Commentary
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Belarus-Russia: Where are current tensions leading?

Yauheni Preiherman

Summary

Like many times before, Belarus and Russia are disputing the terms of their special relationship. However, geopolitics and Russia's oil tax manoeuvre have made current tensions more serious by aggravating fundamental contradictions between the allies. Belarusian-Russian relations await bumpy times ahead, with their future depending on whether Minsk and Moscow will manage to find a mutually beneficial alliance model in the new geopolitical reality.

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The same old story?

Belarus and Russia have been formally allied since the mid-1990s. In 1999, the two states concluded the treaty establishing the Union State of Belarus and Russia, which became the highest point of their bilateral integration. According to the treaty, the two states were to stay sovereign while agreeing to closely coordinate or even unify certain aspects of their economic, foreign and security policies. For instance, the document foresaw the creation of a single currency and the unification of customs and monetary policies at some future point in time.

Twenty years later, Belarus and Russia remain allies, even though many elements of the Union State treaty have never been implemented. In 2015, the two countries, together with Kazakhstan, Armenia and Kyrgyzstan, launched another ambitious integration project – the Eurasian Economic Union (EAEU), which in a sense overshadowed the Union State and took away steam from the idea of creating a Union State.

> In spite of close cooperation in various integration formats, Belarusian-Russian relations, both in bilateral and multilateral frameworks, have never been fully smooth and problem-free.

In this sense, the tensions of recent months are nothing new. Like it happened many times before, Minsk and Moscow are arguing over the terms of their alliance and each one is trying to secure the best possible conditions for himself.

Yet, what we are witnessing is not entirely the same old story. Geopolitics adds an important new angle to it. Growing political escalation between Russia and the West is aggravating a fundamental contradiction that exists between Minsk and Moscow – that is, their different understandings of what it means to be allies.

> Russian elites tend to make unilateral decisions, without consulting or even notifying their allies, and then expect that the latter should fully support those decisions.

Most noteworthy examples of this include decisions to incorporate Crimea and introduce economic countersanctions against Georgia, Moldova, Ukraine, and the West. Belarusian authorities, on their part, argue that any alliance is about not only jointly implementing certain decisions, but about making those decisions together in the first place. If Moscow takes unilateral steps, its allies can support them only as long as their own interests allow.

This very contradiction has polluted the bilateral relations since 2014, when the Russian-Ukrainian conflict broke out and quickly grew into a larger geopolitical confrontation. Belarus took a neutral position on the conflict and refused to recognise the new status of Crimea. Also, it offered itself as a neutral ground for peace talks, and, importantly, declined the Russian request to host its military airbase.

As a result, the more Russia's relations with the West deteriorated, the more vocal the proponents of a tougher approach to Belarus became in Moscow. In their view, Minsk has to bandwagon with Russia in international affairs or otherwise it should lose economic benefits from their special relationship. Various groups of business interests inside Russia quickly capitalised on that argument to force Belarusian competitors out of the Russian market.

It was only a matter of time before this dynamic would lead to a major political dispute. Not too surprisingly, in mid-December 2018, Russia's Prime Minister Dmitry Medvedev stated that Moscow would condition its future relations with Belarus on whether the

latter agrees to a deeper integration within the Union State. Not more surprisingly, Minsk saw that as an attempt to limit Belarusian sovereignty, which it cannot accept.

Oil tax manoeuvre in Russia

Besides geopolitics, the so-called oil tax manoeuvre has been another catalyst of today's tensions. First of all, Belarus loses significant revenue as a result of the manoeuvre. Minsk estimates that it has already lost USD 3.6 bn and expects further cumulative losses of about USD 10.6 bn until 2025. But most importantly, this Russian reform unveils another fundamental contradiction between the allies and ultimately undermines Minsk's rationale of joining economic integration projects with Russia.

The Russian government claims that the main benefit it offers to Belarus in exchange for closer integration is the discounted pricing of oil and gas compared to international markets. Yet, while Belarusian refineries indeed profit a lot from this, this is not exactly Minsk's central motivation. What matters for Belarus more than a discount compared to market prices is having the same prices as Russia's own companies.

> The logic is simple: Russia is the country's main economic partner and if in the conditions of a common market Belarusian companies get energy at prices higher than their Russian competitors, this is *a priori*a threat to Belarus's economic security, which renders bilateral and multilateral integration meaningless.

With this in mind, Belarus conditioned its membership of the EAEU on creating single oil and gas markets (the Belarusian parliament issued a special statement in this regard when ratifying the EAEU treaty). Moscow insisted that those markets should be up and running in 2025, which Minsk accepted with the understanding that until then, at least, current pricing conditions would stay in place. Nonetheless, Russia started implementing unilaterally the tax manoeuvre in the oil sector, which is expected to result in a gradual (over several years) abolishment of oil export levies (roughly from 30% to 0%). This will run in parallel with the hiking of the mineral extraction tax within the same proportions. The main problem, however, is that Russia has offered budgetary support to its own oil refineries to compensate for their losses from the manoeuvre, which effectively distorts economic competition in the EAEU to the benefit of Russian companies.

In response to Minsk's argument that this contradicts the basic idea and spirit of the existing economic union, Russia argues that the manoeuvre is its domestic issue; and again, offers Belarus a deeper integration if it wants better conditions. Needless to say,

this suggestion only causes additional suspicions in Minsk about Russia's real intentions. There is a growing feeling in Belarus that Moscow will never deliver on the EAEU treaty commitment to create fully operational oil and gas markets. If so, why should Belarus make any new concessions?

Outlook

Thus, essentially, this time around Minsk and Moscow are disputing the very fundamentals of their alliance in a new geopolitical reality.

> Strategically, both states are interested in preserving a form of a special relationship. But their relations are set to experience changes.

Following Dmitry Medvedev's ultimatum, as some commentators refer to it, both sides have prepared proposals on deepening bilateral integration within the Union State. In principle, the 1999 Union State treaty emphasised the parity of the two sovereign states as the key principle of integration, which remains Belarus's utmost priority today. In this respect, Minsk will not object to returning to the original treaty as the basis for further integration talks.

However, Moscow does not seem willing to agree to any real parity in decision-making, which has always been the main stumbling block for its deeper integration not only with Belarus but with other post-Soviet states as well. Moreover, in recent years Russia has decreased its own dependence on Belarus in both economic and military realms. In particular, the modernisation of the Russian army and its expansion in the Western Military District have reduced the importance of the "Belarusian strategic balcony" for Russia's defence. Moscow has somewhat diversified its options for transporting gas and oil to the EU, which dwindles Minsk's leverage as a transit country. Finally, the import substitution policy the Russian government has applied in response to Western economic sanctions gradually makes it less interested in having any supranational body (like the Eurasian Economic Commission) decide on economic matters. All this further emboldens Russian officials to take a tougher stance towards Belarus.

> Minsk, on its part, will not sign under any new agreements which will either limit its sovereignty or institutionalise unequal market conditions for its economic entities compared to those from Russia.

It will also continue to adhere to a neutral stance on regional security issues and try to diversify its trade ties.

Hence, Belarusian-Russian relations await bumpy times ahead. Difficult negotiations will at times produce mutual accusations and public disagreements. Overall, the future of the relationship depends on whether Minsk and Moscow will manage to find a mutually beneficial alliance modelin the new geopolitical reality.

Yauheni Preiherman
Head, Minsk Dialogue Track-II Initiative