplomacy and International Relations, Seton Hall University, New Jersey, and an associate of Harvard University's Davis Center for Russian and Eurasian Studies and the Harvard Ukrainian Research Institute. She received a PhD in politics from Princeton University (1996) and post-doctoral training at Harvard University. She has published widely on Russian, post-Soviet and East European energy and foreign policies. Fluent in Russian, Ukrainian, Hungarian and German, she has also studied, taught, and conducted field research on energy and foreign policy issues in Russia, Hungary, Ukraine, Belarus and Germany.

Executive summary

Strategically placed between Russia and Poland, Belarus is the shortest route between Russian energy fields and Western European markets, making it an important player in European energy transit. These characteristics have also made the country one of the most important transit countries for Russian energy exports to Central and Western Europe, transporting 20 per cent of Russia's gas exports and 50 per cent of oil exports outside the CIS and Baltics. Some of the most important oil and gas pipelines connecting Russian fields with Western European customers pass through Belarus.

Belarus' role as an important transit route for Russian energy is set to increase further as a result of the completion of the Yamal gas pipeline, set to be put in operation in 2006. The Yamal pipeline, called by many 'the project of the century' at the time of its start in 1994, represents Belarus' most important gas transit project to date. It is also at the centre of a veiled struggle between Belarus and Russia for control of the country's gas transit capacity.

Belarus also has some of the largest and most modern oil refining facilities in the former Soviet Union (FSU). Belarus' strong refining capacities have been central in allowing the country to play an important role in the direct and indirect export of Russian oil, which has been hugely profitably for Belarus. Indeed, of all the sources of income related to Russian energy, none has proved more profitable to Belarus than the direct and indirect re-export of energy sources, first and foremost the export of refined oil products to Western markets. The fact that Belarus has received Russian oil at lower than market prices, while the export of oil products is conducted at world market prices, brings very significant profits to the country.

The Belarusian case is especially important as it highlights the very close connection between foreign politics, domestic politics and energy trade in the FSU. Since 1994, Belarus has been involved in a process of (re)-unification with Russia. Although the process has been marked by fits and starts and by the peculiarities of President Alyaksandr Lukashenka's autocratic policy-making style, it has largely relied on subsidized Russian energy to keep afloat a largely unreformed economy, where the state still controls 75 per cent of economic activity. Russia, for its part, has received important political, military and, last but not least, energy transit advantages from the relationship.

Russia's willingness to continue offering Belarus subsidized energy in exchange for political and military advantages also tells us that, even in an era where Russia has officially embraced free-market prices in its trade relationships with former Soviet states, de facto it is still willing to use energy for clear foreign policy purposes.

Under the surface of the fraternal Russian-Belarusian relationship, however, very important contradictions have been simmering, especially over the conditions of a possible political unification between both countries, and over the issue of a Russian role in Belarus' economy, first and foremost in the gas transit and oil refining spheres. As a result of these tensions, it is unlikely that a second branch of the Yamal Pipeline will be built, and the Belarusian-Russian energy relationship promises to remain relatively unstable over the next years. Gazprom, the largely state-owned, near-monopolist Russian gas producer and trader, is likely to continue making inroads into the country's gas transit infrastructure, but a full allegiance on the Belarusian side or a full opening of the Belarusian market for Russian investments is not likely in the short term.

Introduction

Belarus is a landlocked country of 207,600 sq km with no major natural resources besides its large forests and small deposits of peat, oil and gas[1]. Significant areas in the southern part of the country were contaminated by fallout from the Chernobyl nuclear catastrophe of 1986, making about 20 percent of the country's area only modestly habitable. The country has a population of nearly ten million people with one of the lowest population densities in Europe. Since the demise of the USSR, the country has found itself in demographic decline: from 1993 to 2004 the population decreased by 430,000. More alarmingly, the number of children has fallen by 370,000 since 1999, pointing to a serious demographic crisis in the making[2].

History: between Europe and Russia

Throughout its history, Belarus has been closely tied both to Central Europe (the Great Duchy of Lithuania and the Kingdom of Poland) and the Russian Empire. Russian influence increased significantly during the Soviet period, especially after the end of World War II, when, with its population ravaged by the war and its industry in shambles, Belarus was rebuilt with the help of citizens from throughout the USSR, many of whom settled in the republic.

After the war Belarus rapidly recovered to become one of the most developed areas of the FSU. Highly industrialized and with a highly educated population, many referred to Belarus as 'the most perfectly Soviet' republic of the USSR. It was, indeed, one of the most closely integrated into the Soviet division of labour and most dependent on its smooth functioning for its economic wellbeing.

Indeed, understanding the way in which the Belarusian and Russian economic (including energy) systems were tied during the Soviet system is essential for understanding both the challenges faced by Belarus after independence and Russian attempts at gaining control over the Belarusian gas and oil transit system.

Political development since independence and the Lukashenka regime

Exactly because of its dependence on the Soviet Union as a system, Belarus was especially hard hit by the demise of the USSR, something that would come to have very important economic and political implications for the post-independence period. These implications were not immediately apparent – during the first years after independence it was not fully clear in what direction the country would go, with the government and political elites split between those for and against pursuing a close relationship with Russia[3]. Yet infighting over language policy[4] and relations with Russia, together with popular frustration over failed economic reform and corruption led to the election of a populist, Alyaksandr Lukashenka, who ran for president on an anti-corruption platform in July 1994. It is at this moment that the effects of the shock of dissolution of the USSR start to become increasingly influential in policy-making. In terms of economic policy, this was reflected in attempts to counter the demise of the Soviet system by limiting or preventing economic reform. Politically this meant that those politicians, such as Lukashenka, who sought to counter this demise by seeking to build a strong relationship with Russia were able to gain in popular support. These tendencies both contributed to Lukashenka's election as president in 1994 and largely influenced his policies thereafter.

Lukashenka's authoritarian tendencies emerged soon afterwards. By November 1996 he had moved closer to consolidating absolute power by carrying out a referendum (widely seen as manipulated) dissolving the country's last democratically elected parliament[5], extending his presidential period (originally scheduled to end in 1999) for two additional years, and gaining approval for the establishment of an undisclosed budget for presidential administration outside the control of parliament or other representative bodies[6]. This critical hurdle passed, Lukashenka was left 'unopposed in his drive to create a personal dictatorship, based on a classic combination of force and a cult of personality'[7]. Although barred by the constitution from being reelected to a third term, Lukashenka pushed for a referendum in the autumn of 2004 – once again largely seen as manipulated – which approved a constitutional amendment removing presidential term limits.

In July 2004, Lukashenka celebrated ten years in power. In the course of these ten years, he has been able to significantly institutionalize his regime, while avoiding needed economic reforms and failing to find a clear role for Belarus in the international system. On the one hand, in contrast with Ukraine and Russia where in the mid-1990s workers were often subject to large wage arrears, this has seldom happened in Lukashenka's Belarus, contributing to his popularity throughout the region. Since 1996, the economy has maintained high GDP growth rates averaging 6.6 per cent a year[8]. Indeed, Lukashenka has been able to maintain a degree of social and economic stability in the country at the expense of failing to undertake any significant reforms. Large state-owned companies have remained largely intact and the state continues to control up to 75 per cent of the economy. Of all the Eastern European countries, Belarus is the only one where the economic system has not fundamentally changed since the demise of the USSR. Some have compared the Belarusian economy in 2005 to that of the former Yugoslavia in the 1980s[9]. Yet there is no doubt that reforms – and possibly socially painful reforms at that – will have to come one day. In Belarus they have simply been postponed. This is most unfortunate given the fact that the positive microeconomic situation (and especially the cushioning provided by high revenues from the export of oil products due to high oil prices) would make such reforms much less painful now than at a future point when this cushioning will no longer be available.

Lack of economic reform has come together with the postponement of democratically oriented political reform. The Lukashenka regime is characterized by moderate to high levels of repression, but a type of repression which takes place not only, or even most importantly, through the imprisonment and killing of political opponents, but through lower key and less spectacular activities, such as restrictions on freedom of the press and administrative harassment of those with opposing views. Lukashenka's power is largely based on a combination of appeal to tradition, demagoguery, repression and control of the media. As will be discussed below, the relationship with Russia has also played an important role in Lukashenka's ability to remain in power.

The relationship with Russia and the Belarus-Russia Union

Due to the economic and political reasons discussed above, Russia and Belarus drew closer in the years following Lukashenka's coming to power in 1994. In 1995, Belarus and Russia signed an agreement abolishing border formalities and providing for eventual monetary union. In April 1996, a Belarusian-Russian confederation was created under the formal name of Union of Sovereign States (or SSR in Russian)[10]. On May 1997, a basic agreement (*ustav*) for the union of Russia and Belarus was signed. On April 1998, the Union entered in force – at least on paper – with the avowed aim of coordinating economic and security policies and eventually leading to the long-term goal of fully uniting both states. As will be discussed below, the unification process has largely stalled since then.

Both sides seemed to benefit from the unification process. From President Lukashenka's perspective, the advantages of this drawing closer together had to do with offsetting some of the negative economic consequences of independence, thus scoring points with a population that largely experienced the dissolution of the USSR as a trauma. From the Russian point of view, the incentives behind pursuing closer integration with Belarus had to do with domestic politics, foreign policy and economic issues.

Politically the Yeltsin leadership had to carry the burden of having signed the decree dissolving the USSR, which at the time was taken very negatively by the majority of the population, and was exploited by right-wing politicians such as Vladimir Zhirinovsky. So integration with Belarus was eagerly supported to score political points. In foreign policy terms, both the Yeltsin government and its successors were eager to show they had at least one ally in a sea of not necessarily friendly states and in the face of an expanding NATO. Lukashenka's image as the greatest defender of this union has been central to his popularity both inside Belarus – showing a union with Russia as the best way to keep Belarusian industries going – and in Russia, where he has been a hero to the many Russians fearful of imperial decline. Economically, privileged access to Belarus' energy transit was seen as an important plus by the Russian side. These considerations mean that in the case of Belarusian-Russian relations, economic and strategic issues have never been far from each other.

At the same time, it would be simplistic to characterize Belarus' policies as pro-Russian[11]. We discuss the complexity of the de facto relationship and its implications for energy investments in chapter 2. Before doing that, however, it is worthwhile to take a look at the energy background that Belarus brings to the relationship.

1. An overview of Belarus' energy situation

Production, dependency, mix and diversification

Domestic sources cover only 16 per cent of Belarus' total energy needs. This makes Belarus one of the countries most dependent on energy imports in the post-Soviet area. Russia provides 97 per cent of imported energy[12].

Belarusian oil production peaked in the 1970s at 8m tons a year, but in recent years has fallen to 2m tons a year, about 20 per cent of domestic consumption. Exploration continues, but the new deposits are difficult and expensive to exploit[13]. Despite

Table 1: Belarus's total energy import dependency in comparative perspective (in percentages) in selected years (1990-2002).

	1990	1995	1996	1998	1999	2000	2001	2002
Ukraine	47.4	*	49.9	43.7	*	43.7	41	45.29
Belarus	*	*	*	86	*	86.1	85.4	85.91
Moldova	*	*	*	95.8	*	97.9	98	97.32
Georgia	*	80	*	*	58	61	48	46.48
Armenia	*	85	*	*	65	72	76	*
Czech Republic	11.9	*	22.5	25.7	*	23.3	25.77	26.53
Estonia	41.8	*	36.0	41	*	37.3	36.1	33.25
Latvia	*	*	*	*	*	*	*	57.37
Lithuania	*	*	*	*	*	*	*	41.79
Hungary	49.8	*	52.7	56	*	56	54.4	57.72
Poland	2.0	*	5.2	9.6	*	10.7	10.5	11.57
Slovakia	77.0	*	73.8	70.3	*	66.1	61.6	64.63

* = not available.

Sources: European Commission (EC), *Energy in Europe: 2000 Annual Energy Review;* special Issue of *Energy in Europe* (Brussels, 2001), and IEA Key World Energy Indicators (2000, 2001, 2003 and 2004), available at www.iea.org/statist/key2003.pdf) Energy dependency is defined as "Net Imports/ Total Domestic Consumption" or "Net Imports/ Total Primary Energy Supply". Data for Armenia and Georgia derived from data on energy self-sufficiency in IEA, Energy Balances of Non-OECD States, 2000-2003 (Paris, 2003)

Belarus' current economic situation and isolation from foreign investors, the country managed to make significant investments in the early 2000s, although less in production and more in refining.

Belarus depends on Russia for almost 80 per cent of its overall energy use[14]. This is largely due to the extremely high role of gas in the country's energy mix. In 2004, gas made up over 60 per cent of the country's energy balance[15], and 95.4 per cent of electricity production was from gas[16]. This is an important issue affecting Belarus' energy dependency. As a result of the high role of gas in Belarus' energy mix, imports of Russian gas amounts to a significant part of Belarus' overall energy consumption[17].

In the last years, Belarus' gas consumption has been increasing, as well as the amounts it would like to receive from Gazprom. According to state estimates, Belarus would import 21bcm cubic metres (cm) in 2006, 0.5bcm more than in 2005[18]. Despite 2004–05 declarations about the need to promote energy independence, in its 2005 negotiations the Belarusian government used a gas supply from Russia of 24bcm a year as a base figure for discussions on supplies for 2015–20[19]. Barring a huge increase in total energy consumption, which is unlikely under current economic and demographic circumstances, this would imply an even larger role for gas in Belarus' energy mix than in 2005[20]. The situation could only change diametrically should a decision be made to build a nuclear power station, an option President Lukashenka has been promoting since late 2004. Given the legacy of the Chernobyl nuclear catastrophe, there is likely to be serious popular opposition to the proposal. (A moratorium on that question is in force until 2008, so a decision could only be reached after that.)

Price structure

Gas prices charged to the population continued to be subsidized throughout the 1990s and early 2000s. If in 2004 the price for imported gas paid by Belarus increased by 24 per cent and inflation amounted to 14.4 per cent, the increase to the population was only 3.9 per cent.

Despite the relatively low price of gas, companies using gas continued to accumulate significant arrears throughout the 1990s. This level started to decrease in the early 2000s and by 2004 promissory note operations largely ended and (domestic) barter ones were reduced. In 2004, energy payments in cash amounted to 80.3 per cent[21]. We should not forget, however, that the original pressure to stop promissory note operations in gas often came from Gazprom, probably in connection with the coming of Alexei Miller to the helm of the company and his desire to 'clean' the company from deals related to Itera (an offshore gas trade company suspected of siphoning assets from Gazprom[22]), as well as a result of the Russian government's pressure on the company to pay its tax arrears.

2. Energy and politics in the Belarusian-Russian relationship

Rents of energy dependency

Energy plays an overwhelming role in Belarus' trade with Russia, comprising about 80 per cent of all imports from Russia, and energy plays an overwhelming role in the Belarusian-Russian relationship as well.

The fact that strategic and economic issues were never far from each other in Belarusian-Russian relations was reflected in the so called 'zero option' agreement between Russia and Belarus in 1996. The agreement established that Belarus would be pardoned its gas debt accrued vis-à-vis Russia up to that date, in exchange for leasing to Russia, free of charge, two military telecommunications objects.

Belarus and Lukashenka personally have benefited significantly from the energy relationship with Russia through what could be called 'rents of energy dependency'. There are a number of ways in which such rents are accrued in the Belarus-Russia relationship:

- the indirect subsidization of the economy through lower than international gas and oil prices
- the possibilities opened by barter arrangements
- the extra income created by transit fees
- the direct and indirect re-export of energy sources
- semi-legal and illegal energy transactions

Lower than international gas and oil prices

Belarus has benefited financially from the energy relationship with Russia in a variety of legal and not so legal ways. The first and most obvious way has been through receiving, for most of the period since 1994, gas and oil prices much lower than those prevalent in Russian trade with Western Europe or – since the early 2000s – other former Soviet states. According to IMF estimates, the subsidy effect of selling Belarus gas and oil at less-than-world prices amounts to 10 per cent of the country's GDP with 6–7 per cent being the result of subsidized gas prices and 3 per cent of oil prices[23 24].

In 1999 it was established that, as part of the Belarus-Russia union agreements, Russia would sell gas to Belarus at the same domestic price as industrial consumers in Russia's fifth region, Smolensk[25]. Thus, the price of gas charged by Russia to Belarus was reduced from $59 to $35 per 1000 cubic metres (cm). Before that, a variety of subsidies were in use, and the price charged went as low as $22 per 1000 cm. By 2005, Belarus was paying $46.68 per 1000 cm.

Although not as heavily subsidized as gas, oil prices charged to Belarus have been significantly (about 40 per cent) lower than world market ones. Although the price of Russian oil sold to Belarus increased sharply in 2000 (from an average of $46 to $119 per ton [26]), it remained significantly below international prices. If in 2004 the world market price of oil was $320 per ton, Belarus paid an average of $182 [27]. The per-ton difference between the prices charged to Belarus and the world grew by $37 per ton in 2004[28]. The reason for these low prices has to do with some aspects of the tax agreements between Belarus and Russia; with the fact that prices for Belarus have been lower due to the nature of the political relationship between both states; and with the fact that Russian oil companies are able to reap large profits through their refining businesses in Belarus.

Barter

Most of the profit generated by special pricing schemes has to do not only with low prices in and of themselves, but with the possibility of engaging in barter and the high prices assigned in these barter deals to Belarusian products bartered for Russian oil and gas. In the mid-to-late 1990s barter accounted for about 50 percent of the total commodity turnover between the two countries and for 74 percent of Belarus' energy imports from Russia[29]. Moreover, barter is important not only as a means of financing imports from Russia, but also as the key to the perverse functioning of the 'Belarusian economic miracle'[30] and relatively high GDP growth rates since 1995. The only problem is that much of Belarusian production, financed by cheap government credits and imposed by decree on enterprise managers, consists of outdated, uncompetitive goods for which there is limited demand and which can only be 'disposed of' through barter with Russia[31]. Although in 1997 and early 1998 the Russian side tried to limit the role of barter in this trade, following the August 1998 Russian financial crisis there was increased pressure to continue the system. In 1998 it was estimated that by buying these products from Belarus instead of from cheaper suppliers, Russia was de facto subsidizing the Belarusian economy by a further $200m–$300m a year[32].

Income from transit fees

Although there are set dollar prices for Belarus' transit services, these services are de-facto provided in exchange for lower prices charged for Russian gas. In 2004, Belarus was able to cover 14.8 per cent of its gas purchases from Gazprom through transit services[33]. Calculations of the actual cash profit from such transit point to far from spectacular results: after paying for the lease of the land for the pipeline, only $24m remains from the $78m that Beltransgaz, the state-owned Belarusian gas transit monopolist, receives yearly from Gazprom for gas transit[34].

Energy re-exports

Of all the sources of income related to Russian energy, none has proved more profitable to Belarus than the direct and indirect re-export of energy sources, first and foremost the export of refined oil products to Western markets[35]. It is estimated that in 2005 Belarus will export over $4bcm in energy resources, including refined oil products, almost 50 per cent more than in 2004[36]. In terms of the importance of oil in Belarus' total export revenue, a new record was reached in the first four months of 2005, when energy-related exports amounted to more than one third (33.6 per cent) of Belarus' total exports[37].

Belarus has benefited from the indirect export of Russian energy carriers through its role in the refining and re-exporting of Russian oil. Belarus' energy exports are so significant that, despite producing only 20 per cent or less of its oil needs, in per capita terms it exports as much in oil products as oil-rich Russia[38]. According to a IMF report, in 2004 Belarus received 1.8 per cent of its GDP from oil supplies and oil refining[39]. While in 2004 Belarus paid $3.4bcm for oil imports, its income from the export of oil and oil products was $3.54bcm, allowing it to pay for its own oil supplies and still have $140m at its disposal [40]. The fact that Belarus received Russian oil at lower than market prices coupled with the slow increase in the prices charged, while the export of oil products is conducted at world market prices, brings a very significant profit to the country. For example, if in the first half of 2005 the unit price paid by Belarus for Russian oil went up by 16.9 per cent, the price for exported oil products increased by 44 per cent[41].

Here it is important to keep in mind that the *modus operandi*, established in the sector since the early 2000s, seems to be advantageous to both sides. Russian oil companies benefit because, despite conditions imposed by Belarus, exporting their oil through Belarus allows them to avoid the heavy export duties imposed on oil and oil products by the Russian state[42]. The Belarusian side is able to extract significant benefits from the conditions it imposes on Russian companies: 50 per cent of any oil supplied to Belarus must be sold to Belarusian enterprises[43]. The Russian company can then refine the rest of the oil through tolling arrangements.

These exports (mainly to Western Europe) have made the relative weight of Belarus' trade with Western Europe increase, while trade with Russia, and especially exports to Russia, has decreased in relative terms[44]. As a result of many factors, including but not limited to changes in the VAT system, in the first three months of 2005 the export of Belarusian products to Russia was reduced by 7.9 per cent, offset by a large increase of 51 per cent in 2004 in exports to non-CIS countries[45]. Interestingly, this large increase in exports to the West was due to the increase in the exports of minerals, energy and metals. On the other hand, Russian demand for the type of products Belarus has traditionally exported to Russia, such as tractors and TVs, has been in decline since the mid-1990s.

The growth in Belarus' trade deficit with Russia, which goes above and beyond its energy imports, means that any increases in hard-currency earnings produced by energy exports are largely used to fund it [46].

Illegal or semi-legal activities

A final way of acquiring profits through Russian energy supplies has been through a number of illegal or semi-legal activities. Some of these (such as the illegal re-export of Russian oil initially supplied to Belarus at lower-than-world prices, creating losses for Russian oil exporters, which lose part of their profitable exports to other countries[47]) were already quietly and modestly being used by Belarus in the mid-1990s. Their use – and Russian fears about their continued use – has reportedly increased after Lukashenka's relationship with Moscow started to deteriorate openly in 2002. This is significant because, if in the late 1990s Russia could look at Belarus as a more reliable energy transit ally than 'gas-stealing' Ukraine, by 2005 this is no longer the case.

How rents of energy dependency help keep the Lukashenka regime afloat

The rents accrued in exchange for the particular energy and political relationship with Russia are used to keep the Lukashenka regime alive in a variety of ways. In the Belarusian case, rents of energy dependency play two central roles:

- financing the survival of the system as a whole by keeping afloat the less productive areas of the economy;
- and accrued rents have the potential to bring additional resources into the non-transparent budget of the presidential administration.

Energy rents: evolution of their access by the state

The types of rents of energy dependency, as well as the ways in which the state has sought to tap into them, has been changing gradually since 1995. If at first significant rents were available to individual middlemen through various gas-related schemes, these possibilities were largely eliminated by 2004, in part due to pressure from Gazprom itself and also due to larger trends in state policy putting increased pressure on private sources of income for individuals.

Since 2004, we have seen a series of aggressive measures by the Belarusian regime intended to gain a firmer control over strategic exports and related infrastructure. In 2004, President Lukashenka passed an *ukase* (presidential decree)[48] giving the state the right to take control of a 'golden share' in enterprises with state participation. This had direct implications for Gazprom's attempt to create a joint venture with Beltransgaz: many saw this as a way of making sure that, no matter what agreement would be reached with Gazprom regarding Beltransgaz, Gazprom could never achieve real control over the company[49].

Although some private business remained active in the oil exports throughout the 1990s and early 2000s, in early 2005 President Lukashenka publicly demanded from his cabinet of ministers measures to take away intermediaries from the export of products, thereby ensuring significant hard currency revenue to the state budget[50]. In May 2005, the Belarusian government announced that it would centralize the export of oil products in a 100 per cent state-owned company and ordered the state concern, Belneftekhim, to create a new structure for this purpose (possibly also including the companies Naftan, Mozyr and Belorusneft, which had been exporting their products independently). However, it is possible that some of the companies currently acting as intermediaries could stay in business by selling oil to the state-sanctioned export monopoly.

In addition, in 2005 the government found a new way of steering the profits of the oil-products export sector for its own political goals by putting pressure on the Naftan and Mozyr refineries to buy shares in, and thus contribute financially, to troubled industrial enterprises[51]. Given the recent acquisition by the state of a golden share in Naftan's minor and balancing shareholder, MNPZ Plus, it is not surprising that its request would be agreed to.

The hidden price of energy rents

The profits Belarus has been able to make from the energy relationship with Russia have been accrued both because of its (relative) political loyalty to Russia, and because dealing with Belarus has benefited Russian oil and gas companies[52].

The subsidies created by low energy prices from Russia have, however, had a number of negative effects on the Belarusian economy. They have allowed a basically unsustainable economic model to stay afloat for the time being, but without forcing it to reform or become more flexible, with the effect that it is becoming increasingly incompatible, not only with the Western European economies, but also with the Russian economy itself. As a result of the high level of hard-currency earnings due mainly to the export of oil products, the value of the dollar continued to go down in Belarus in summer 2005, while it remained stable in most other markets[53]. One additional negative consequence has been the increase in the price of Belarusian industrial exports and the growth of imports, leading to a decrease in the export of products with a high value-added component. The over-concentration of export revenue in a small number of industries largely oriented towards oil refining also carries with it the risk of sharp negative consequences for the economy once oil prices go down.

State interests and business interests in Russian preferential energy prices to Belarus

The issue of subsidization of the Belarusian economy through the sale of gas at domestic Russian prices has, indeed, been one of the most controversial aspects of the Belarusian-Russian relationship, and one of the most complex situations involving Russian business. It is also in the case of preferential energy prices to Belarus that the complex relationship between Russian business and the state seems most clearly visible. Gazprom is asked to sell gas to Belarus at domestic Russian prices but, in exchange, receives some indirect advantages from the Russian state. The situation is complicated by the fact that Gazprom, with its web of personal and corporate interests within one company, is not a typical private enterprise, and its status has changed in the last years.

Although the Russian government may have more of an interest than Gazprom in supplying Belarus with gas at domestic Russian prices in exchange for a certain level of political loyalty, Gazprom's calculation is more complicated. Gazprom as a corporation has an interest in maximizing profits and in charging market prices to both domestic and foreign buyers. When Gazprom – prompted or forced by the state – sells gas to Belarus at preferential prices, or provides credits at favorable rates, it may be losing money but gaining points with the Russian state: points that can be used later to obtain advantages in other areas. But Gazprom, even when it was more independent of the state until 2001, is also largely willing to support official state policy towards Belarus, in the form of reduced prices for the sake of good relations with, and indirect benefits from, the Russian state.

The case of Belarus is a clear exception to the trend of Gazprom taking a more business-like approach to its sales to post-Soviet states. This became even more evident in 2005, when Gazprom announced sharp increases in gas prices charged to the Baltics, Moldova, Georgia and Ukraine. As of 2005, most gas export prices are decided by Gazprom itself with the exception of sales to Belarus[54]. Indeed in declarations in May 2005, President Vladimir Putin made clear that the recent trend of energy companies setting their export prices to former

Soviet republics according to market principles was indeed a firm trend but had one exception – Belarus, 'because with her we are trying to find the way to build a union state', that is, because of political considerations[55]. Such statements are all the more interesting given the many problems and misunderstandings in the current Russian-Belarusian relationship, as not much more than a military alliance remained de facto as of 2005 from earlier plans to build a common union state. Indeed, the April 2005 declaration about a non-increase in prices charged to Belarus could be related to the Kremlin's desperate need for partners after Georgia's 2003 Rose Revolution and Ukraine's 2004 Orange Revolution.

Energy and the deterioration of the Russian-Belarusian relationship

Tensions accumulating under the surface

While it could be argued that it was Russia's interest in solidifying Belarus' role as a stable transit state for Russian energy exports that was the main motivation for the establishment of the Belarus-Russia union in 1997 (and many Belarusian opposition figures saw it exactly in these terms[56]), the situation has become much more complicated since the late 1990s.

Indeed, it is around the issue of energy that some of the most problematic aspects of the Belarusian-Russian relationship have come to the fore. Even before more open recriminations started in the wake of Gazprom's suspension of gas supplies to Belarus in February 2004, tensions were accumulating under the surface. Although these remained largely below radar level for most Western observers until around 2001, the signs have clearly been visible on the ground since 1997[57]. These differences had to do largely with the Belarusian government's real attitude towards Russian investments in Belarus and towards economic integration with Russia more generally[58]. Little real economic integration took place in practice in the first years after the signing of the union agreement in 1997, in great part because of lack of real cooperation on the part of the Belarusian government. Agreements on monetary union, originally envisioned for the early 2000s, have been repeatedly pushed back and remain unimplemented. The first reason for this has been the reticence of the Russian Central Bank to tie the Russian economy to that of a country which has followed policies opposed to those it itself was attempting to promote in Russia. As a result, Belarus remained largely unreformed and thus faced very different problems from those faced by Russia. The contradiction here is that, rather than using the relationship with Russia as a stimulus to inch closer to similar reform policies, Belarus has been using the relationship as an escape route to avoid any radical changes in the economy[59].

Lukashenka's policies towards Russian capital and investors have also been contradictory. Boris Nemtsov, the former Russian deputy prime minister, once described the position of the Belarusian leadership on union with Russia as a political game: 'on the one hand, there is constant talk about economic integration; and, on the other, all possible juridical, administrative and economic obstacles are created to prevent this integration from really happening.'[60] Indeed, a number of authors have described the Belarusian-Russian relationship as a game of 'virtual integration', where both sides have much to gain from constant declarations, posturing and outdoing each other as to the desirability of a union, but much less to gain from real integration. Thus, real integration has been replaced by a game of virtual integration played for political purposes by both sides.

Hard line and concessions: energy relations since 2003

If we look at the evolution of the Belarusian-Russian relationship through the prism of energy policy (and especially gas supply policy) what we have seen since 2003 is a cycle where Gazprom (and the Russian government) puts pressure on Belarus, presses for higher gas prices with the implicit threat of reducing supplies, and on some occasions has carried these threats through, but this has been followed by other concessions on Russia's part which de facto compensate for the higher prices.

The first open signal that relations between Belarus and Russia had seriously deteriorated came in early November 2002, when Gazprom suspended gas supplies to Belarus by 50 per cent and demanded an increased price of $150 per 1000 cm instead of the domestic Russian price of $30 per 1000 cm.

The immediate response from the Belarusian side was decisively angry. The foreign ministry called the reduction in supplies 'a premeditated attempt to exert economic pressure on Belarus'[61]. President Lukashenka reacted angrily, threatening that should Gazprom not change its position, Belarus would charge world-market rates for the transit of Russian gas through its pipelines[62]. Most importantly, Lukashenka tied the issue to broader ones in the relationship, presenting a bill for services rendered by Belarus in the context of the Belarusian-Russian union. Lukashenka argued that, in contrast to the $190m that Belarus owes Gazprom from gas (Gazprom puts the amount at $282m), Gazprom owes Belarus $175m from services provided free of charge by the Belarusian side during the building of the Yamal pipeline, as well as $500m in terms of indirect taxes that Belarus failed to receive as a result of the customs union with Russia and tax exemptions received by Gazprom to the amount of $167m on machinery used for the building of the pipeline[63]. On 8 November 2002, Lukashenka argued that the decline in supplies was a reprisal for the fact that Belarus did not want to privatize the gas transit company Beltransgaz (which owns the gas transit network) and give control of its shares to Gazprom[64]. (During the 2001 election campaign Lukashenka had promised to privatize Beltransgaz, but after the 9 September elections did not follow through on his promises.)

Gazprom showed little flexibility, agreeing only to 'transport to Belarus on a priority basis gas purchased by Belarus from independent suppliers'[65]. Yet briefly following that, the Belarusian government offered to prepay for gas deliveries for November and December and also for the outstanding debt of $250m, as well as for gas taken from the pipeline in excess of the contracted limit. Belarus' prime minister, Gennady Novitsky, travelled to Moscow to try to reach an agreement with Gazprom, promising that the Belarusian government would introduce legislation to eliminate the current ban on privatizing Beltransgaz[66]. The crisis seemed to be surmounted shortly thereafter when the Russia's central bank agreed to provide a credit to Belarus to compensate for higher gas prices[67].

The next crisis came in early 2004. On January 2004, Gazprom suspended gas shipments to Belarus, which continued to receive gas from independent suppliers. On 18 February 2004, Gazprom stopped gas supplies to Belarus totally, citing the fact that Belarus had not carried out its agreements with Gazprom and that gas was being stolen from the pipeline [68]. Supplies were resumed a day later, after Beltransgaz signed a ten-day supply agreement with TransNafta and other independent gas suppliers. Although the stoppage lasted less than 24 hours, it was unprecedented: not even during the worst accusations against Ukraine about the stealing gas from pipelines had Gazprom fully stopped gas supplies, not only to domestic consumers but also to foreign countries.

Despite President Lukashenka's strong reactions to the stoppage – he called the measures 'terrorist' and stated that 'Belarusian-Russian relations will be poisoned by gas still for a very long time' – he was able to extract concessions from the Russian leadership. Thus, as a response to a gas price increases in 2004 from $30 to $46.68 per 1000 cm, Belarus successfully lobbied Russia to provide a $150m credit (plus an additional $25m to support trade) on favorable terms, intended to compensate for the price increases[69].

Negative impact of VAT changes in January 2005

The many contradictions accumulating behind the surface of the relationship and how far away both countries were from any real integration was made clear by the aftermath of changes in Russian VAT rules effective on 1 January 2005[70]. The new rules, prescribing the application of VAT on a 'country of destination' basis, meant both additional income for the Belarusian budget, and increased costs for Belarusian side. This was especially true for customers and small traders. After a few months, the Belarusian government took of a number of measures seen as restrictive by many small and medium traders, which seriously threatened the country's ability to continue to do business as usual[71]. Moreover, it led to the de facto re-establishment of customs borders between Russia and Belarus that had been abolished in 1995. In the energy sphere, changes in the VAT system mean that, even when gas prices remained unchanged between 2004 and 2005, the actual cost of purchasing gas increased by the amount of the VAT, from $46.68 to $53.89 per 1000 cm.

The problems created by the introduction of a new VAT system added to the general problems in the Russian-Belarusian relationship. In fact, in the period from the suspension of gas deliveries in February 2004 to October 2005, little seemed to have happened in terms of building a union state. There seemed to be little agreement on issues such as the nature of a joint Constitutional Act, a joint parliament or the introduction of a common currency.

After the Putin-Lukashenka meeting of 4 April 2005, the relationship seemed to start to improve again, if only in terms of Putin's statement to the effect that current gas prices for Belarus would be maintained. In June, Russia agreed to provide Belarus an additional $146m credit to compensate for the increase of gas prices in 2005 occasioned by changes in VAT legislation. Some ascribe this apparent change in attitudes to Russia's realization that, after the Rose Revolution in Georgia and Orange Revolution in Ukraine, Belarus remains its last ally in the post-Soviet area[72]. The value of this ally could be seen mainly in the political and military spheres (helping Putin show the Russian public that he is at the forefront of integration processes as a response to anti-Russian tendencies in Ukraine and Georgia).

Indeed, the military aspect cannot be underestimated given Belarus' latest steps in strengthening its military forces[73], as well as given Putin's own world view[74].

Yet despite these declarations, Lukashenka's request that Beltransgaz should sign an agreement with Gazprom by 1 July 2005 had not been met by November 2005. Gazprom also delayed the agreement citing the fact that Russia's energy balance would only be known by late autumn 2005.

Explaining Lukashenka's anti-Russian behaviour

This cursory look at Lukashenka's *real* policies towards Russia cannot but create the impression that, in many ways, he is behaving not as Russia's ally, but as a competitor. The only plausible answer to the puzzle of Lukashenka's contradictory relations with Russia is that he wants a close relationship with Russia insofar as it allows him to maintain personal power. But he also wants to keep total control and thus is much more reticent about any kind of agreement that would force him to lose some of this control. This rationale becomes especially clear over Russian attempts to gain control of the Belarusian gas transit monopolist Beltransgaz.

A new non-Russian energy policy in Belarus?

In the wake of long-standing differences with Russia on the price at which Belarus should receive gas from Russia, since 2004 President Lukashenka has been calling for extreme measures to break the country's energy dependence on Russia.

'A concept of Belarus energy security to 2020', developed by scholars from the National Academy of Sciences was unveiled in late 2004. The document's main thrust is the need to reduce Belarus' dependency on imported energy sources, especially gas. If in 2005 Belarus could cover only 16.8 per cent of its energy needs from domestic sources, according to the document this should be increased to 25 per cent by 2012, in order to reduce, in particular, gas consumption, which the government has proposed to cut from 62 per cent in 2003 to 42 per cent in 2020. Although the document talks about reducing gas consumption from 18.4bcm in 2003 to 16.9bcm in 2020, the actual tendency is in the opposite direction with Belarus demanding increased amounts of gas from Gazprom every year.

Although the document does not address directly the possibility of building a nuclear power station, some have argued that because the document is silent on the longstanding issue of building a coal-fired power station in Brest, the nuclear option is again on the table. It has been argued that the energy ministry has been very restrained in its discussions surrounding the construction of a nuclear power station, while President Lukashenka has been much more enthusiastic[75 76].

Lukashenka asked the government to prepare by 1 July 2005 a programme of energy infrastructure modernization, energy savings and increased energy self-sufficiency. On 25 August 2005, a presidential *ukase* ratified the country's concept of energy security and the state programme on energy system modernization. Some of the possible measures, such as an informal proposal for the building of a new nuclear reactor, are likely to encounter strong societal and international opposition[77]. Others, such as the call for the increased use of domestic energy sources and diversification in energy imports, may be better received by the population, but not necessarily realistic in the short term. Questions remain not only about the feasibility of these policies, but also about their compatibility with Lukashenka's search for accommodation with Russia and an economic strategy that is only viable given the steady inflow of energy rents related to his close energy relationship with Russia.

Hurdles to Belarus' ability to diversify its energy purchases beyond Russia

Despite the lofty goals set out in the energy security document, there are some serious hurdles to its implementation. One of the goals is to replace 3.5bcm a year of imported gas with domestic energy sources, such as wood and peat, by converting electricity-generating stations to use these fuels. In addition, such a conversion would require the investment of $690m, a very significant amount for Belarus.

Similarly, the Belarusian government had plans to build an electricity power plant near the border with Poland which would burn Polish coal, but after Poland's accession to the EU costs for the project soared, and it in turn has become increasingly unrealistic given sharply worsened relations with Poland since 2004.

Is Lukashenka Russia's only alternative in Belarus?

The pattern of relations between the Lukashenka government and Russia based on pressure and threats, but ultimate concessions by the Russian side, raises the question of the value of Lukashenka as an ally to Russia and whether Russian interests may or may not be better served by another leader at the helm of the Belarusian state. By 2004, it was clear that Lukashenka's continued, albeit declining, ability to extract concessions from Russia had less to do with the success of Belarus as a model and its ability to attract others to a Russian-led CIS than with Lukashenka's ability to blackmail the Russian government with accusations of complacency in the face of Western (NATO) expansion and responsibility for the dissolution of the former Soviet space.

If conventional wisdom indicated that the Belarusian opposition is unquestionably anti-Russian and that the only person who could safeguard Russia's interests in Belarus is Lukashenka, events over the last years challenge this perspective. As Lukashenka has become more and more unpredictable and his rhetoric against Russia has on occasion become more and more virulent, it has become increasingly clear that Moscow could perhaps be better served by another, more predictable, leader.

While both Russian business and the state have supported Lukashenka as a way to maintain stability in the energy sector, the business sector's interest in supporting Lukashenka may run out much sooner than that of the Russian state. While Gazprom has also had important reasons to support Lukashenka – as guarantor of stability across the Yamal pipeline that continues to be central to Gazprom's exports to Western Europe – his usefulness may be much more limited, overshadowed by his growing unpredictability. Thus Gazprom's short-term concessions, such as the April 2005 declaration about a non-increase in prices charged to Belarus, should not be mistaken for a commitment to long-term support.

3. Gas transit

Belarus is one of the most important transit countries for Russian gas exports to Central and Western Europe. In 2004, 35.3bcm of Russian gas transited through Belarus, representing approximately 20 per cent of Russia's total gas exports outside the CIS and Baltics and about 25 per cent of the amount going through Ukraine. Transit through Belarus offers the shortest route from Russian gas fields to the main Western European markets.

This transit potential, however, is limited by technical problems. Belarus' pipeline system, (most of which was built in the mid-to-late 1960s) is in an advanced state of disrepair. The ageing status of the pipeline system is part of a larger problem of lack of investment in Belarus' energy system. By 1997, 53 per cent of the country's power-generating equipment and 52 per cent of its heat-generating capacity had already out-served a useful life and $8bcm was needed to overhaul this part of the system[78]. This is one of the reasons why the building of the Yamal pipeline in the late 1990s was welcomed, as it was believed it could revitalize an ageing infrastructure.

Significant gas storage capacity is also lacking. Belarus' 'Concept of energy security', published in 2005, calls for an increase in underground gas storage capacities by 5bcm by 2020. Although such an increase would be very positive both in terms of Belarus' transit potential and in its ability to manage seasonal gas demand changes, it faces important technical and economic difficulties.

The Yamal pipeline

The Yamal pipeline, called by many 'the project of the century' at the time of its start in 1994, represents Belarus' most important gas transit project to date. In the second half of the 1990s, when energy relations between Russia and Ukraine – the largest transit country for Russian gas – were quite strained due to constant differences on prices, transit fees and accusations of stealing of gas from the pipeline, Belarus emerged as an advantageous alternative, both for energy transit and in a larger political sense. At that time, Russia was keen on using a possible Belarus-Polish corridor to avoid Ukraine and other uncooperative former Soviet republics, such as Lithuania.

The Yamal-Europe pipeline was conceived as a gigantic project involving the development of the Yamal gas fields in Siberia with transport to Western Europe via a 6670 km pipeline passing through Belarus, Poland and Germany. The total price tab for the project was estimated at $36bcm. The pipeline was hailed by many in Russia as a way to inject capital into Siberia, and also as a means to reduce dependency on gas pipelines passing through Ukraine. Although the main actor behind the pipeline is Gazprom, the Russian gas production, distribution and export giant, ownership of the pipeline is based on bilateral agreements with each of the countries involved.

Gazprom and control over Yamal

To understand Yamal's significance for Gazprom, one must start by understanding Gazprom's domestic situation. Despite Gazprom's economic prowess, its short-term economic situation is problematic. Given Gazprom's lack of domestic investment resources, it needs to tap into lucrative foreign markets, such as Western Europe, for capital.

Gazprom's problems in the 'near abroad' are compounded by the fact that inefficiency and poor climatic conditions lead to higher production costs in Russia than in other countries. Put in context, the role of inexpensive and stable transit routes (and thus of countries such as Belarus) is especially important. The promise of new capital investment becomes even more important given Gazprom's need to develop new northern gas fields with higher start-up costs.

Gaining control over the Yamal pipeline and Belarus' gas transit system more generally is very important for Gazprom for both political and economic reasons. On the basis of the domestic situation outlined above, we can discern four elements of Gazprom's medium/long-term strategy in Europe, with important implications for its relationship with Belarus.

Gaining a stake in the Western European gas market

The first element of Gazprom's strategy in Europe concerns gaining and maintaining a stake in the Western European gas market. This concerns not only increasing gas sales to Western Europe, but an emphasis on solidifying the relationship with the Western European markets before these countries can tap into alternative suppliers.

The very possibility of this strategy is related to Europe's demand for gas, set to increase further as a result of EU regulations controlling emissions and limiting the use of coal and other fuels. Although EU regulations will not come into full force until around 2010, their effect is already being felt. Given the weakness of domestic sources of gas and chronic political instabilities in other main supplying areas such as North Africa and the Middle East, Russia has emerged as a natural supplier. In addition, the strength and growth of demand from the new Eastern European members of the EU, linked to Russia by existing pipeline systems that make their supply patterns difficult to change should not be underestimated.

While there is increasing demand, there is also the prospect of increasing competition for the Western European markets. Part of this competition stems from the introduction of North African gas with lower production costs. Politically more troubling and complicated is the prospect of competition from several former Soviet republics – Turkmenistan, Kazakhstan, Uzbekistan and Azerbaijan – which continue to depend on Gazprom pipelines to ship their gas and with whom Gazprom has had a tense relationship[79]. Gazprom tried to block their use of Gazprom pipelines for their own throughput to Western European markets, preferring to purchase their output in order to make up the difference between its own production and its existing export commitments. The fact that the Central Asian states, especially Turkmenistan, loom as strong mid-term competitors cannot but add to Gazprom's sense of urgency. This competition for markets in large part explains Gazprom's rush to tap into this demand as substantially as possible before other players, particularly from Central Asia, develop feasible transportation alternatives and are able to join the competition in a serious way.

Much of the increase in Gazprom's shipments to Western Europe has been guaranteed by a series of large, medium-term contracts with a number of Western European states, most notably Germany. Indeed, the large contracts signed by Gazprom since 1998 (especially with Germany's Ruhrgas) guarantee Gazprom basically a quarter of the European gas market until 2015[80].

Safety and stability of gas delivery

A second element of Gazprom's strategy concerns guaranteeing the safety and stability of its gas exports system. Given the fact that Gazprom accrues the overwhelming majority of its hard currency revenue from exports to Europe, the issue of how to transport gas from deposits (most of them in Siberia) to Western Europe is of enormous importance. Because of the need to tap into Western Europe's growing demand as quickly as possible, Gazprom is especially interested in securing technically and economically feasible gas transport infrastructure.

Higher value-added and deeper penetration

Gaining a higher value-added role in its operations in Western Europe is a third important goal. Gazprom, realizing that selling gas wholesale is not enough, has also sought to play a wider role in the economies of those countries it does business with. This implies, first and foremost, the creation of joint ventures in practically all Central and Western European countries which sell and distribute Russian gas. This is also part of Gazprom's diversification strategy into other areas of the economy of countries which depend on its gas. This diversification, in turn, is important because it gives Gazprom access to (and makes itself a partner of) important domestic economic groups in each of the countries involved. Moreover, it gives Gazprom access to even higher potential profits as it taps into the highly lucrative domestic gas distribution business.

Exploitation of new gas sources in Russia

Finally, the fourth element of Gazprom's strategy returns to the domestic sphere. The export contracts with Western Europe, by bringing in additional cash resources, make possible the exploration and exploitation of new gas fields in Russia with high start-up costs. Moreover, through its deals with Germany's BASF/Wintershall and other companies, Gazprom's strategy seems to be seeking to exploit these reserves with minimal direct investments by the company. Given this strategy, the Yamal pipeline and the maintenance of a stable transit environment have been essential for Gazprom's plans since 1994.

Completing Yamal and support for Lukashenka

By 2004-05, additional reasons for Gazprom's interest in Belarus and short-term support for Lukashenka had emerged in the context of delays in Yamal's completion. To fulfil its growing contracts with Western Europe, Gazprom needs to make sure it can complete construction of the first line of the Yamal pipeline through Belarus, so that it can meet its planned capacity expectations of 33bcm a year, which is 11bcm more than its available capacity as of early 2005.

With this goal in mind, Gazprom has been willing to maintain low prices to Belarus for the time being, in exchange for support for the completion of the pipeline, including a long-term lease for the land on which the pipeline is located and for the speedy completion of the four compressor stations still needed for the pipeline[81]. Indeed, on 12 April 2005 Gazprom and Beltransgaz agreed informally that prices for Belarus would remain unchanged if these conditions were met. Similarly, in informal conversations Gazprom has made clear that an additional 1.4bcm of yearly gas deliveries (officially labeled 'to be delivered according to technical possibilities') would only be available if Belarus demonstrated sufficient progress on completion of one of the compressor stations[82]. Many commentators have argued that Belarus has used the negotiations on the future of the compressor stations as a way to try to keep 2005 gas prices ($46.68 per 1000 cm) in force throughout 2006[83]. Indeed, it is hard to avoid the impression that President Lukashenka has created a number of small hurdles on issues related to the completion of the Yamal pipeline, such as land rights and compressor station construction, as a way to maintain leverage over Gazprom on the price issue.

Yet, once the first line of Yamal is completed, Gazprom's attitude towards Lukashenka is likely to change. As relations between Ukraine and Russia started to improve starting in 2000, and as Ukraine became a more reliable partner for Russia, Belarus' (and Lukashenka's) comparative advantage started to fade, especially due to his own unpredictability, and Lukashenka has begun to become more and more of a liability to Russia. Russia's need to engage Belarus declined even further with the signing of an agreement with Germany in September 2005 for the building of a Northern European gas pipeline avoiding transit through any foreign territory. As a result, Gazprom's interest in building a planned second Yamal line is likely to decrease over time.

This marks a change in Gazprom's attitude towards Lukashenka and towards transit through Belarus. First, Lukashenka's declining reliability as a partner has driven Gazprom to seek additional by-passing transit routes. Second, to the extent to which its interest in transit through Belarus continues, the desirable forms of cooperation have changed from one based on informal agreements and support for the Lukashenka regime to one based on the desirability of contractually grounded control of Beltransgaz, Belarus' gas transit monopoly.

Given Gazprom's dependency on transit countries for its gas, then Belarus' strategic location could be seen as the country's 'only real trump card in its relationship with Russia'[84]. Yet it seems Lukashenka himself may have overestimated the degree to which he could act as a gatekeeper to Russia's gas export plans. Lukashenka's belief (similarly held by the Ukrainians in the mid-1990s) that 'having control over the pipeline' would give him some real leverage over Russia may have been overstated. The Yamal project has repeatedly been delayed, and it is unclear whether Lukashenka will be able to extract as many advantages from it as he originally expected. In any case, Belarus would never be able to achieve the pre-1999 Ukrainian position as a single gatekeeper on Russian transit routes to Europe because after the completion of the Yamal pipeline there will no longer be a single, monopolistic gate-keeper, as Ukraine was until 1999.

Moreover, Gazprom has proved adept at making its transport options flexible enough so as not to be dependent on a single gatekeeper. Even after committing to the Yamal project, Gazprom never stopped considering new pipeline routes, of which the Northern European Pipeline is only the most recent example. At no time did Gazprom seriously consider using Belarus and the second line of the Yamal Pipeline at full capacity before entering into this new project. It is believed that one of the reasons for entering into the Northern Pipeline project was not so much the need for additional export capacities, as the desire to have alternatives to transit through Belarus, no longer seen as safe as it was seen ten years ago[85 86]. Curiously, the price tag for the new pipeline is likely to be $5bcm, the same amount as the Belarusian side asked for the gas transit operator Beltransgaz. Indeed, it could be argued that Gazprom's interest in the Northern European pipeline, as opposed to increased flows through Belarus' gas transit system through building a second Yamal line, which could take capacity to 66bcm a year, represents Gazprom's frustration about the slow pace of negotiations on the creation of a joint venture to control Belarus' gas transit system through Beltransgaz. Indeed, many have argued that, with the building of the Northern European Pipeline, the building of the second Yamal line is no longer likely.

Domestic implications of freezing Yamal 2

A freezing of the building of the second line of Yamal would have important consequences for Belarus. Most directly, transit income from a second line could potentially cover a third of Belarus' gas import costs[87]. More generally, a freezing of the Yamal project would have negative effects for Lukashenka's domestic power, as, in addition to its economic significance, the Yamal project also has important domestic significance for Lukashenka's own power, image and discourse in the conduct of foreign policy.

Yamal has represented support for a certain embodiment of Lukashenka's view of integration in the post-Soviet space. Lukashenka's warm reception of the Yamal idea had to do first of all with the fact that the project supported his official position in favour of a strengthened CIS – or at least strengthened relations with Russia – rewarding the advocates of closer economic union and punishing those post-Soviet states opposing it. Indeed, Lukashenka felt Yamal was a good answer and kind of lesson to the uncooperative Ukrainian approach to CIS integration. Lukashenka's position echoed the views of many in Moscow, who favoured the process of Russian-Belarusian integration, because it put pressure on Ukraine to adopt a less ideological and more pragmatic foreign policy stance. This must be seen in the context of the considerable threat that Yamal poses for Ukraine, as it could reduce Ukraine's role in the profitable system of gas transit from Russia to Western Europe[88].

In terms of the Belarusian-Russian relationship, Yamal could be seen as the substance or real backbone of the relationship and, most importantly, putting a concrete economic actor, Gazprom, behind the political project and adding a powerful lobbyist to it. Perhaps most importantly, the Yamal project also contributed to increasing Belarus' bargaining power vis-à-vis the Russian government and Gazprom specifically.

However, despite the fact that the original agreement[89] called for the building of two parallel pipelines each with a capacity of 33bcm a year, by March 2005 neither of the lines had been completed. Despite a total capacity of 33bcm a year on one line, by mid-2005 only a 22bcm a year capacity had been reached; the 33bcm capacity was only likely to be reached by the end of 2005, if issues concerning the building of several compressor stations in the pipeline could be resolved in time.

The battle for control of Beltransgaz

In order to understand Gazprom's attempts over the last decade to gain control over Beltransgaz, we need to look at them not only in terms of the Russian government's 'imperialistic' designs on Belarus, but in terms of Gazprom's export strategy and of the close connection between the Belarusian and Russian energy systems as integrated components of the former Soviet network.

The history of Russian attempts to control Belarus' gas transit system goes back to 1993, when discussions were started on a possible joint venture between Gazprom and Beltransgaz. A first option involved the leasing of Beltransgaz's 6000 km network to Gazprom for 99 years in exchange for increased gas deliveries to 2010 and in an implicit understanding of re-exporting some of this supply[90].

Indeed, when Russia suspended fuel shipments to Belarus in September 1994 over unpaid fuel bills, this was widely perceived as the impetus needed for Belarus to sign an agreement giving Gazprom ownership of Beltransgaz 'in exchange for the resumption of gas deliveries' [91]. However, the agreement was not ratified by Belarus' parliament (the Supreme Soviet).

A new wave of Gazprom interest in Beltransgaz began around 1999. The possibility was discussed of creating a joint venture with Gazprom where Belarus would contribute part of its existing gas pipelines. The idea was ultimately rejected as the Belarusian side realized that, on paper, its contribution would amount to only $400,000 as opposed to Gazprom's $3bcm leaving it with little representation in the consortium's top management. Moreover, creation of such a joint venture would have given Gazprom control, not only over gas supplies, but also over gas distribution in Belarus[92], which was opposed by the Belarusian government.

From the very beginning, negotiations on the future of Beltransgaz went hand in hand with discussions as to the future of Gazprom's gas supplies to Belarus, both in terms of quantity, price, and other component elements.

Gazprom's significant informal help in Lukashenka's campaign for the September 2001 presidential elections was predicated on the expectation that, after the elections, negotiations on the corporatization of Beltransgaz and the creation of a joint venture would go forward successfully. Similarly, the April 2002 agreement, 'On the Establishment of equal conditions in the area of price policy (...)', making available to Belarus similar gas prices as those available to similarly located areas of Russia (an average of $22–$25 per 1000 cm in 2002) for the next five years was predicated on the same expectation. However, little real progress took place after the 2001 elections.

One important hurdle concerned what monetary value should be assigned to Beltransgaz, and how should it be determined. Both sides continued to be mired down by differences on the valuation of the company: while Gazprom estimated Beltransgaz's value at $600m, Belarus insisted on a value of $5bcm. It was only in July 2004 that both sides agreed on naming an independent auditor to assess the value of the company, but little has happened since then.

In April 2002, Presidents Putin and Lukashenka agreed that Beltransgaz would be privatized and that a new Russian-Belarusian joint venture would be created with Gazprom [93].

The situation continued to be unclear until early November 2002, when Gazprom, making reference to Belarus' gas debt, suggested that Belarus buy gas at market prices. A suspension of gas supplies followed and, under pressure, Belarus started to get moving on the process of privatizing Beltransgaz. It has been argued that, in addition to Russian pressure, the decisions in late 2002 by the EU and the US to refuse visas to Lukashenka and other Belarusian leaders played a role. Fearing he might end in total isolation may have moved Lukashenka to seek better relations with his only ally, Russia. A law lifting existing restrictions on Beltransgaz's privatization was passed by the upper chamber of Belarus' parliament on 22 November 2002[94]. Yet little happened after that.

The creation of the Beltransgaz-Gazprom joint venture was a condition set in the agreement, 'Development of cooperation in the gas sector', between Russia and Belarus signed on 12 April 2003[95]. Russia fulfilled its part of the agreement by selling gas to Belarus at domestic Russian prices, but the Belarusian side did not fulfill its side of the agreements[96]. In the summer of 2003, when it became clear that Gazprom would not be able to buy Beltransgaz, Russia raised the question of canceling the April 2002 agreement granting Belarus domestic Russian prices. With no reaction from Belarus on the threat, on 12 September 2003, the Russian prime minister, Mikhail Kasyanov, signed a decree (effective 1st January 2004) canceling his recommendation to Gazprom that Belarus be charged domestic Russian gas prices. Gazprom argued in a meeting in Sochi in September 2003 that it had been agreed that the prices for Belarus would be the same as for Ukraine. As the base price for Ukraine was $80 per 1000 cm, Gazprom felt justified in increasing prices for Belarus[97]. In the summer of 2003, Putin indirectly let it be known that domestic gas prices for Belarus would be maintained only in case a joint venture between Beltransgaz and Gazprom was formed[98]. However, in an April 2005 meeting with Lukashenka, he seemed to indirectly retreat from this position, despite the fact that little progress seemed to have been made on this question in the intervening time. By April 2005, agreement was not even reached on which auditing company should assess the value of Beltransgaz's activities. If initially Gazprom insisted on having a majority position within the joint venture, it later retracted this demand and settled for parity of shares with Beltransgaz[99]. By October 2005, with no news of any movement forward in the creation of the joint venture, analysts observed that neither of the two sides seemed to be 'forcing' its creation and that Gazprom's interest in the company may be waning[100].

While little movement could be observed on the surface between October and December 2005, behind the scenes Lukashenka was subjected to very strong pressure from the Kremlin. In essence, the Kremlin demanded control over Beltransgaz in exchange for maintaining low gas prices. While similar demands had been heard before, what was different now was Lukashenka's increasing international isolation and the pressure felt from the wave of democratic peaceful revolutions in Georgia, Ukraine, and Kyrgyzstan.

The gas supply contract signed on 27 December 2005 between Belarus and Gazprom stipulates Gazprom will gain ownership over the Belarus segment of the Yamal pipeline[101], in exchange for maintaining current gas prices of $46.89 per 1000 cm throughout 2006. This contract made clear the special relationship between Belarus and Russia, especially in comparison with other post-Soviet states. While Belarus was offered gas prices of $46.80 per 1000 cubic meters in exchange for political loyalty and handing over control over the country's pipeline system, Yushchenko's Ukraine, resented by the Kremlin for following a pro-Western foreign policy line, was offered a gas price four times higher.

Oil and oil transit

Although better known in the West for its role in gas transit, Belarus also plays an important role in oil transit. Druzhba, the most important pipeline transporting Russian oil to Europe, passes through Belarus. In 2004, about half of Russian oil exports (not including exports to the CIS and Baltics) went through Belarus.

The Druzhba pipeline is Belarus' most important oil pipeline. Druzhba starts in Russia and later divides into northern (Belarus) and southern (Ukrainian) branches, of which the northern one has a larger capacity (720,000 barrels per day as opposed to 500,000 for the southern branch). Throughout the 1990s and 2000s, Russia used the possibility of transiting oil through Belarus as a kind of safeguard against Ukraine's perceived or real demands for excessively high transit tariffs from Russia. For Belarus, the most important recent oil transit project has been participation in the Druzhba-Adria oil transit system, the agreement for which was ratified by Belarus' national assembly in May 2004[102]. The project allows Belarus to access significant additional sources of transit revenue, but requires additional investments as the Druzhba pipeline is over 35 years old and in serious need of reconstruction.

Conflict over ownership of oil product pipelines

Although there have been no major problems with the transit of Russian oil through Belarus since Lukashenka's coming to power in 1994, an important controversy emerged in 2001 over ownership of an oil products pipeline belonging to the Zapad Transnefteprodukt company. For a long time, Belarus did not want to recognize Russian ownership over this pipeline, and since 2002 a battle has ensued between Belarus and Russia on the matter. In this case, in contrast with that of the Ukrainian equivalent, YugoZapad Transneftprodukt, which functions on the basis of a 1995 Russian-Ukrainian state-to-state agreement[103], it seems as if rather lax contractual regulations between the Belarusian and Russian partners may have contributed to the confusion.

In 2004 it became clear that, should Belarus not recognize Russian ownership, Belarus would may not receive the 18m tons of oil from Russia it was expecting for 2004, threatening its growth targets for the year and the significant revenue it accrues through the refining and exporting of Russian oil to Western European markets. As a result of this threat, Belarus accepted Russian ownership, but it achieved certain concessions: it will be able to influence the actual work of the company by, for example, playing a role in the setting of transit fees[104], instead of these being set only by Russia's federal energy commission, which on occasion has set these so low that the company could not cover its costs. Transit fees for oil products were also increased in 2004 from \$0.59 to \$0.89 per ton per 100 km[105].

Belarus' refinery system

Belarus' attractiveness in terms of oil transit is compounded by its oil refining capabilities. Belarus had some of the largest and most modern oil refining facilities in the USSR. Its oil refining capacity of approximately 11m tons per year is only about 20 per cent smaller than that of the much larger Ukraine[106].

Cooperation between Belarus and Russia in the oil refining area has been necessitated by the dependencies and synergies created by the single energy infrastructure developed during the Soviet period. Some of the largest Soviet refineries were established in Belarus and Ukraine, but can only work profitably as part of a larger, union-wide market guaranteeing regular crude oil supplies and access to markets throughout the FSU. Belarus' refining capacity is 20 times larger than the quantity of oil the country produces, making international cooperation essential for the sector.

As in the case of Ukraine, refineries in Belarus went into crisis in the mid-1990s due to the lack of stable supplies. The Naftan refinery in Novopolotsk, for example, one of the most modern refineries of the whole FSU, was at the time working at only one third of its capacity. The crises raised the question of the need to involve Russian oil companies more directly in their work.

In the case of Belarus, a number of factors and policies came together in the second half of the 1990s which not only allowed the country to overcome this crisis, but to revitalize the sector to such an extent as to make it one of the most important sources of foreign revenue. First of all, the political integration process with Russia and in particular the abolition of customs barriers made it possible for Russian companies to enter into advantageous schemes involving oil refining in Belarus for the purposes of avoiding taxes and export duties levied by Russia. Second, this same political unification process provided certain guarantees: for Belarus, the oil companies would keep their supply commitments; for Russian oil companies, it was safe to invest in Belarus' refinery sector. Third, the Belarusian government found ways to deal flexibly with Russian oil companies, for example, through allowing a number of tolling arrangements involving the importation, refining and re-exportation of crude oil[107]. Last but not least, the Belarusian government engaged in an aggressive modernization programme for its refineries, bringing them closer to Western European standards, and fetching higher prices in Western markets.

In the case of one of the refineries, Mozyr, jointly owned by Belarus and the then Russian-Belarusian joint venture Slavneft, the general pro-Russian policy atmosphere reigning in Belarus at the time of its creation in 1994 meant the company was given the same privileges as local companies, creating an added incentive for refining operations in Belarus.

Ownership of oil refining companies

Since Belarus' independence, Russian oil companies have been interested in Belarusian oil refining capacity with LUKoil, Yukos and Slavneft making a series of concrete overtures since the mid-1990s.

In the mid-1990s, LUKoil made several proposals for the creation of a joint venture together with the Novopolotsk oil refinery, Naftan. Although an agreement was reached in 1995 between the Belarusian side, Yukos and LUKoil, Naftan was not turned into a joint-share company (*aktsionernoe obshchestvo*) as neither Yukos nor LUKoil received any special conditions as agreed[108].

Yet a division of labour was soon established along the following lines: Russian companies would supply the raw materials, Belarusian companies would refine these, and the profits of sales to Western Europe would be shared by both. From the perspective of the Russian companies, this arrangement fitted in well with their own technological cycle: extracting oil in western Siberia, delivering some of it to Belarus, refining it there and selling it either in Belarus, Russia or exporting it.

The potential sales market for Russian oil refined in Belarus is closely related to the geographical location of Belarus and the refineries. Indeed, not only is oil refined in Belarus easier to export to the West, but it is often more advantageous to supply the nearby Russian oblasts with oil refined in Belarus than in Siberia or the Volga region, where many Russian refineries are located. Access to the European refined oil products market is especially important for these companies, because of the considerably higher value-added involved in selling refined oil products as compared to selling crude oil.

For reasons of geographical convenience and the potential to complete the production cycle, Russian oil companies have been especially interested in acquiring full or partial ownership of Belarus' two refining complexes, Mozyr and Novopolotsk.

The Mozyr refinery

The Mozyr oil refinery in southern Belarus is located approximately 200 km from the Polish border and 50 km from Ukraine. Its location as the westernmost refinery from which Russian oil products can be exported to Europe makes it especially attractive.

Mozyr was opened in 1975 and was privatized in 1994: 42.7 per cent of its shares belong to the Belarusian state, 42.6 per cent to Slavneft, 12.2 per cent to the company MNPZ Plus (comprised of the company's workers and former workers), and 2.4 per cent to other investors. The refinery has nearly 4,000 workers and in 2005 its market value was assessed at $1.1bcm[109]. It receives oil supplies from the Russian companies Surgutneftegaz, Sibneft, LUKoil, Rosneft and Russneft[110]. Mozyr (together with the Turkmenbashi refinery in Turkmenistan) is one of only two refineries in the CIS able to produce EU standard diesel and gasoline[111].

Despite these common interests, relations between the Belarusian government and the Mozyr leadership in the second half of the 1990s were not smooth. Lukashenka made accusations that, although Mozyr belonged to the joint Russian-Belarusian company, Slavneft, the Russian government sold a large block of company stock without consulting Belarus[112]. Given the high level of modernization needed, it was expected that Mozyr would be sold to a Western investor. However, the Belarusian government and Slavneft went ahead with the modernization process on the basis of loans and their own resources.

Nearly half of Mozyr's shares are owned by Slavneft, created in 1994 as a Belarusian-Russian company. Until its full privatization in 2002, Russia (the State Property Fund, together with the Ministry of State Property) held 75 per cent of the company's shares, Belarus (the Ministry of State Property) 10.8 per cent and foreign shareholders 11.2 per cent. In November 2002, Belarus sold to

Sibneft its package of shares in the company, followed by Sibneft and the Tyumenskaya Neftyanaya Kompaniya (TNK) jointly winning an auction for 74.95 per cent of Slavneft's Russian shares briefly thereafter. As a result, Sibneft and TNK ended up owning 98.95 per cent of shares in Slavneft, including daughter companies such as the Mozyr refinery.

In 2004, Slavneft approached Belneftekhim, the Belarusian oil refining and petrochemicals state company, with a proposal to take over through the execution of a trust agreement part or all of the government's package of shares in the Mozyr refinery with the goal of being able to play a more effective role in the decision-making of the company (since Slavneft owns only 42.5 per cent of the company's shares), with the expected result that the refinery's profit could be increased by $10m a year[113]. Belneftekhim's response was a counter-proposal to Slavneft, agreeing in principle, but setting very strict requirements. For example, concerning the level and type of investments that Slavneft would need to make in the refinery, as well as requirements concerning Slavneft's responsibility for returning certain credits to the Belarusian government, the level of guaranteed oil supplies, lower price supplies to the agricultural sector, and an increase in social guarantees to workers in the company[114]. Slavneft sought to negotiate some of these conditions, but in March 2005 the Belarusian deputy prime minister, Ivan Bambiza, announced that, given the strategic nature of the Mozyr refinery, the government did not intend to transfer its package of shares in trust to Slavneft.

Seeking to manoeuvre around the Belarusian government's refusal to give the shares in trust, in March 2005 Slavneft approached the Belarusian government with a toned-down proposal: to take over the shares not in trust but in management (instead of these being managed, as up to now, by Belneftekhim).

Should the government have agreed to this, it would be Slavneft, and not Belneftekhim, that would represent the state in the Mozyr refinery's management. At the same time, the state sought to increase its share in the Mozyr refinery by seeking to force the minority shareholder, MNPZ Plus to turn over its shares to the state[115] and by forcefully introducing a state golden share in MNPZ Plus[116]. Given these policies, it seems unlikely that the state will give up control over the company in the near future.

The Naftan refinery

Located in Novopolotsk in northern Belarus and also known as the Novopolotsk refinery, Naftan was made into a shareholding company in 2002. In contrast with Mozyr, the overwhelming majority of its shares (99.8 per cent) are owned by the state. Naftan's main suppliers and partners are Belneftekhim (through its daughter company Belarusskii Neftianoi Torgovyi Dom), Belarusneft, Rosneft and LUKoil's daughter companies in Belarus. In 2004, Naftan refined 8.8m tons of oil.

Since 1999, the refinery has been conducting an ambitious modernization program. Its first modernization program took place from 1999 to 2004 and a further one is planned for 2006-10. This process has allowed Naftan to gradually increase the deepness of refining: from 59 per cent in 1997 to 71.6 per cent in 2005; a further increase to 90 per cent is expected by 2010[117]. Due to this modernization process, since late 2004 Naftan has been able to produce EU-standard diesel fuel. By 2008, it plans to produce gasoline on the EURO4 standard. Meeting these standards is especially important given the fact that Naftan can only finance its work for the chronically unprofitable domestic market with profits from exports.

Several post-Soviet oil companies have been interested in collaborating with Naftan. LUKoil, Russia's largest oil producer, has been interested in Naftan since 1995, but the idea of developing a joint venture did not succeed at the time. In 2003, LUKoil made a new attempt to create a joint venture with Belarusian partners, this time for the creation of an oil-production company. It has been argued that LUKoil supported Lukashenka's 2001 reelection campaign, in exchange for promises that Naftan would be privatized, but that this promise was not kept by the Belarusian president.

Kazakhstan's national oil company, Kazmunaigaz, has also been interested in Naftan. Although the vast majority of Naftan's modernization process has been financed independently (with profits from the export of oil products), in March 2005 Kazmunaigaz announced it would like to participate in Naftan's reconstruction by means of, among other measures, supplying the refinery with Kazakhstan oil. However, this would prove hard to accomplish in practice, since, in order for oil to be supplied from Kazakhstan, the agreement of Russia's oil transit monopolist Transneft would be needed, as oil from Kazakhstan would have to go through its pipelines on Russian territory[118]. Kazmunaigaz had previously also been interested in the Mozyr refinery, but it decided to concentrate on Naftan because, given Mozyr's long-term connection with Slavneft and Sibneft, Naftan could be comparatively more open to new partnerships.

Patterns of energy privatization negotiations with Russia

There seems to be a certain pattern involved in the Belarusian government's dealing with Russian proposals to participate in the privatization of energy infrastructure: going ahead with the project in its planning stages, when it can acquire maximum concessions from the Russian side (for example, LUKoil's and Gazprom's reputed support for Lukashenka's 2001 presidential bid), only to later create a number of obstacles to the actual carrying out of the agreement. In the case of Gazprom, the reaction to this lack of commitment on the part of Belarus has most often been an attempted increase in prices or the threat of a cut-off in supplies, but this has most often been offset by credits provided by the Russian state to compensate for higher prices. Indeed, it would seem as if the logic of self-interest on the part of Russian companies works only up to a certain point. When that point is about to be reached and Belarusian-Russian relations are just about to go truly sour, the Russian government seems to find sufficient strategic arguments to step in, provide continued support, and keep the game of virtual integration going.

Policy-making under Lukashenka

In energy negotiations with Russia, be they about gas prices or about the privatization of gas transit or oil refining infrastructure, the nature of the policy-making system under Lukashenka has played an important role. Lukashenka's policy-making style has been characterized by a disregard for formal institutions, including hardly representative ones such as the government-controlled National Assembly, as well as for various ministries. In bypassing formal institutions, Lukashenka has used direct appeals to the masses, as well as his own system of keeping high state functionaries in fear of dismissal or stronger reprisal.

While formal institutions continue to be in place and fulfill day-to-day administrative roles, their role in important policy decisions is limited by the president's own initiative and through his practice of issuing direct commands through his ministers. Examples of this leadership style were seen during energy negotiations with Russia crucial for the survival of Belarus' economy, where Lukashenka has greatly limited the negotiating power of relevant institutional actors and their experts, and sought to deal with the issues on a purely political level. For example, during negotiations on gas supplies from Russia in April 2004, despite the country being on the verge of a cut-off in supplies, Lukashenka delayed a resolution of the case by giving the high-level negotiators sent to Moscow little real power to sign agreements[119]. Similarly, negotiations over possible Russian investments in the gas transit company Beltransgaz have been deliberately slowed down due to President Lukashenka's desire to personally control each step of the process.

5.
Future turning points in Russian-Belarusian energy relations

Let us examine some possible prospects for Belarus' future as an oil and gas transit state, and how these might affect the question of Russian and Western investments in Belarus. These are not necessarily alternative or competing scenarios, but elements of a possible future situation.

Gas pricing

In the last ten years, much of the debate between Belarus and Russia has focused on whether Belarus would receive gas from Russia at the same price gas is charged domestically in Russia. Even if Belarus could convince Russia to continue charging it domestic prices despite the ups and downs of the relationship, and in an environment in which mutual dislike between Presidents Putin and Lukashenka is open, some objective factors are likely to make Belarus' current situation untenable in the long term.

Because of its agreements with the EU and the World Trade Organization (WTO), Russia has agreed to gradually increase its domestic gas prices (by 11 per cent in 2006 and 8 per cent in 2007)[120]. This would mean significantly increased prices for Belarus in a situation where the Belarus economy may be much less prepared than the Russian one to deal with them. Indeed, as noted by the IMF, one of the perverse effects of the subsidization of the Belarusian economy through energy subsidies has been the preservation of an economic model that is incapable of dealing successfully with the effects of an eventual reduction in Russian economic support, something that is likely to happen, leaving political factors aside, as an unavoidable side effect of Russia's economic reforms and its accession to the WTO[121].

It is hard to underestimate the impact increased Russian gas prices would have on Belarus, especially considering the very high role of gas in the country's energy mix. Belarusian experts have identified a gas price of \$88–\$90 per 1000 cm as the breaking point, when, other circumstances remaining equal, the Belarusian economy would reach a point of zero profitability[122]. While Belarus would be able to maintain some of the petroleum refining profits related to its advantageous geographical location, these would not be able to compensate for the price increases. Residential gas prices, which until now have not kept up with increases in the cost of gas purchased from Russia, would have to increase steeply. Industrial gas and electricity prices would also have to increase, raising the role of energy in total production costs from the current 13–13½ per cent to 17–18 per cent, putting pressure on the state to increase subsidies.

Transit issues

A second area where important shocks could take place concerns the issue of transit, likely to arise first and foremost around the Yamal pipeline. Although we are used to thinking about the Yamal pipeline as guarantee of closer relations between Belarus and Russia, some new elements brought about by the actual opening of the pipeline could actually challenge the status quo.

One issue which is very likely to cause problems in the future relationship between Gazprom and Belarus, especially if a less pro-Russian government were to take power in Belarus, is the question of ownership of the pipeline and the land underneath it. As in the case of Poland in the 1990s, the question of leasing lands for the Yamal pipeline has not gone completely smoothly[123]. In the case of Belarus in contrast to Poland, the building of the pipeline is being financed exclusively by Gazprom and the issue of ownership and leasing of the lands under the pipeline remains murky. And what yesterday may have seem as a normal informality in relations between friendly partners may actually turn out to be a major breach in understanding, as shown by current problems on the lease of land for the pipeline and associated compressor stations on Belarusian territory.

One of the reasons that Gazprom and the Russian government were enthusiastic about Yamal was the prospect of breaking free from Ukraine's transit fees, often seen by Gazprom as exorbitant. Yet it might well be that the question of transit fees will soon become an issue in relations with Belarus as well. Until a few years ago, Gazprom actually paid Belarus in cash for its transit services[124]. Yet when Gazprom started having problems getting paid for gas by Belarus, it stopped cash payments and started 'taking into account' Belarus' transit services in calculating a lower gas price for Belarus[125]. Thus, both Belarus charges lower transit fees and Gazprom provides lower-than-market prices.

In the ongoing battle of wills between Gazprom and the Belarusian government on the issue of prices, the Belarusian side has threatened to increase transit fees charged to Russia. The current (2005) transit fees charged by Belarus ($0.75 per 1000 cm per 100 km for the Beltransgaz system and $0.46 per 1000 cm per 100 km for the Yamal system[126]) are at least two times lower than fees charged by other states.

Yet as the amount of Gazprom gas in transit through Belarus could potentially soar to 83bcm a year if the two lines of the Yamal pipeline were to be completed eventually, the logic of the status quo could fall apart, as the lure of large transit revenues looms larger. In addition, the Belarusian side hopes that an increase in gas transit will help it clear its debts with Gazprom[127].

Alternative systems for the supply and transit of gas and oil

Belarus has been so identified with – and has benefited from – a Russian-centered system of energy supply that it is difficult to imagine the country playing a role in an alternative system of oil supplies. However, we should not forget the fact that other options have also been discussed in Belarus, and this could come to the table again in case significant changes take place either domestically or in terms of the relationship with Russia.

Belarus' location makes the country important in terms of energy alternatives for the region. Had Belarus not defected from the embryonic grouping of Baltic-Black Sea countries (among them Poland, Lithuania, Latvia and Ukraine) in the mid-1990s, the potential for the creation a Baltic-Black Sea corridor would be much more realistic. In perspective, such a grouping, if developed into an economic as well as political grouping, might have created its own energy transport infrastructure and new oil transport possibilities. New corridors through Latvia and Lithuania to the Baltic Sea, and through Ukraine to the Black Sea could create new energy transport alternatives for these countries. This could have very important implications, as it could mean not only that these countries could break their energy dependence on Russia, but also could become a real source of competition for Moscow in terms of the re-export of Caspian oil to Europe[128].

Some of these possibilities have been revisited even during Lukashenka's tenure in power. Already in 1995, research had been conducted in Belarus on the possibility of using Ukraine's Odesa-Brody pipeline[129] to supply Belarusian refineries. In May 2004, the highly respected Belarusian economic weekly, *Belaruskii Rynok*, reported that on 26 April the Belarusian company Belneftekhim together with the Latvian oil transit operator LatRosTrans and Ukrtransnafta and the Ukrainian Institute of Oil Transit had discussed a possible oil transit route that would join the Odesa-Brody pipeline with the Belarusian pipelines, and later go on to the Ventspils port in Latvia, through the route Odesa-Brody-Mozyr-Polotsk-Ventspils[130]. It was later reported that a memorandum of intentions was also signed at the May meeting[131]. Official Belarusian comments, however, have been quite muted. As stated by Belarus' first deputy prime minister, Vladimir Semashko, this possibility would be interesting for Belarus in the event that Russia were to increase oil prices charged to Belarus to world prices, but adding that, on the basis of Russia's energy strategy up to 2020 (concerning oil production, sales and refining), this is not likely to happen[132].

Events on the gas front, moreover, could create hurdles for such a scenario. It could be argued that after the building of the Yamal pipeline the possibility of Belarus playing a role in an alternative Baltic-Black Sea energy transit network becomes less realistic, as Belarus becomes structurally tied to a Russia-centred transit variant that divides a possible Baltic-Black Sea corridor in two – southern and northern[133] – and gives Russia increased possibilities to play one country against another (ie, Belarus and Ukraine) in its search for cheaper energy transit possibilities. Although Yamal concerns gas transit and not oil, its impact on Belarus' overall energy transit scenario is clear.

Nevertheless, the very idea of such a project even being discussed is interesting given that a project for a Baltic-Black Sea oil link was proposed by the Belarusian opposition in 1992 as a way of ending the country's energy dependency on Russia.

Openings for Western companies

Belarus' ability to reap important benefits from its oil transit and refining potential is closely related to the continuation of a special relationship with Russia. Despite the ups and downs of the relationship, President Lukashenka has been able to leverage Belarus' military and political importance for Russia as a way to maintain a close energy relationship.

If on the one hand it could be said that a possible cooling in Belarusian-Russian relations under Lukashenka could open new opportunities for the West and Western companies, two caveats need to be made clear. First, even if Lukashenka were to turn away from Russia, it is not clear that anyone in the West would be waiting for him with open arms[134]. Second, without a change in the political system, Lukashenka's continued concentration of power in energy policy-making may mean increased 'deals' and opportunities in the short term, but only limited predictability in the medium and long term.

Notes and references

1 *The World Factbook – Belarus*, Central Intelligence Agency, available at http://www.cia.gov/cia/publications/factbook/geos/bo.html#Geo.

2 *Belarus National Human Development Report 2005*, UNDP, p.39, available at http://hdr.undp.org/docs/reports/national/BYE_Belarus/Belarus_2005_en.pdf.

3 Stanislau Shushkevich, Belarus' first head of state, placed a high priority on establishing Belarusian sovereignty, especially vis-á-vis Russia and on developing constructive relationships with international institutions such as the EBRD, the IMF, the World Bank and the Organization for Security and Cooperation in Europe.

4 Belarus had been heavily Russified during the Soviet period and many resisted what they saw as the forced reintroduction of the Belarusian language in education and administration.

5 The 'old' parliament continued to function underground for some time and distinguished itself from the 'new' parliament loyal to Lukashenka by using the name '13th Supreme Soviet' or 'Supreme Soviet of the 13th Convocation'.

6 The size of this secret budget has been estimated at between $3bcm– $10bcm a year, compared to the country's official budget of $12bcm. This is money directly available to the president with no oversight attached.

7 Margarita M. Balmaceda, James Clem and Lisbeth Tarlow (eds), *Independent Belarus: domestic determinants, regional dynamics and implications for the West*, introduction (p 7), Cambridge: HURI/Davis Center for Russian Studies distributed by Harvard University Press, 2002.

8 'Belarus: window of opportunity to enhance competitiveness and sustain economic growth', World Bank, Country economic memorandum on Belarus, May 2005 (executive summary available at http://siteresources.worldbank.org/INTBELARUS/Resources/CEM_Ex_Sum.doc).

9 Yaroslav Romanchuk, 'Vsemirnii Bank uvidel okno … dlia Belarusi' ('The World Bank saw a window …for Belarus'), *Belgazeta*, 25 (660), 4 July 2005.

10 See Kathleen J. Mihalisko, 'Belarus: retreat to authoritarianism', *Democratic changes and authoritarian reactions in Russia, Ukraine, Belarus and Moldova*, p 274, Karen Dawisha and Bruce Parrott (eds), Cambridge: Cambridge University Press, 1997.

11 Belarus' policies can be characterized as clearly pro-Russian only during the mid-1990s. For most of the period after 1997, however, these relations can only be characterized as highly ambiguous. See Yuri Drakokhrust and Dimitry Furman, 'Perepety integratsii', *Belorusia i Rossia: Obshchestva i Gosudarstva (Belarus and Russia: societies and states)*, Moscow, 1998; and Yuri Drakokhrust and Dimitry Furman, 'Belarus and Russia: the game of virtual integration', *Independent Belarus: domestic determinants, regional dynamics and implications for the West*, Margarita M. Balmaceda, James Clem and Lisbeth Tarlow (eds), Cambridge: HURI/Davis Center for Russian Studies distributed by Harvard University Press, 2002; and Margarita M. Balmaceda, 'Myth and reality in the Belarusan-Russian relationship', *Problems of post-communism*, vol 46, May/June 1999.

12 Yaroslav Romanchuk, 'Do gazovogo Armageddona poka daleko,' ('Gas Armageddon is still far away') *BelGazeta*, No 28 (496), 18 July 2005, making reference to a World Bank country memorandum, 'Vsemirnii Bank uvidel okno … dlia Belarusi' ('The World Bank saw a window …for Belarus'), *Belgazeta*, 25 (660), 4 July 2005; and Valerii F. Dashkevich, *Energeticheskaya zavisimost' Belarusi: posledstviia dlia ekonomiki i obshchestva, (Belarus' energy dependency: consequences for the economy and society)*, Minsk: Lovginov/ Fond imeni Fridrikha Eberta, 2005.

13 In 1998, Belarusneft specialists estimated the oil sector would need $30m– $35m in investment each year to ensure stable production levels, Interfax oil and gas report, 11–17 September 1998; FBIS Sov-98-252, 9 September 1998.

14 Yaroslav Romanchuk, 'Vsemirnii Bank uvidel okno … dlia Belarusi' ('The World Bank saw a window …for Belarus'), *Belgazeta*, 25 (660), 4 July 2005; and Valerii F. Dashkevich, *Energeticheskaya zavisimost' Belarusi: posledstviia dlia ekonomiki i obshchestva, (Belarus' energy dependency: consequences for the economy and society)*, Minsk: Lovginov/ Fond imeni Fridrikha Eberta, 2005.

15 Tatiana Manenok, 'Gazprom' svoio voz'met' ('Gazprom takes what it owns'), *Belorusskii Rynok*, 13 (597), 5–12 April 2005.

16 Tatiana Manenok, 'Energobezapasnost poka nedostizhima' ('Energy Security is unattainable so far'), *Belarusskii Rynok,* No. 34 (669), 5 September 2005.

17 Yaroslav Romanchuk, 'Vsemirnii Bank uvidel okno … dlia Belarusi' ('The World Bank saw a window …for Belarus'), *Belgazeta*, 25 (660), 4 July 2005; and Valerii F. Dashkevich, *Energeticheskaya zavisimost' Belarusi: posledstviia dlia ekonomiki i obshchestva, (Belarus' energy dependency: consequences for the economy and society)*, Minsk: Lovginov/ Fond imeni Fridrikha Eberta, 2005.

18 'Gazuem k kontraktu'('Speeding to the contract'), *Belgazeta*, 35 (503) 5 September 2005.

19 See declarations by Eduard Topvenets, deputy energy minister, 'Pravila igri' ('Rules of the game'), *Belgazeta*, 35 (503)**,** 5 September 2005.

20 Belarus' 'Concept of energy security' approved in July 2005 assumes a significant reduction in the role of gas in the country's energy mix from 2003 to 2020, but does not present a clear and realistic scenario concerning how this goal will be reached. See Tatiana Manenok, 'Energobezapasnost poka nedostizhima,' *Belorusskii Rynok*, 34 (669), 5 September 2005.

21 See Tatiana Manenok, 'Tarifnaya politika ostaiotsia zatratnoi' ('Tariffs policy remains spending-oriented'), *Belorusskii Rynok*, 18 (653), 9 May 2005. In the economy as a whole, non-cash payments as a percentage of cash payments were reduced from 25.5% in 2003 to 11.8% in the first half of 2005. A presidential *ukase* of 15 August 2005 outlawing barter payments from August 2005 to December 2008 can thus be seen as a reflection of trends already taking place in the economy as a whole, in part because of pressure from Russian trade partners. The *ukase* contains a number of exceptions, most notably for state promissory notes, payments to the budget and barter arrangements concerning the transit and transport of Gazprom gas. See Yaroslav Romanchuk, 'Barter bortanuli' ('They hindered barter'), *Belgazeta*, 33 (501), 22 August 2005.

22 See Michael Lelyveld, 'Problems persist in gas deal with Russia', RFE/RL Weekday Digest, 27 April 2000.

23 'Istochnik rosta I zavisimost' ('A source of growth and dependency'), *Belorusskii Rynok*, 12 (647), 28 March 2005.

24 Dashkevich has calculated that paying $46.68 per 1000 cm instead of $80 has allowed Belarus to have a growth rate of 11% in 2004, instead of the 8.1% that he would prognosticate under $80 per 1000 cm prices. Yaroslav Romanchuk, 'Do gazovogo Armageddona poka daleko', ('Gas Armageddon is still far away') *BelGazeta*, 28 (496), 18 July 2005, making reference to a World Bank country memorandum, 'Vsemirnii Bank uvidel okno … dlia Belarusi' ('The World Bank saw a window …for Belarus'), *Belgazeta*, 25 (660), 4 July 2005; and Valerii F. Dashkevich, *Belarus' energy dependency: consequences for the economy and society*, Minsk: Lovginov/ Fond imeni Fridrikha Eberta, 2005.

25 While the agreement on domestic prices was in place (1999–2003), it applied only to the quantities established in the yearly agreements between Gazprom and Belarus, which are a constant source of disagreement. The story repeated itself yearly: the amounts set in the Gazprom-Belarus yearly agreement usually ran out by November, and discussions on how much gas will be provided, and at what prices started shortly afterwards. On at least one occasion there have been disagreements about the amounts of gas in the yearly agreements, as the state-to-state agreements between Belarus and Russia stated a larger amount than the Gazprom-Belarus agreements. See Prima-TASS, quoted by Michael Lelyveld, 'Russia: Gazprom plans to cut gas supplies to Belarus', RFE/RL, at http://www.rferl.org/nca/features/2002/10/30102002154528.asp.

26 Aleksandr Alesin, 'Ob iskrennosti druzhby kreditorov s dolzhnikami' ('About the sincerity of friendship between those owed and those who owe'), *Belorusskii Rynok* 37 (417), p 17, 17 September 2000.

27 Yaroslav Romanchuk, 'Vsemirnii Bank uvidel okno … dlia Belarusi' ('The World Bank saw a window …for Belarus'), *Belgazeta*, 25 (660), 4 July 2005; and Valerii F. Dashkevich, *Energeticheskaya zavisimost' Belarusi: posledstviia dlia ekonomiki i obshchestva, (Belarus' energy dependency: consequences for the economy and society)*, Minsk: Lovginov/ Fond imeni Fridrikha Eberta, 2005.

28 IMF report, 'Rapid growth in Belarus: puzzle or not?', June 2005, available at http://www.imf.org/external/pubs/ft/scr/2005/cr05217.pdf, cited in Yaroslav Romanchuk, 'MVF rasskrivaet secret' ('The IMF unveils its secret'), *Belgazeta*, 17 (497), 11 July 2005.

29 See Irina Selivanova, 'Ekonomicheskaya Integratsia Rossii i Belorussii i ee vlinie v razvitie narodnogo khoziaistva Belorusi', p 324, in D. E. Furman, *Belorusia i Rossia: Obshchestva i Gosudarstva* (Moscow, 1998).

30 On the Belarusian 'economic miracle', see also David R. Marples, 'Belarus: exploring the economic miracle', Analysis of Current Events, p 4, vol 10 (6), June 1998.

31 However, sales to Russia are decreasing: if in 2003 $600m in unsold goods had accumulated in Belarusian warehouses, by 2005 the amount had increased to $1bcm. Yaroslav Romanchuk, 'V strane sluchilsia bum', ('We have a boom in the country'),*Belorusskaya Gazeta*, 8 (486), 9 May 2005.

32 Leonid Zlotnikov, 'Survival or integration?', p 84, *Pro et Contra,* Spring 1998.

33 Valerii F. Dashkevich quoted in Romanchuk, 'Do gazovogo Armageddona (…)'.

34 Yaroslav Romanchuk, 'Vsemirnii Bank uvidel okno … dlia Belarusi' ('The World

Bank saw a window ...for Belarus'), *Belgazeta*, 25 (660), 4 July 2005; and Valerii F. Dashkevich, *Belarus' energy dependency: consequences for the economy and society*, Minsk: Lovginov/ Fond imeni Fridrikha Eberta, 2005.

35 This concerns mainly heavy oil products such as diesel fuel, heavy heating oil and lubricant oils, which compose 70 per cent of Belarus' exports of oil products. Tatiana Manenok, 'Sosdaiotsia valiutnii goseksporter' ('A hard-currency exporter is being created'), *Belorusskii Rynok*, 20 (655), 23 May 2005.

36 Leonid Zlotnikov, 'Podtsepili 'gollandskuiu bolezn' ('We caught the Dutch disease'), *Belorusskii Rynok*, 17 (652), 2 May 2005.

37 Andrei Podvitskii, 'Neftenaya Respublika' ('The oil republic'), *Belgazeta*, 25 (493), 27 June 2005.

38 Leonid Zlotnikov, 'Podtsepili 'gollandskuiu bolezn' ('We caught the Dutch disease'), *Belorusskii Rynok*, 17 (652), 2 May 2005. In terms of energy exports as a whole, the per capita export from Belarus amounted to $408 a year in 2004, 67 per cent of the Russian level, still a very high level considering Belarus imports the majority of its energy sources. See also Andrei Podvitskii, 'Neftenaya Respublika' ('The oil republic'), *Belgazeta*, 25 (493), 27 June 2005.

39 IMF report, 'Rapid growth in Belarus: puzzle or not?', June 2005, available at http://www.imf.org/external/pubs/ft/scr/2005/cr05-217.pdf, cited in Yaroslav Romanchuk, 'MVF rasskrivaet secret' ('The IMF unveils its secret'), *Belgazeta*, 17 (497), 11 July 2005.

40 Yaroslav Romanchuk, 'Vsemirnii Bank uvidel okno ... dlia Belarusi' ('The World Bank saw a window ...for Belarus'), *Belgazeta*, 25 (660), 4 July 2005; and Valerii F. Dashkevich, *Energeticheskaya zavisimost' Belarusi: posledstviia dlia ekonomiki i obshchestva, (Belarus' energy dependency: consequences for the economy and society)*, Lovginov/ Fond imeni Fridrikha Eberta, 2005.

41 Tatiana Manenok, 'Nefti nuzhno vse bolshe' ('More and more oil is needed'), *Belarusi i Rynok*, 37 (672), 26 September 2005.

42 A September 1999 order by Russia's minister of fuel and energy, Viktor Kalyuzhny, made Russian crude oil deliveries to refineries in Belarus equivalent to deliveries to Russian ones. Interfax, Daily Financial Report, 21 September 1999, FBIS-SOV-1999-0921.

43 Similarly, since February 2000 Russian and other foreign companies working in Belarus' oil refining sector have been mandated to sell a percentage (6 per cent of diesel and 1.5 per cent of A-75 gasoline) of their production domestically at prices set by the Belneftekhim, which are at least 30 per cent lower than market prices. The cabinet of ministers' resolution was justified by the need to 'support agricultural work'. See 'Gorkii nefteklapan' ('Bitter oil trap'), *Oil Market Weekly*, 18 March 2002 (via ISI).

44 The percentage of trade with Russia went down from 58.4 per cent in 2004 to 47.6 per cent in the first two months of 2005, while trade with non-CIS countries went from 37.1 per cent to 46.8 per cent. See Andrei Podvitskii, 'NDS kruche defolta' ('VAT is tougher than default'), *Belgazeta*, 18 (486), 9 May 2005.

45 Since 2000 – with the exception of 2004 – Belarus' role in overall Russian imports has been decreasing at a modest but steady pace. See Roman Osipov, 'Eksport v Rossii pod ugrozoi vytesnenie' ('Exports to Europe under threat'), *Belorusskii Rynok*, 29 (664), 1 August 2005.

46 Leonid Zlotnikov, 'Podtsepili 'gollandskuiu bolezn' ('We caught the Dutch disease'), *Belorusskii Rynok*, 17 (652), 2 May 2005.

47 See Irina Selivanova, 'Ekonomicheskaya Integratsia Rossii i Belorussii i ee vlinie v razvitie narodnogo khoziaistva Belorusi', p 326, in D. E. Furman, *Belorusia i Rossia: Obshchestva i Gosudarstva* (Moscow, 1998). In 1994, a Russian journal estimated that up to 20 per cent of the oil flowing through Belarus' pipelines was illegally re-pumped abroad.

48 Ukase No 125, 5 March 2004 'Ob osnovnom ("zolotoi akzii") gosudarstvo na uchastie v upravlenie khoziaistvennimi obshchestvami' ('On the basic right ("golden share") of the state to participate in the management of economic societies.')

49 Viktor Martinovich, 'Moskva slezam ne verit' ('Moscow does not believe in tears'), *Belorusskaya Gazeta*, 9 (426), 8 March 2004.

50 'Valiutnii Tovar – pod polnii goskontrol' ('Foreign currency production – under full state control'), *Belorusskii Rynok*, 19 (654), 16 May 2005.

51 In this case, the petrochemical factory Mogilevkhimvlokno. See Tatiana Manenok, 'Aksii na rasnariadke' ('Shares under stress'), *Belorusskii Rynok*, 24 (659), 27 June 2005. Such pressure on companies must be seen in the context of longstanding pres-sure on private businesses by President Lukashenka to contribute to pet government projects such as the building of a new ice hockey stadium and national library in the early 2000s.

52 Some have asserted that, besides political loyalty to Russia, Belarus' geographical location and proximity to Russian sources are important factors guaranteeing Belarus lower prices than Western European countries. Dashkevich argues that because of its geographical location, Belarus is likely to pay gas prices $35 to $40 lower (per 1000 cm) than those paid by Germany. This is significant, as it raises the question of the extent to which Belarus would be able to keep some of its current energy-related income (transit, low price, oil products exports), even if the relationship with Russia were to cool. At the same

time, it should be kept in mind that, should Russia for some reason want to 'punish' Belarus, it could impose much higher prices, against which Belarus would not be able to do much given its infrastructural dependency on Russian energy and lack of alternative supply infrastructure.

53 Leonid Zlotnikov, 'Podtsepili 'gollandskuiu bolezn' ('We caught the Dutch disease'), *Belorusskii Rynok*, 17 (652), 2 May 2005.

54 Interview with Dmitrii Lukashev of Aton, the investment group, 'Iskliuchenie iz pravila – Belarus' ('Belarus, the exception to the rule'), *Belgazeta*, 14 (482) 11 April 2005.

55 Declarations by Vladimir Putin, cited in Tatiana Manenok, 'Politicheskii barter' ('Political barter'), *Belorusskii Rynok*, 20 (655), 23 May 2005.

56 Some of whom, such as Stanislav Shushkevich, Belarus' first head of state, saw the proposed union as being only to the economic advantage of Gazprom. See *Kommersant* (Moscow), 29 April 1997.

57 See Margarita M. Balmaceda, 'Myth and reality in the Belarusian-Russian Relationship: what the West should know', *Problems of post-communism*, pp 3–14, Vol 46, May/June 1999.

58 Other areas of friction already clear in the second half of the 1990s had to do with Lukashenka's toying with the idea of a presidential bid in Russia, and with Belarus' abuse of an open border with Russia, which created large losses to the latter. See Margarita M. Balmaceda, 'Myth and reality in the Belarusan-Russian relationship', *Problems of post-communism*, vol 46, May/June 1999 and Margarita Balmaceda, 'Belarus as a transit route: domestic and foreign policy implications', in M. Balmaceda, J. Clem and L. Tarlow (eds), pp 162-196, *Independent Belarus*.

59 David R. Marples, 'Belarus: Exploring the economic miracle', Analysis of Current Events, p 4, 10 (6), June 1998.

60 Interview with Boris Nemtsov, 'Rossia stroit narodnii kapitalizm v soyuze s nami, no bez nas' ('Russia is building popular capitalism in union with us, but without us'), *Belorusskaya Delovaya Gazeta*, 25 September 1997.

61 Elena Novozhilova, Vadim Sekhovich, 'Gazavat' po-gazpromovskii' ('Gas deal á la Gazprom'), *Belorusskaya Delovaya Gazeta*, p 1, 6 November 2002.

62 If it is true that Belarus has been charging Gazprom transit fees significantly lower than the European average, increasing them to these levels would do little to change the balance of power between Belarus and Gazprom, as even increased transit fees would be unlikely to compensate for the purchase of 20bcm of gas a year.

63 Aleksandr Grivach, 'Minsk nachal platit' ('Minsk began to pay'), *Vremia Novostei* (Moscow), 11 November 2002.

64 *Belarus Today*, 9 November 2002, available at: belarustoday.info/news/news.php?id=13372&lang=eng

65 gazeta.ru, 6 November 2002, available at http://www.gazeta.ru/2002/11/06/na1036586220.shtml

66 Olga Tomashevskaya, 'Legkaya pobeda' ('Easy victory'), p 1, *Belarususskaya Delovaya Gazeta*,13 November 2002.

67 Yaroslav Romanchuk, 'Nado chasche vstrechat'sia: Putina i Lukashenka vnov potianula drug k druga' ('We need to meet more often: Putin and Lukashenka again turned to each other'), *Belorusskaya Gazeta*, 20 January 2003.

68 On the non-sanctioned taking of gas from the pipeline, see Tatiana Manenok, 'Poslednii argument' ('Last argument'), *Belorusskii Rynok*, 7 (591), 23-29 February 2004.

69 An additional $25m was included in the credit package with the purpose of 'supporting trade'.

70 See Aleksandr Alesin, 'Mozhno li zagovorit zubnuiu bol' ('Is it possible to talk away a toothache?'), *Belorusskii Rynok*, 9 (644), 7–14 March 2005.

71 Sergei Kravtsov, 'Pokazetelnii protsess' ('A telling process'), *Belorusskaya Delovaya Gazeta*, 7 (652), 2 May 2005.

72 Another version, circulated by Russian analyst Pavel Felgengauer, argues that the Russian agreement to maintain agreed gas prices throughout 2005 can be explained by a secret agreement between Lukashenka and Putin, by which the latter would 'solve the problem' of how to maintain power after the expiration of his third term in 2008 by becoming the head of a Belarusian-Russian Union. See Viktor Martinovich, 'Aleksandr Fadeev: Ne budet nikakogo akta' ('Aleksandr Fadeev: there will be no Act'), *Belgazeta*, 24 (492), 20 June 2005.

73 In July 2005, President Lukashenka announced a plan for the modernization of the Belarusian military involving the investment of nearly $500m a year.

74 Writes Viktor Martinovich: 'Putin the *chekist* (secret services man) understands the world as a dialectical war of "ours" and "those who are not ours". In Putin's view, Lukashenka may be a complicated politician (…), but he is "ours".' Viktor Martinovich, 'Soyuz po umolchanii' ('Union on silence'), *Belgazeta*, 29 (497), 25 July 2005.

75 See Lukashenka's comments at the 21 January 2005 meeting of Belarus' security council.

76 See Tatiana Manenok, 'Podrazumevaem stroiteltsvo AES' ('Should we understand the building of a nuclear power station?'), *Belorusskaya Gazeta*, 27 (662), 18 July 2005.

77 With a significant part of its territory still contaminated by the 1986 Chernobyl nuclear accident and being the country that suffered

the most from Chernobyl's nuclear fall-out, it is unlikely that the Belarusian population would agree to such a step. Moreover, the very prospect of Belarus building a nuclear reactor in a situation where it is internationally isolated and does no have the means to finance the purchase of advanced technology with adequate safety safeguards would be enough to make most of its neighbours worry.

78 Belarus energy minister Valentin Gerasimov, in Interfax Foreign Trade Report, 3 June 1997, FBIS-SOV-97-109.

79 Fear of Central Asian competition is one of the main reasons why Russia has delayed ratification of the Energy Charter Treaty establishing guarantees for third party access to free up energy transit.

80 See Mikhail Klasson, 'Gazprom's new project', *Moscow News*, 2–8 July 1998.

81 Tatiana Manenok, 'Podarok s raschetom'('An interested gift'), *Belorusskii Rynok*, 15 (650) 18 April 2005.

82 See Sergei Zhbanov, 'Soyuzniki optimistichno gazanuli' ('The allies went ahead optimistically'), *Belgazeta*, 25 (660), 4 July 2005.

83 Tatiana Manenok. 'Nam i mirovaya tsena na gaz nipochem?' ('Does the world price mean anything for us?'), *Belorusskii Rynok*, 29 (664), 1 August 2005.

84 Astrid Sahm and Kirsten Westphal, 'Power and the Yamal pipeline', in Margarita M. Balmaceda, James Clem and Lisbeth Tarlow (eds), *Independent Belarus: domestic determinants, regional dynamics and implications for the West*, introduction (p 7), Cambridge: HURI/ Davis Center for Russian Studies distributed by Harvard University Press, 2002.

85 In July 2005 Gazprom's chairman, Alexei Miller, made declarations to the effect that Gazprom is not interested in developing new gas transit lines through the territories of Latvia and Belarus. See Tatiana Manenok, 'A gas perspective based on avoidance', *Belorusskii Rynok*, 26 (661), 11 July 2005.

86 A counter-argument in favour of building of the Northern European pipeline is that, once Russian domestic gas prices come closer to Western European ones, Gazprom would be ready to react more quickly to any change in Western European demand.

87 See Tatiana Manenok, 'Kto ostalsia na trube' ('Who stayed on the pipeline'), *Belarusi i Rynok*, 36 (671), 19 September 2005.

88 See Margarita M. Balmaceda, 'Gas, oil and the linkages between domestic and foreign policies: the case of Ukraine', pp 257-286, Europe-Asia Studies, 50 (2).

89 Agreement of 5 January 1994 between the governments of the Russian Federation and Belarus.

90 Chloë Bruce, 'Friction or fiction? The gas factor in Russian-Belarusian relations', p 4, Chatham House Briefing Paper REP BP 05/01 (May 2005), available at http://www.riia.org/pdf/research/rep/BP0501gas.pdf.

91 http://countrystudies.us/belarus/32.htm

92 See Vadim Sekhovich, 'Zalozhniki truby' ('Hostages of the pipeline'), p 19, *Belorusskaya Delovaya Gazeta*, 29 March 1999.

93 See the agreement on the development of relations in the gas sphere ('Soglashenii o razvitii otnoshenii v gazovoi sfere') signed by Belarus and Russia on 12 April 2002.

94 Official name of the law: Ob objektakh, nakhodiakhishsia tol'ko v sovstvennosti gosudarstva (On objects which can only be under state property).

95 Natalia Grib and Dmitry Butrin, 'Belorussia aksionirovala gazovye seti. Gazprom zhdiot ikh privatzatzii' ('Belarus corporatized the gas networks. Gazprom is waiting for their privatization'), p 16, *Kommersant*, 2 April 2003.

96 Aleksei Urban and Aleksei Nikolskii, 'Bez pridannogo. Gotovit'sia Belarus otdat' 'Beltransgaz' ('Belarus is getting ready to give up Beltransgaz'), *Vedomosti*, 25 November 2002.

97 Declarations by Gazprom's vice-chairman A. Ryazanov in a press conference on 2 March 2005 discussed in Tatiana Manenok, 'Belarusskoe "plecho" v Evrope samoe karotkoe i vygodnoe, no poka i samoe nenadezhnoe, schitaiut v Gazprome' ('Gazprom believes the Belarusian line is the shortest and most profitable, but also the most unpredictable'), *Belorusskii Rynok*, 9 (593), 9 March 2004.

98 See Sergei Zhbanov, 'Komu – gaz, komy – pedigree' ('Some want gas, some want pedigree'), *Belorusskaya Gazeta*, 14 (482) 11 April 2005.

99 However, this has turned out to be quite difficult to achieve in reality, as 0.1 per cent of the shares are held by Beltransgaz's workers. In September 2005, the Belarusian government unveiled an initiative to buy these shares, so as to make it easier for a parity solution to be found.

100 See Tatiana Manenok, 'Ves' paket – v odni ruki' ('The whole package in single hands'), *Belarusi i Rynok*, 38 (673), 3 October 2005.

101 See Judy Dempsey, 'Gazprom wins Belarus victory', *International Herald Tribune*, 29 December 2005, and 'Gazprom and Beltransgaz ink gas supply and transit contract for 2006', available at Gazprom's website, http://www.gazprom.ru/eng/news/2005/12/18593.shtml A copy of the agreement was not available at the time of this writing.

102 The Druzhba-Adria project initiated by Russia's Transneft involves coordination between Russia, Belarus, Poland, Slovakia, Hungary and Croatia for the transit of Russian oil to the Croatian port of Omisalj.

103 See 'Ravnenie na Belarus' ('Comparison with Belarus'), *Oil Market Weekly*, 9 September 2002 (via ISI).

104 Tatiana Manenok, 'Spor esche ne zaverschen' ('The disagreement has not ended yet'), *Belorusskii Rynok*, 9 (644), 7–14 March 2005.

105 Tatiana Manenok, 'Spor isscherpan' ('The disagreement is over'), *Belorusskii Rynok*, 42 (626), 25 October 2004.

106 Natalia Grib, 'Alians "LUKoila" I "Slavnefti", No Comment!' ('The alliance between LUKoil and Slavneft: no comment'), p 13, *Belorusskaya Gazeta*, 18 January 1999.

107 With this new system after October 1998, the supply of oil to Belarus increased significantly; however, this has not meant that more fuel has become available for domestic sales, as most is immediately exported. See Natalia Grib, 'The alliance between LUKoil and Slavneft: no comment', p 16, *Belorusskaya Gazeta*, 18 January 1999.

108 Vadim Sekhovich, 'Belorusskaya promyshlennost': v novyi god s novymi khvorami' ('Belarus' industry: into a new year with new diseases'), p 19, *Belorusskaya Delovaya Gazeta*, 29 December 1997.

109 The assessment was made by Belarus' National Academy of Sciences in cooperation with Belarusian and Russian experts and using Western methodologies. See Tatiana Manenok, 'Mozyrski NPZ otsenily v 1,1 milrd. Dollarov' ('The Mozyr refinery has been assessed at $1.1bcm'), *Belarusi i Rynok*, 36 (671), 19 September 2005.

110 Tatiana Manenok, 'K mirovym standartam' ('Towards world standards'), *Belorusskii Rynok*, 4 (639), 31 January–7 February 2005.

111 Professor Vladimir Kapustin, presentation at the conference 'New possibilities of oil refining and transport in the CIS and the Baltics', Odessa, 10–12 June 2004, as cited by *Ukrainian Oil and Gas Report*,18 June 2004 (via ISI).

112 Interview with Alyaksandr Lukashenka, pp 1, 3, *Delavoy Mir* (Moscow), 18 December 1997.

113 Tatiana Manenok, 'Gospaket v upravlenie' ('State package of shares under trust agreement'), *Belorusskii Rynok*, 14 (649) 11 April 2005.

114 Ibid.

115 In April 2005 the government initiated a suit against MNPZ Plus for the return of $4.7m it reportedly owes the state, which, in case of non-payment, would allow the state to increase its package of shares in Mozyr at the expense of MNPZ Plus.

116 See Tatiana Manenok, 'Mificheskii dolg' ('Mythical debt'), *Belorusskii Rynok*, 15 (650) 18 April 2005. There is little legal basis for applying 2004 regulations concerning a state 'golden share' to MNPZ Plus, as the regulations apply only to enterprises established on the basis of state capital, and MNPZ Plus was formed on the basis of private capital. See the declarations of Nikolai Yastremsbski, deputy director of the firm in Tatiana Manenok, 'Gospaket v upravlenie' ('State package of shares under trust agreement'), *Belorusskii Rynok*, 14 (649) 11 April 2005 and in Tatiana Manenok, 'Zolotaya Aksia vvedema va chastnom predpriatie' ('The golden share has been imposed on a private enterprise'), *Belorusskii Rynok*, 19 (654) 16 May 2005.

117 Tatiana Manenok, 'Stavka na povishenie' ('Betting for an increase'), *Belorusskii Rynok*, 34 (669), 5 September 2005.

118 Transport via railway is also possible in theory, but is significantly more expensive.

119 See A. Blokhin, Belarus ambassador to Russia, in Tatiana Manenok, 'Premeri ne dogovorilis' ('The premiers did not reach an agreement'), *Belorusskii Rynok*, 16 (600), 28 April 2004.

120 There is disagreement between the Russian government and Gazprom on this issue, with Gazprom lobbying for higher increases – 21% increases in 2006 and in 2007. See Tatiana Manenok, 'Tseni na gaz ne ostanovit' ('It is impossible to stop the price of gas'), *Belorusskii Rynok*, 9 (644), 7 March 2005. Moreover, Gazprom would like to end state regulation of gas prices for most industrial consumers by 2006, leaving prices to be decided by auctions.

121 Balasz Horvath, IMF, cited in 'Istochnik rosta i zavisimost', *Belorusskii Rynok*, 12 (647), 28 March 2005. It has been argued that the sooner Belarus enters the WTO after Russia's entrance, the less its economy will suffer. During the intervening period, there is the danger that its market will be inundated by cheap imports via Russia while its economy is still not prepared for this and while competition from cheap imports will make it more difficult to place it products in Russian markets. But, still lacking the status – and the reality – of a market economy, Belarus is far from fulfilling the conditions for joining the WTO.

122 Valerii Dashkevich, cited in Tatiana Manenok, 'Nam i mirovaya tsena na gaz nipochem?' (For us a world price for gas is very cheap?'), *Belorusskii Rynok*, 2005 No.29 (664) 1 August 2005.

123 In the case of Poland, one of the main problems faced was peasants' demands for higher land lease fees.

124 The amount paid was $1.5 per 1000 cm per 100 km, while the cost of providing these transit services was estimated at $0.55 per 1000 km. Andrei Makhovskii, 'Nasha Obshchaya Truba' ('Our common pipeline'), p 1, *Belorusskaya Delovaya Gazeta*, 22 September 1999.

125 In 1999, the price of gas charged by Russia to Belarus was reduced from $59 to $35 per 1000 cm.

126 Tatiana Manenok, 'Tranzitnie dividendy' ('Transit dividends'), *Belorusskaya Delovaya Gazeta*, 11 (646), 21 March 2005.

127 *Belorusskaya Delovaya Gazeta*, 3 November 1999, quoted in CIS Oil and Gas Report, 5 November 1999.

128 See Irina Selivanova, 'Ekonomicheskaya Integratsia Rossii i Belorussii i ee vlyanie v razvitie narodnogo khozyaistva Belorusi' ('Russian and Belarusian economic integration and its influence on the development of the national economy of Belarus'), p 317, in in D. E. Furman, Belorusia i Rossia: Obshchestva i Gosudarstva, Moscow (1998).

129 The Odesa-Brody pipeline, completed in 2003, was intended for the shipment of Caspian oil from the Ukrainian port of Odesa to Western European markets via Brody and Poland. Since 2004 it has been used temporarily in reverse for the shipment of Russian oil through Odesa to world markets.

130 The actual feasibility of this project would depend on whether one of the two lines of the Mozyr-Brody pipeline could be freed to be used in a reverse direction – to transit Caspian oil from Brody to Belarus, and not Russian oil to the Druzhba pipeline. The later connection to Ventspils would require building a 220 km connection. Tatiana Manenok, 'Neft ischet novye puty' ('Oil is searching for new roads'), p 15, *Belorusskii Rynok*, 10 May 2004. In 2002 a group of Northern European banks made a proposal to Belarus to support the project, but the issue did not go further.

131 See Olga Miksha, 'Snova v obkhod Belarusi' ('Once again around Belarus'), *Belorusskii Rynok*, 23 (440), 14 June 2004.

132 Vladimir Semashko, Belarus first deputy prime minister, paraphrasing of his declarations quoted in Tatiana Manenok, 'Neft ischet novye puty', p 15, *Belorusskii Rynok*, 18 (10), 10 May 2004.

133 See Irina Selivanova, 'Ekonomicheskaya Integratsia Rossii i Belorussii i ee vlinie v razvitie narodnogo khoziaistva Belorusi', p 317, in D. E. Furman, Belorusia i Rossia: Obshchestva i Gosudarstva, Moscow (1998).

134 Relations with Western institutions such as the EU, the Council of Europe, and the Organization for Security and Cooperation in Europe remained tense due to their criticism of Belarus' repressive policies and the Belarusian regime's unwillingness to engage in a real dialogue. As a result, most of these organizations have significantly downgraded or eliminated their offices in Belarus. One international organization that sought to maintain a high profile and a real presence in Belarus, the Organization for Security and Cooperation in Europe, has been subject to constant pressure by the Belarusian government since the mid-1990s.

About the series: Russian foreign energy policy reports

This series of reports establishes for the first time the confluence of Russian foreign policy with the acquisition of foreign energy assets by Russian entities. Nine specific country profiles focus on the oil, gas, electricity and nuclear power industries. Each report, written by an author of international standing, explains how Russian foreign energy downstream mergers and acquisitions are transpiring to consolidate the new Russian empire.

These unique studies address many questions of substance for energy industry professionals, investors, policy experts, and decision makers who seek to make sense of the dynamic changes that have overcome the Russian energy complex and altered the balance of global energy geopolitics.

Series Editor

Kevin Rosner Ph.D., is a specialist in Russian oil and gas, security of critical energy infrastructure, and international energy-security policy. He is an external expert to the NATO and presently serves as the Director, NATO Forum on Energy Security. He is a Senior Fellow both at the UK Defence Academy and at the Institute for the Analysis of Global Security (IAGS) in Washington, DC. Posts held include Senior Security Advisor to the Baku-Tbilisi-Ceyhan pipeline company, Project Director with the Program on Cooperation with the Russian Federation at the OECD, and Project Manager with the UNESCO Science Division in Paris. Dr. Rosner is the founder of The Rosner Group serving leading members of the global oil and gas community with energy and security analytical products.

'Russian Involvement in Eastern Europe's oil, Petroleum Industry: The Case of Bulgaria'

Adnan Vatansever

This report answers questions such as: as one of the largest foreign acquisitions by a Russian company occurred in Bulgaria, what lessons are applicable to charting future Russian downstream takeovers? Why have Eastern Europe and Western FSU countries been the primary focus of Russian acquisitions? What drives LUKoil (and other Russian oil companies) to pursue acquisition of assets in these regions? Finally, what is the stance of the Russian government in terms of promoting such acquisitions abroad?

Adnan Vatansever is a freelance energy consultant and the author of a number of reports for Cambridge Energy Research Associates. He is currently in the process of completing his Ph.D. dissertation on Russia's energy sector at the Paul Nitze School of Advanced International Studies, Johns Hopkins University. He holds a B.A. in International Relations from the Middle East Technical University in

Ankara, M.A. in Russian and East European Studies from Georgetown University's School of Foreign Service.

Hardcopy ISBN 1-905050-40-2
E-report ISBN 1-90505080-1

'Kazakhstan: Energy Cooperation with Russia – Oil, Gas and Beyond'

Dr Ariel Cohen

This important study explains how Russia, with its private sector and policy makers working in tandem, has exerted a significant amount of control over Kazakhstan's vast natural resources and its economic freedom. It looks at the way Russia and Kazakhstan agreed to divide the Caspian Sea shelf and how Kazakhstan has managed to maintain good relations with Moscow overall, despite its insistence on exporting energy resources to China and Europe directly and its hopes to export through Iran.

Ariel Cohen, L.L.B., Ph.D., is an international expert in international security/terrorism; Russian, Eurasian, European and Middle Eastern foreign, security, economic and business policy. He is Senior Research Fellow in Russian and Eurasian Studies and International Energy Security at the Davis International Studies Institute at the Heritage Foundation. Dr. Cohen has conducted conferences and briefings for the US Government departments and agencies. He appears on major US and foreign TV networks. Dr. Cohen also has extensive experience consulting for the private sector, international organizations, and technical assistance projects in the Central and Eastern Europe and CIS regions.

Hardcopy ISBN 1-905050-41-0
E-report ISBN 1-905050-81-X

'Georgia: Russian Foreign Energy Policy and Implications for Georgia's Energy Security'

Liana Jervalidze

This report shows that as Georgia has restructured its energy sector, the new Russian and Georgian political elites exerted their influence, particularly through the participation of Russian gas company Itera in privatizations of Georgian gas enterprises. And how, over the past few years, Russian-Georgian business groups with their offshore capital have been working to monopolise the Georgian economy and Russia's gas industry has been consolidating its hold over the CIS pipeline infrastructure, particularly through the expansion of Gazprom. However, Gazprom failed to take control of Georgia's pipeline infrastructure and Georgia is insistent on developing its pipeline potential in order to boost its role as a transit route to Europe, Turkey and Iran.

Liana Jervalidze has worked with several government and research institutions working on Caspian region energy policy and development. She has advised private sector companies in on the development of east-west energy corridor and Georgia's potential role in regional integration. Since 2003, Ms.Jervalidze has been working on the development of Georgia's gas market. She has spoken on regional energy policy at international conferences in the CIS, Europe and the US. Her analyses have been published in both Georgian and English.

Hardcopy ISBN 1-905050-35-6
E-report ISBN 1-905050-84-4

'Russia's Energy Interests in Azerbaijan'

Fariz Ismailzade

In 2003-2004, an increased number of senior Russian officials and major energy companies, such as Itera, Gazprom and RAO UES visited Baku in the hopes of participating in energy projects in Azerbaijan. While maintaining diplomatic relations with Moscow, Azerbaijan is more hesitant when it comes to close cooperation with Russian energy companies. Baku fears that if Russia gains more assets in Azerbaijan, control of these assets will be used for political purposes. This unique study looks at the confluence of Russian private and public sector interest Azerbaijan's energy sector.

Fariz Ismailzade works with the Inter-national Republican Institute in Baku and is a part-time lecturer at the department of political science at the Western University in Baku. He holds an MA in Social and Economic Development from Washington University, St. Louis, and a BA in Political Science from Western University, Baku.

Hardcopy ISBN 1-905050-42-9
E-report ISBN 1-905050-87-9

'Ukraine: Post-revolution Energy Policy and Relations with Russia'

Olena Viter

This report looks at how the new Ukrainian government plans to decrease Russian influence over Ukraine's energy sector. President Viktor Yushchenko has declared goals which include the diversification of oil and gas supply sources, the reform of the domestic market, and the creation of a strategic oil stock. Ukraine's search for more partners in the energy sphere has affected the relationship between Ukraine and Russia; from a "brotherly" relationship to one of pragmatic interest.

Olena Viter is a Senior Adviser to the Operational Department of the Secretariat of the President of Ukraine. She is Coordinator of Energy Programs at the School of Policy Analysis, National University of Kyiv-Mohyla Academy, and a member of the non-governmental Expert Council on Energy Security. In 2002, she was an intern at the Hudson Institute, and in 2003 she participated in drafting Ukraine's Energy Strategy.

Hardcopy ISBN 1-905050-31-3
E-report ISBN 1-90505077-1

'Turkmenistan-Russian Energy Relations'

Gregory Gleason

Turkmenistan has large gas reserves, but as its immediate neighbours have little import demand, Russia holds the key to its gas transport. In April 2003 Turkmenistan and Russia concluded a 25 year transport and marketing agreement for Turkmen natural gas. The new arrangements permit Turkmenistan's gas production to reach 100,000 million cm per year in 2007. This unique study details the background and looks at the prospects for Turkmenistan's gas production and export in the context of Russian strategy, and at Turkmenistan's role in the new energy strategies throughout Eurasia and the Middle East.

Gregory Gleason, Ph.D., is an internationally recognized expert in energy policy and international relations. A professor of political science and public administration at the University of New Mexico, Dr. Gleason has extensive field experience in Turkmenistan and the other countries of Eurasia and Central Asia. He has served as a consultant to Lawrence Livermore National Laboratory, Sandia National Laboratories, the Asian Development Bank, and the US Agency for International Development. His research has been sponsored by the National Science Foundation and the National Academy of Sciences as well as other public and private foundations.

Hardcopy ISBN 1-905050-33-X
E-report ISBN 1-905050-82-8

'Belarus: Oil, Gas, Transit Pipelines and Russian Foreign Energy Policy'

Dr Margarita M Balmaceda

Belarus relies on Russia for about 85% of its total energy needs, while Russia needs Belarus' oil and gas pipelines to export its supplies to Western Europe. How will energy exports from Russia and Belarus' transit capabilities impact Western Europe if this interdependent relationship ends, either through political changes in Belarus or if Russia ends its energy subsidies to Belarus? This report looks at transit, infrastructure and investment issues and analyzes both the state of the current infrastructure, as well as the possibilities this transit opens to Western investors, particularly as the Yamal Pipeline nears completion. In addition, it looks at the current conflict between Belarus and Russian investors for control of the country's gas transit system and oil refineries.

Margarita M. Balmaceda is Associate Professor at the John C. Whitehead School of Diplomacy and International Relations, Seton Hall University, New Jersey, and an Associate of Harvard University's Davis Center for Russian and Eurasian Studies and the Harvard Ukrainian Research Institute. She received a Ph.D. in Politics from Princeton University (1996), and Post-Doctoral training at Harvard University. She has published widely on Russian, post-Soviet and East European energy and foreign policies.

Hardcopy ISBN 1-905050-34-8
E-report ISBN 1-905050-83-6

'Gazprom and the Russian State'

Dr Kevin Rosner

Gazprom is the world's single largest producer of natural gas, long acknowledged as a state-within-a-state. In 2005 it reached a turning point in its history when the Russian government reasserted its majority stakeholder position, whilst also continuing its own push to gain control over an increasing share of Russia's energy complex overall. This timely report provides answers to questions such as: what do these movements mean for the future of the Russian energy sector? What will be the impact of state control over Gazprom on domestic and foreign shareholders? And what do these changes portend for the future of natural gas exploitation, production, distribution and the ultimate export of Russian gas to downstream consumers? And what will these changes mean to world?

Hardcopy ISBN 1-905050-30-5
E-report ISBN 1-905050-85-2

'Baltic Independence and Russian Foreign Energy Policy'

Dr Harold Elletson

Estonia, Lithuania and Latvia are uniquely dependent on the Russian Federation for energy supplies. The security of energy supplies are national security issues in the three ex-Soviet republics, which are now part of the EU. Increasingly dependent on Russian gas imports and with negligible sources of domestic energy supply, the Baltic countries have been the target of aggressive Russian commercial activity and a sustained attempt to lock them into a long-term reliance on Russia.

Now, as Baltic political leaders, energy specialists and intelligence analysts consider their options, the implications for the security and independence of the three Baltic States are a matter of concern well beyond the Baltic. This important report will be essential reading for anyone with an interest in the future energy supplies of both the Baltic States and eastern Europe.

Dr Harold Elletson leads The New Security Programme, which conducts research into the implications of the new security environment. He was previously Director of the NATO Forum on Business and Security. A former Member of the UK Parliament, he served as Parliamentary Private Secretary to the Secretary of State for Northern Ireland and as a member of the Select Committee on Environment. An international public affairs consultant and a fluent Russian speaker, he has advised many leading companies on aspects of their business in the former Soviet Union, including BP in Azerbaijan and Alstom in Siberia

Hardcopy ISBN 1-905050-36-4
E-report ISBN 1-905050-89-5

global market briefings