The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Energy Dispute, Not War, Possible With Belarus

November 30, 2010

Russia is now better equipped to avoid energy wars with neighbors, which used to unsettle Europe at the height of cold winters, but an oil clash with Belarus cannot be ruled out completely, analysts and traders said.

The Kremlin has frequently reached for the oil-and-gas stick when dealing with other former Soviet republics, much dependent on Moscow's resources while at the same time presenting a transit route for Russian fuel to Europe.

This has in the past led to fierce standoffs and left the European Union short of heat to fight off the winter cold, notably in 2009 when supplies across Ukraine dried up.

After the election of Kremlin-friendly Viktor Yanukovych as Ukraine's president this year, relations between the countries have quickly and significantly improved, alleviating fears of yet another traditional New Year's gas dispute.

But tensions remain with Belarus. President Alexander Lukashenko has distanced himself

from Moscow and is widely expected to win a Dec. 19 election.

"I wouldn't rule out yet another standoff with Belarus, as oil and gas pricing still remains an acute and unresolved issue," said Valery Nesterov, an analyst with Troika Dialog.

"Lots of things remain to be sorted out, and they are just put aside to be solved in the future," he said.

In June, Minsk threatened to cut Russian gas transit to Europe in a pricing dispute, while in January, Moscow slashed its oil supply for Belarussian refineries as the two countries clashed over export tariffs.

And although they have ironed out the differences, at least temporarily, some urgent issues are yet to be resolved.

One possible bone of contention is that earlier this month, Belarus and Ukraine reversed oil flows along part of the Europe-bound Druzhba pipeline, allowing Venezuelan crude from Odessa to reach Belarus, in a move that may hamper Russian oil supplies to Europe.

Taxes are also an issue. Russia is yet to decide on a policy of oil and oil products export duty, and a Finance Ministry official said earlier this week that much would depend on whether Moscow is able to reach an agreement with Minsk.

Moscow's position is that the oil produced by Belarus — about 2 million tons a year — should be used to meet domestic needs, while any spare oil bought from Russia can be processed by Minsk and sold abroad at the Russian export duty rate, with the tax revenues then going into the Russian budget.

"I don't think we will come to an agreement with Belarus, the situation is dragging on, though I don't believe in an all-out oil war," a trader in a Russian oil major said.

A spokesman for oil pipeline monopoly Transneft, which oversees crude flows to Europe, said the oil supplies to Europe for now are secure. "Don't expect any problems this year," Igor Dyomin said.

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