



WHEN IT STARTS TO GO OVER THE TOP

Energy disputes between Russia and the transit countries traditionally mark the end or beginning of each year. A pretty quiet settlement of gas and oil supplies between Russia and Ukraine in November-December 2009 has partly increased the attention to Belarus. Whereas negotiations on gas provision are still continuing, Russia and Belarus have finally agreed on the conditions of oil supply on 27 January 2010. Each side presented the outcomes of 'oil negotiations', accompanied by quite rough rhetoric, as a victory. *Yaroslav Romanchuk's* contribution analyzes who in fact benefits from energy and trade disputes between Russia and Belarus.

The results of negotiations on the supply of energy resources have an immense effect on Belarusian economy. Not only the prices in the internal market are affected, but also the amount of budget devoted to increase pensions and social benefits

is determined by these results. *Siarhei Nikoliuk* in his article refers to the Belarusian authorities' capacity to meet its social obligations even under the circumstances of the crisis. Certainly, it happens not without Russia's indirect support.

When it comes to the bilateral energy rows between Russia and Belarus, it is worth asking which side has already started to go over the top. Russia would risk supporting an even more questionable ally taking every chance to blackmail it. Belarus in turn would end up in the inability to carry out its social obligations which every personalist regime is based upon. Given new Russia's energy transportation projects and Presidential elections in Belarus, the situation in the closest European neighbourhood becomes even more challenging.

Julija Narkeviciute, Editor

WHO BENEFITS FROM BELARUS- RUSSIA ENERGY AND TRADE WARS

Yaroslav Romanchuk, AC Strategy

In a fair and honest system the strong protect the weaker ones. In Belarus, helping the weak means ensuring low prices on food, utility services, fuel, transport and medicine. Helping the weak is giving them the right to choose goods and services of the best, from their viewpoint, quality-price ratio.

For the last fifteen years the Russian leadership constantly supplied Belarus with gas, oil and electric energy at the price far below the world average. Furthermore, the terms of supply were more than favourable. Belarus was an 'oil offshore' and a 'gas Mecca' since the gas was so cheap that we could simply ignore the costs.

The cheap Russian energy resources let the Belarusian leadership to protect the weak. The electricity and utility services rates were extremely low for a long time. Selling oil products to Europe helped to stabilize the Belarusian rouble, fill the budget gap and raise pensions and salaries. That was the real support for the people of modest means and low income. No doubt, the oil barons of Russia and

Belarus, just as the other operators of the energy market, made big fortunes, but the ordinary people also got their rake-off.

The partners, i.e. the leadership of Russia and Belarus, were mostly on good terms. Once in a while we observed fits of anger and exchange of 'hot' words. In a temper, they remembered the great patriotic war, the air defence and the orthodox brotherhood of the eastern Slavs. However, nothing united the officials, oligarchs and politicians of both countries more than sharing the energy rent. Meanwhile, a great deal of the money was to get into the budget of both countries to ensure price reduction for consumers. For many years the sharing went on well. No excesses happened. The oil boom has become the direct and indirect source for dozens of thousands multimillion and even billion strong fortunes, primarily, in Russia.

Oil and gas markets are not like selling coffee or Big Macs. The entry is strictly controlled at the very top of the government. There are no accidental people here. The lists of those allowed to make big money

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If the government cared about the consumers, the ordinary people, it would by all means support open competition, the Russian producers included.

are discussed longer than the country's budget or monetary and fiscal policy. Recently the Kremlin was so kind to tell us the names of the Belarusian oil 'heroes'. These are Yuri Chizh and his structures, Nikolai Vorobey, Anatoly Ternavskiy, Vladimir Bryntsalov, Mikhail Gutsiriyev, and the Bazhanovs. They can be considered the first citizens of the Union State. They make full use of this amorphous legal formation, which purpose is still not clear for the ordinary people.

Among the oil 'barons' we can also name CEOs and government supervisors of *Belarusian Oil Company*, *PO Belorusneft*, *Naftan*, and *Mozyr* oil refinery plant. These are a few hundred people from commercial, administrative and security departments. Namely they make oil refinement in a current tax and administrative environment formally close to 'unprofitable', meanwhile the 'cream' of the oil schemes, including the 'black' ones, accumulates far beyond the borders of Russia and Belarus.

The 'barons' used the union state and the customs union as a political cover or a 'legend'. The legend made it possible to keep a significant difference both between the oil price for Belarus and at the world market, between the oil export duty for Belarus and the rest of the world. 'Integration' has become an ideologeme of the energy projects. A. Lukashenka, with all his political and PR talents, would not have been able to support it all by himself, without active participation of his Russian lobbyists (the military, some oil barons, the Russian Orthodox Church, and the supporters of the return of the Soviet Empire).

They all knew that the above mentioned integration projects do not contribute to the freedom of movement of goods, services, money and the workforce to grow. Non-tariff restrictions, budget subsidies, special prices for raw materials, soft loans for certain exporters, quotas and special certification treatment – all these measures applied by both countries doom not only the customs union but even the free trade zone. However, the supporters of real freedom in trade relations between Russia and Belarus did not have enough lobby power to withstand the vigour of energy lobbyists from both sides. Obviously, they were dividing not the modest budget doughnut of Belarus, but the huge resource pie of Russia.

The recent oil 'war' was a commercial conflict to a large extent. The oil barons and oligarchs of both countries were no longer happy with the rules of sharing the oil pie. The Russian oil barons and their supervisors decided they want the bigger part of the oil rent, ownership of Belarusian oil refinery plants and complete control over the transit of their oil, gas and electric power to Europe. The oil barons in Russia do not care about the interests of the Russian small businesses and the ordinary people who could profit from working in Belarus and consuming the Belarusian goods.

The Kremlin wants more influence on the foreign and defence policy of Belarus as a price for supporting the Belarusian economy for so many years.

It would not mind buying the attractive Belarusian assets through the friendly commercial structures and, finally, secure free competition with the Belarusian goods in our home market. Obviously, according to the Russian rules and standards.

The recent oil dispute which the Belarusian authorities entered was also aimed at defending the interests of the local oil barons and not defending the principles of the common market. Since officials in the President's office and heads of ministries are very well aware that there is no trade freedom between the Republic of Belarus and the Russian Federation. After all it was them who approved the quotas for domestic goods in the retail trade (90% foods and 80% non-foods). It is them who hamper import by various means: restrictions on currency purchase, certificates, or special conditions of commercial tenders.

If the government cared about the consumers, the ordinary people, it would by all means support open competition, the Russian producers included. It would have never pushed to such a conflict when representatives of states are directly blackmailing each other. Even though A. Lukashenka managed to get easy conditions of energy resource supplies in the past, he should have known the limits. Just push over the top – and you'll get an emotional and ruthless response.

The Kremlin today is not the same as it was in early 2000's. The golden age for privatization of Belarusian assets is gone. It's in 2007 – early 2008 one could still ask for billions of dollars for selling a control stock of a Belarusian oil refinery plant. Today, when Russia is building roundabout transit channels (the very decision of the Russian leadership is a strategic failure of the official Minsk), when the crisis puts severe limits on budget manoeuvring, when negative feelings between Russian and Belarus's leaders run high, demanding from the Kremlin to keep the status quo of 2003-2008, i.e. subsidize the Belarusian economy, means going over the top.

A. Lukashenka refused to accept the grant of about \$1.8 billion (~4% of GDP), demanding almost four times more, i.e. about 20% of GDP. He is ready to sell the oil refinery enterprises only for the 'old price', and with 22 conditions to top it all. Obviously, he ignores the fact that the Belarusian oil industry costs only a thin dime and the transit oil lines to Europe turn into a piece of a rusting pipe without the Russian oil.

Having got into the trap of own mistakes, the Belarusian rulers try to blackmail the Kremlin with high tariffs on oil transit. All of a sudden they attached tariffs on electric power transit to Lithuania and Kaliningrad region to the oil negotiations. One never knows when Belarus will start using the arguments like "We don't charge you for our air defence services", "We are your only anti-West companions, we keep the interests of the Russian Orthodox Church firm and steadfast and the memory of glorious years of the Patriotic War is simply invaluable", "We haven't even applied for NATO membership – and that has its cost", "If you smash us with oil,

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we will ruin your empire ambitions by leaving the customs union and giving up the union state for lost". Monetization of these arguments is strongly dependent on I. Sechin's and V. Putin's immunity to the old integration schemes. It also depends on A. Lukashenka's desire and ability to propose new schemes of dividing the oil and energy rent.

In the long run, neither the V. Putin, nor Lukashenka need the prolonged energy conflict. The rather that the EU is very nervous even about the hypothetical threat to the energy resources delivery. They are ready to pay for peace and to support any regime which ensures delivery of oil and gas supplies. The oil conflict adds no electoral support either to the Belarusian leader, or to V. Putin / D. Medvedev. Thus the parties will find a compromise on the issues of the volume of duty-free oil for domestic consumption in Belarus, the oil price and *Naftan* ownership. Tolling or sharing out the export duty – one can design many schemes to hide the super profits from oil and oil products sale to the EU from the budgets of Russia and Belarus.

The conflict will be over, but we will still feel the bitter taste of it. The balance will be short and shaky, the struggle will continue on the food, machine-

building, motor-car, furniture and other markets. And it's not going to be a struggle under the WTO rules, or the EU standards, but about taking the law (understood differently by each party) into their own hands.

The presidential election in Belarus is just around the corner. A. Lukashenka is in desperate need for economic and social showings. Not on paper, but in the pockets and stomachs of the nomenclature and ordinary voters. With all the allegiance of Piotr Prokopovich and the money machine of the Belarusian National Bank, it's impossible to reach them without the energy support from the Kremlin.

The Belarus-Russia relations entered into a long game. The victims will be ordinary people and small businesses. We can't avoid growing prices on fuel, utility services and transport. We will not do it without cuts of budget revenue. The number of bankrupt enterprises and redundant people on Russia-oriented plants will increase.

The rich oil barons of both countries will hardly weep. It is the voters used to freebies who will feel the freezing breath of the real economic crisis. Is it worth then entering an oil war against Russia?

PRISONER OF SOCIAL OBLIGATIONS

Sergei Nikoliuk, political scientist

The last year's main event is self-evident. This is the economic crisis. Public opinion polls conducted by the Independent Institute of Socio-Economic and Political Studies in December 2008 and in March 2009 suggested that the economic crisis could turn into a social one (Table 1-2). In particular, the financial situation of Belarusian population decreased to the minimum recorded in 1994.

However, such a critical public response was largely triggered not by the real deterioration of life standards, but by negative media information. This can be proven by a significant reduction of people's expectations in the fourth quarter of 2008 compared to their financial situation. Long-term observations show that public expectations are

highly sensitive to the information disseminated through the media, whereas the perception of individual financial situation is more inertial to it. It is worth notice that the main contribution to the dynamics of both indices is made by peripheral social groups (the elderly, low-educated, rural area residents).

Meanwhile, in the first quarter of 2009, the economic expectations of Belarusian citizens did not change significantly, while the financial situation worsened dramatically. That, however, was a clear sign that the negative trend has ran out of steam and by the next quarterly survey one should expect a breaking point in the public moods towards a positive direction, as it was recorded in June. Thus, the social crisis 'melted away' in people's minds before it had developed.

Table 1. Dynamics of responses to the question *How has your personal financial situation changed for the last three months, are you financially better off or worse off?* (in %)

Answer	11'06	09'08	12'08	03'09	06'09	09'09	12'09
Better off	21	18	9	2	6	11	7
Same	65	59	55	31	57	48	66
Worse off	13	22	34	64	37	37	26

Meanwhile, in the first quarter of 2009, the economic expectations of Belarusian citizens did not change significantly, while the financial situation worsened dramatically.

Table 2. Dynamics of responses to the question *Looking ahead, how will the socio-economic situation in Belarus change within the next few years? (in %)*

Answer	11'06	09'08	12'08	03'09	06'09	09'09	12'09
Get better	43	34	14	14	28	33	35
Same	38	41	35	31	38	35	37
Get worse	11	18	38	46	25	21	16

The negative trend changed into a positive one under the influence of the step-down adaptation mechanism. There is nothing new and unusual in that. By their historical habit, in response to worsening living conditions Belarusians tend not to act, but to cut down on their needs. Furthermore, we must pay tribute to the authorities who made every effort to keep wages and social benefits on the pre-crisis level.

Independent experts are rather critical towards official economic statistics, including the indicators

reflecting the level of growth of the real income of population. However, survey data suggest, there are no objective grounds for talking about the lowering of life standards. As Table 3 shows, the crisis did not make Belarusians change their life strategies. Compared with the pre-crisis 2007, the percentage of respondents opting for survival “at the most primitive level of existence” did not increase. On the contrary, a reverse trend began to show: the level of material needs grew quite appreciably.

Table 3. Dynamics of answering the question *Talking about the life of your family, what goals you and your family members set for yourself? (in %)*

Answer	12'07	12'08	12'09
to survive, albeit at the most primitive level of existence	13	12	7
to live not worse than most families in your town, neighbourhood	49	45	40
to live better than most families in your town, neighbourhood	19	20	27
to live as an average family in Western Europe or the USA lives	12	15	17
to live better than an average family in Western Europe or the USA lives	6	5	8

The fact that the apocalyptic scenario in Belarus did not become a reality is confirmed by answers to the questions in Table 4. Unlike responses to the previous questions, they show not opinions, which interpretation is always debatable, but facts. In 2002 – 2003 there was no talk about the

economic crisis in the country, but 69% and 46% of Belarusians respectively encountered wage and pension arrears. Last year, the proportion of such citizens did not exceed 33%, and the proportion of those who experienced monthly wage and pension arrears was within the margin of error.

Table 4. Dynamics of responses to the question *Within the past 12 months, how many times did you face a delay in payment of a wage or a pension? (in %)*

Answer	09'02	09'03	03'09	06'09	09'09	12'09
Not a single time	31	53	67	70	73	70
Once	12	9	11	8	10	10
Several times	36	26	17	16	14	16
Every month	21	11	4	3	2	3

No surprise that the electoral rating of the president Aleksandr Lukashenka, contrary to the predictions, remained stable and did not fall below 39% during the crisis. This is a new trend. After the presidential elections in 2001, when oil prices were low and, therefore, the level of subsidies from Russia was also low, the growth of real incomes of the population dropped from 18% to 4%, resulting in the decrease of rating of the head of the state to 27%. In late 2003, on the tide of growing world oil prices, Belarus became the so-called ‘oil offshore’ allowing its leaders to afford the return to two-digit growth of people’s real income.

During January – November 2009, the real income of the population increased only by 2.8%, but, as I mentioned above, that did not affect the rating of the state leader. It also has to do with the fact that

the slowdown in growth of real incomes occurred after the five ‘fat’ years, which the majority of Belarusians associate with the policy of A. Lukashenka. Furthermore, opinion polls show, the proportion of respondents who believe that the economic crisis in Belarus is ‘in essence, a complete consequence’ of the global crisis is two times bigger than the proportion of those who link the beginning of the crisis to the country’s leadership policy. It is natural that such distribution of responsibility creates a desire to unite around the strong leader at the time of external threats. Thus, nothing threatens social stability in Belarus today. The rather that, the President obliges himself to increase salaries.

It is clear that the president’s benefits package is not limited by a salary increase only. Despite the fact that in November 2009, pensions were in-

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creased by almost 9% (Belarusian pensioners had to wait for this increase since August 2008), on 1 January 2010 pensions were raised again, and with them benefits for child care – up to 100% of the minimum subsistence income. According to the adopted budget, allocations for social policy will grow by 114%. Those who want to improve their living conditions are also not forgotten. A range of financial benefits is provided for them. Against this background, 7% growth of allocations for health care and education is a sorry sight.

It would seem that the Belarusian authorities should have used the global financial and economic crisis as an excuse for giving up previously adopted social obligations. But they appeared to be not ready for this. Authoritarian personalist regimes prone to populism feel their dependence on the society.

The stability of such regimes rests on personal popularity of the main persona. While setting priorities, authoritarian personalist regimes sacrifice the economy for the sake of momentary political results. Compare the Belarusian ‘unheard-of generosity’ with the Latvian frugality. Facing budget deficits the Latvian government had to considerably reduce the state employees’ salaries as well as cut pensions and benefits.

The Belarusian ruling elite, used to control the growth of welfare, is not able to launch a crisis management policy. Moreover, it is not able to comprehend the full depth of the new challenges. The Belarusian president likes to point out that he makes decisions ‘guided by life’. But today it seems that he has lost the ability to grasp the real life trends.



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