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A sea change or a tactical adjustment? Examining the shift in Russia's policy towards Belarus

For years Belarus was one of the closest allies of Russia. In 2010, these relations have deteriorated. The anti-Lukashenko campaign conducted by Russian journalists and politicians in this year gives the impression that Moscow wants to maintain tense relations with Minsk. It also raises a question about the current political objectives of Russian foreign policy towards Belarus. In the context of the upcoming presidential election in Belarus, scheduled for 19 December, two scenarios should be considered: One is whether Russia's actual aim is only to weaken Lukashenko's position inside the country to make him more willing to offer political and economic concessions to Moscow, or instead if Russian leaders have come to the conclusion that Lukashenko's fall from power could be profitable for their interests.

Russia raises the ante

An unprecedented hardening of Russia's position towards Belarus was observed at the beginning of 2010. In January, the Government of Belarus had to accept significant increases in duty on Russian crude oil, despite the existence of a customs union between these two neighbours. Although Lukashenko was trying to influence the Kremlin's decision by delaying the ratification of the common customs code as well as by securing additional crude oil supplies from Venezuelan President, Hugo Chavez, Russian authorities did not change their tough position. Moreover, Vladimir Putin urged the Belarusian leader that his state could be excluded from the economic integration process in the post-Soviet area and that only Russia and Kazakhstan would be the founding members of a new customs union within the Commonwealth of Independent States.¹ A sharp statement by the Russian Prime Minister led Belarus to ratify the customs union code at the beginning of July. That decision undoubtedly also was spurred by a new gas crisis that had emerged unexpectedly between Russia and Belarus a few weeks before. Gazprom's top managers decided to reduce the supply of

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¹ "Po itogam zasedaniya Vyzhshevo organa Tamozhennovo soyuza Rossyiskoy Federatsyi, Respubliki Belarus i Respubliki Kazahkstan V.V. Putin i K.K. Masymov proveli sovместnuyu Press-konferenciyu," *Soyt Predsyedatelya Pravitelstva Rossyiskoy Federatsyi*, 28 May 2010, www.premier.gov.ru.

natural gas in view of mounting Belarusian debt; however, the conflict was quickly resolved as it turned out that the Russian company was in arrears with payments to Belarusian partners, too.

Political tensions were exacerbated in the summer when Russian TV stations broadcast a series of documentaries highlighting shadows of Lukashenko's political career. In response, the Belarusian state channel broadcast an interview with Mikheil Saakashvili, in which he accused Russian politicians of starting the military conflict with Georgia in 2008. Moreover, the Belarusian newspaper *Respublika* published an article critical of Putin's governance based on a report prepared by two widely-known Russian democratic opposition activists.² The media campaign was joined in the autumn by Dmitry Medvedev, who criticized in a sharp tone the policy of the Belarusian leader through his weekly video blog.³ In early October, he accused the Belarusian president of an anti-Russian rhetoric and failing to keep his word. In Medvedev's view, during a meeting of CIS leaders last year Lukashenko had declared his intention to recognize the independence of Abkhazia and South Ossetia, which he has not done so far. Medvedev made reference to some "hysterical" anti-Russian comments by the Belarusian leader, which he said had "broken not only the rules of diplomacy, but also elementary rules of behaviour." His critique was reminiscent of his outburst against Viktor Yushchenko in August 2009. Just a few months before presidential elections in Ukraine, Medvedev accused Yushchenko of intentionally worsening political relations with Russia and declared a suspension of official contacts with the president's administration until the emergence of new leadership in Kiev. Although the results of many polls did not give Yushchenko any chance for victory, Medvedev's speech was a clear signal for other candidates, namely Yulia Tymoshenko and Victor Yanukovich, that they should seek Russia's support during the electoral campaign and would have to take into account its interests.

It's the economy, comrade!

Russian foreign policy towards Belarus and other post-Soviet countries was largely determined by economic factors. In the last months of 2008, Russia was painfully affected by the global financial crisis. Strongly dependent on energy sales and facing a falling demand for energy and sharp cuts in the price of oil on world markets, its economy has since recorded a significant decrease in export and foreign investments (FDI in Russia plummeted by more than 45 percent in the first six months of 2009).⁴ After eight years of economic growth, Russian GDP fell by more than 8 percent. To cover the emerging budget deficit, the Russian government had to spend not only the previously accumulated surpluses, but also increase the external state debt. The economic crisis also has increased the foreign debt of major Russian companies, simultaneously reducing their market capitalization (e.g., natural gas monopoly Gazprom plunged in the ranking of the world's largest companies from fourth in 2008 to 35th in 2010).⁵ Moreover, Gazprom's market power was weakened by excess supplies of gas to the European market caused by the "shale gas revolution" in the United States. In 2009, Russian gas prices agreed upon in the long-term contracts with European consumers

² Nemcov, Boris & Vladimir Milov, "Putin. Itogi. 10 let': nezavisimyy ekspertnyy doklad", www.putin-itogi.ru; see also Vladimirova, Tatiana, "Sosedny glazami ekspertov," *Respublika*, 20 July 2010.

³ "Bessmyslennaya polosa napryazheniya v otnosheniyakh s Belorussiyey obyazatelno zakonchitsya," *Videoblog Dmitrija Miedwiediewa*, 3 October 2010, blog.kremlin.ru.

⁴ "Ob inostrannykh investitsiyakh v I polugodii 2009 goda," State Statistics Committee of the Russian Federation, www.gks.ru.

⁵ "FT Global 500 2010," *Financial Times*, September 2010, www.ft.com.

came to be one of the highest in Europe. Due to the lack of flexible pricing policy, Gazprom lost its market position in the EU to other gas exporters. As a result, the level of production and sales in 2009 was significantly lower than in the preceding year. Gas production fell from 550 billion to 462 billion cubic meters, and gas exports to Europe (including Turkey) decreased from 158 billion to 140 billion cubic meters.⁶

Because of the economic crisis Russian leaders began to look more carefully at the benefits from energy trading with the CIS's closest allies. A lack of money has prompted them to pay greater attention to economic aspects than geopolitical ones. This trend became apparent in the unofficial blueprint of the new Russian foreign policy doctrine published in May 2010 by the Russian edition of *Newsweek*.⁷ It was also shown in public in a speech by Russian Minister of Foreign Affairs Sergei Lavrov on 1 September. During the official inauguration of the academic year at the University of MGIMO he declared that Russian foreign policy aims must be subordinated to economic interests.⁸ Almost at the same time, the deputy chairman of Gazprom's management committee, Andrey Kruglov, announced that from 2011 the gas prices for Belarus, Moldova and Armenia will rise to the market level (increase for Belarus would be from 187 USD to 210–220 USD per one thousand cubic metres).⁹

For Russian foreign policy, Belarus has a strategic importance due to its geographical position. It strengthens Russian military capability as it hosts its two military bases (the radar station in Baranovichi and a naval communications centre in Vileyka) and plays a key role in the Russian export of energy resources to European countries. Through the functioning Druzhba pipeline system—one of the largest system in the world—Russian crude oil is carried some 4,000 kilometres across the territory of Belarus to points in Ukraine, Poland, Hungary, Slovakia, Czech Republic and Germany. Despite the increase of crude oil transport across the Baltic Sea, the Druzhba pipeline system has remained from when it began operation in 1964 to now one of the largest principal artery for the transportation of Russian oil across Europe. Another vital route for Russia is the Yamal pipeline, completed in the late 1990s, linking natural gas fields in Western Siberia and, in the future, on the Yamal peninsula with Poland and Germany.

The launch of the Nord Stream and BPS 2 pipelines in 2011 and 2012 will allow Russia to transport its energy resources directly to the EU markets across the Baltic Sea. The emergence of new pipelines considerably reduces the negotiating position and transportation benefits for Belarus. This state soon will be just another recipient of Russian oil and gas, like others in Central and Eastern Europe, and will lose its privileged position. Moreover, recent oil and gas deliveries have deepened the Belarusian economy's dependence on cheap Russian energy resources. Russia therefore is interested in maintaining Belarus's dependency on its oil and gas deliveries. Taking into account negative trends for Gazprom in the European gas market since 2008, Russia is particularly keen on ensuring a high level of gas sales for Belarus at market prices. In turn, the present stagnation in the European refining market marks a good time for Russian companies to invest in the downstream

⁶ "Gas Export and Enhancing Reliability of Gas Supply to Europe," Gazprom, Press-Conference, 22 June 2010, www.gazprom.com.

⁷ K. Gaaze, M. Zygar, "Pust opyat' budet' solnce," *Russian Newsweek*, 9 May 2010.

⁸ "Transcript of Remarks by Russian Foreign Minister Sergey Lavrov at the MGIMO University of the MFA of Russia," Ministry of Foreign Affairs of the Russian Federation, 1 September 2010, www.mid.ru.

⁹ "Gazprom set to raise gas price for Belarus to market level in 2011," *Naviny.by* – Belarus News, 3 September 2010, www.naviny.by.

sector of the oil industry abroad. This means that once Belarus loses discounted Russian oil in 2011, the country's oil refineries and petrochemical plants would be very easy targets for takeover by Russian oil companies, which will gradually strengthen their market position in the EU. This is well exemplified by the recent Rosneft purchase of assets of PdVSA in the four Ruhr Oel refineries in Germany.

Besieged by Russia – looking for alternatives

The progressive reduction in preference prices of Russian oil and gas exposed the weakness of the obsolete Belarusian economic model. One of the main sources of Belarusian economic stability and development were cheap supplies of energy resources from Russia. An increase in duties on Russian crude oil have struck the Belarusian petrochemical industry, which has provided in previous years about 10 percent of the budget revenues for Belarus. As a result, this sector recorded a significant decline in profitability from 9.5 percent to 0.9 percent between the first quarters of 2009 and 2010, respectively. Furthermore, an increase in gas prices to take place in 2011 would cause serious problems for the Belarusian economy, too. Due to the dominant position of gas in Belarus' energy mix, as well as its high energy intensity and outdated industrial infrastructure, any price increase worsens the condition for a substantial number of Belarusian companies.

For Alexander Lukashenko, it is obvious that the main goal of the Russian strategy is taking over the strategic assets of the Belarusian economy. From his point of view, the Kremlin wants first of all to gain control over the energy sector (e.g., the refineries at Mozyr and Novopolotsk) as well as chemical, machine-building and metallurgical plants. In addition, he realizes that the wide presence of Russian capital in the energy sector and other profitable sectors of the Belarusian economy may mean for him a loss of political control over the state. Therefore Lukashenko wants to reduce dependence on Russian energy resources, a fact that was highlighted in the Strategy on Energy Potential Development adopted by the government on 9 August 2010. By the end of this year Belarus will have imported around one million tons of Venezuelan crude oil and plans to purchase 10 million tons annually between 2011 and 2013. That is why the Belarusian government is engaged in talks on swapping crude oil supplies with Iran, Kazakhstan and Azerbaijan. At the beginning of November, Deputy PM Vladimir Semashko informed journalists that the Venezuelan companies are considered as potential shareholders in the Belarusian petrochemical sector.¹⁰ President Lukashenko seems also to be highly interested in the development of energy cooperation with Lithuania. Representatives of both governments agreed on the use of the Lithuanian port in Klaipeda to bring parts of Venezuelan oil supplies to Belarus. They are also looking at plans to build there a common LNG terminal to diversify sources of gas supplies for both states.

In the face of the global economic crisis, since 2008 Belarus has received financial support not only from Russia but also from other major international actors. Its foreign debt is estimated at almost \$9.5 billion and creditors include Venezuela, Russia, Germany, United States, World Bank and the International Monetary Fund. With China, the Belarusian government plans to develop huge investment programs. After an unexpected trip to Beijing, Lukashenko announced on 15 October a series of bilateral trade and investment agreements worth \$3.5 billion, mainly in the petrochemical

¹⁰ D. Vlasov, "Venezuela eyeing four Belarusian state-run companies," BelaPAN, 13 November 2010, www.belapan.com.

industry. A lack of cash may push Lukashenko towards a more liberalisation and privatisation policy. To finance the budget deficit and external debt, Belarus may start after the election the long-promised privatisation of giant national companies such as potash producer Belaruskali.¹¹

The recent actions of the Belarusian government have started to hurt Russian political and economic interests. Even the establishment of a new customs union between Russia, Belarus and Kazakhstan in 2010, a move strongly favoured by Moscow, is not likely to produce the expected benefits for Russia. For example, a substantial increase in foreign direct investments, which generally follow the largest state in union, has yet to happen. Still uncertain is the fate of the joint construction of a nuclear power plant in Belarus. In January 2009, it was decided that the nuclear power plant would be built by Atomstroyexport and the Russian loan was agreed in February 2009. But in August 2010, Minsk officially refused to create a joint venture with Russia's Inter RAO to sell the electricity from the future Belarusian nuclear power plant, which meant the indefinite postponing of the launch of the construction of this plant. In the last several months, the Belarusian president even tried to attract other partners to the nuclear project. As a part of his outreach to Lithuanian authorities on the energy front, he floated the idea of Lithuania's participation in the construction of the facility but his proposals were rejected.

Elections in Belarus—a harbinger of change?

Russian authorities had supported Alexander Lukashenko during his earlier electoral campaigns. Therefore the different position Russia has taken in the period preceding the upcoming presidential election has been somewhat surprising to the Belarusian ruling elite. The new trend in Russian foreign policy was explained by a simple desire to weaken Lukashenko's position in order to obtain some political and economic concessions for Moscow.¹² But after a number of years in power, the Belarusian leader certainly has realized that he is the best guarantor for Russia of keeping his country outside the integration process with the EU and NATO (primarily due to the undemocratic nature of his regime), which suggests that Moscow never would be interested in the collapse of his power. This self-confidence has allowed him to maintain an authoritarian regime over the years, which has prevented Belarus from rapprochement with the West.

Russian politicians probably realized that with the changing geopolitical and economic circumstances Lukashenko is no longer needed to keep Belarus in the zone of Russia's political influence. EU and NATO "enlargement fatigue" allows Russia to believe that Belarus has no chance for membership, even in the long-term perspective. Moreover, Lukashenko's latest actions harm Russian political and economic interests. Looking at Russia's relationship with Ukraine after the victory of Yanukovich in the democratic presidential election, the Kremlin may therefore conclude that the protection of Russia's interests does not require supporting authoritarian regimes among its neighbour states. In the case of Belarus this reasoning is even more justified as the country has closer historical, social and cultural ties with Russia than Ukraine. That is why a possible collapse of the Lukashenko regime seems to be perceived by Russian leaders not so much as a threat but as an important opportunity to enhance their political and economic influence in Belarus.

¹¹ A. Makhovsky, L. Kelly, "Belarus flirts with China, chilly on market reform," Reuters, 25 August 2010, www.reuters.com.

¹² K. Kłysiński, W. Konończuk, "Lukashenko has to choose: reforms or concessions to Russia," OSW Commentary, 27 October 2010, www.osw.waw.pl.

Support for the “last dictatorship in Europe” from the Kremlin in the forthcoming election in Belarus would have a negative impact on Russia’s image. President Medvedev seems to be very interested in close cooperation with the EU and even NATO as he pursues a programme of modernization of his country. In case the election results in Belarus are found to be manipulated, Russia as with the EU may choose not to recognize them. That is why Russia’s leaders nowadays try to convince the political elite and society in Belarus that the only problem in the bilateral relations is Alexander Lukashenko himself. They seek to win the support of some part of the ruling elite against its president by offering them a pragmatic vision of future close economic cooperation along the lines of that extended to Ukraine, which should be beneficial for both sides.

A challenge for the European Union

Possible political instability in Belarus due to problems with recognition of the forthcoming presidential election would require an appropriate EU response. Belarus is an important country in the European security system, not least because of its developed arms industry and capacity to export weapons to states threatening world peace. After the experience of the “round table” during the Ukrainian Orange Revolution in 2004, representatives of the EU and its member states should speak with one voice and be able to quickly adapt to the changing political situation.

It is obvious that Belarus soon will become a real test for the effectiveness of the European External Action Service headed by the EU High Representative of the Union for Foreign Affairs and Security Policy, Baroness Catherine Ashton, and the newly appointed EU Ambassador in Minsk. EU officials should take note of the changing Russian foreign policy towards the regime of Alexander Lukashenko. The failure of expectations for Ukraine’s integration with the EU after the Orange Revolution proves, however, that EU support for the process should be more effective. It needs to provide a push to transforming the country toward making sufficient efforts aimed at the adoption of European standards and integration with the Western community. EU activity therefore cannot be limited to declarative support for the so-called “pro-European” democratic opposition, which as in the case of Ukraine may depart quickly from its reform agenda and only focus on the struggle for power.

In the event of serious political changes in Belarus the EU should focus on the modernization of its eastern partner and continue the policy of conditionality, making financial aid and benefits of cooperation with the EU dependent on the effectiveness of the implementation of socio-economic reforms there. EU officials should aim primarily to reform the Belarusian energy sector, which in the case of Ukraine and other CIS countries is most responsible for corruption and the degeneration of post-Soviet political systems. The difficult financial situation of Belarus and tense relations with Russia may force Lukashenko to open the state-controlled energy sector to foreign investments from EU member states. The EU should play an active role in this aspect and encourage the Belarusian government to liberalise the energy market applying EU standards. It also should insist that Belarus ratify the Energy Charter Treaty, accelerate the negotiation process with the WTO and even make efforts to become an observer or member in the Energy Community. A well-functioning free market eliminates political corruption and effectively strengthens democracy and stability on the EU’s eastern borders.