

Minsk Gets \$2Bln Gas Discount

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Gazprom on Friday agreed to slash its gas price for Belarus as the two neighbors prepare to move their economies closer next year.

Gazprom will charge Belarus \$165.60 per 1,000 cubic meters of gas next year, down from \$244 this quarter, according to Gazprom and Prime Minister Vladimir Putin.

This benevolence could cost the company at least \$2 billion in potential earnings, Putin said. The average price for Gazprom's other European customers will amount to \$400 throughout next year, he said.

"Belarus will receive a so-called integrational discount," Putin said.

The pricing agreement will come into force simultaneously with the Single Economic Space, an economic integration effort of Russia, Belarus and Kazakhstan. Building on the current customs union of these states, the economic space opens their markets for each other even more.

Under Friday's agreement, Gazprom, as of 2014, will link the price for Belarus to what it will charge in one of its key producing regions, the Yamalo–Nenets autonomous region. The government regulates Russia's domestic prices.

The final price for Belarus will incorporate the Yamalo–Nenets retail price, transportation costs from the region to Belarus, the cost of storage in Russia and a retail margin in Belarus. Gazprom will index it to inflation.

The retail markup in Belarus will amount to \$15.95 for 1,000 cubic meters of gas next year and increase every year on par with inflation through 2031. Afterward, Belarus will regulate the markup itself, but will make it economically "reasonable" and keep it above \$11.09 in any event.

Russia also allowed Belarus to pay this year's gas bill through the course of next year because of the economic meltdown in that country, Putin said.

To return the favor, Belarus agreed Friday to allow Gazprom to buy the remaining half of its national gas transit system for \$2.5 billion, so the company could make an additional profit from retail sales of the fuel.

Belarus agreed to buy about 23 billion cubic meters of gas from Gazprom annually, for the next three years.

Full control of the Belarussian pipelines will eliminate the risk of any politically motivated disruptions of Gazprom's deliveries further westward, Putin said.

Gazprom paid \$2.5 billion for the first half of Beltransgaz, the Belarussian gas pipelines operator in 2007.

In order to further compensate itself for the gas price discount, Gazprom could demand tax breaks from the Russian government, Rye, Man & Gor Securities said.

Also on Friday, officials from the two countries signed a deal to loan Minsk up to \$10 billion for 15 years to fund construction of Belarus' first nuclear power station by Russia's Rosatom. The plan is to start operating the station, near the Ostrovets village, in 2018.

In other business Friday, Russia and Belarus appointed Grigory Rapota to be the new state secretary for their union state. He replaces the long-serving Pavel Borodin. Rapota until now has been the presidential envoy in the Volga Federal District.

The union state is a separate bilateral entity from the Single Economic Space, which puts Russia and Belarus in a tighter military and political alliance. Belarussian President Alexander Lukashenko said Friday that he and President Dmitry Medvedev agreed to develop the union further.

"We decided we will not dump the union–state project," Lukashenko said.

Russia's trade with Belarus reached \$28 billion in the first nine months of the year, about the same size as it was for all of last year.

As a Russian trade partner, Belarus ranks about as high as France, with whom Russia aims to exchange goods worth \$30 billion this year.

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