Belarus Struggles to Reduce Energy Dependence on Russia

At the end of 2015 Belarus published a new energy security concept according to which it remains a country with a critical level of energy dependence.

90 per cent of Belarusian energy imports come from a single supplier – Russia. Moreover, a third of export revenue is traditionally generated by refining Russian oil.

The authorities prefer to retain the status-quo as an easier and conflictless strategy, but the need to strengthen statehood will sooner or later require a solution to this deep problem.

Dramatic energy dependence on Russia

As the newly published Concept notes, Belarus has a critical level of dependence in most aspects of its energy security. Currently, 90 per cent of imports of all energy resources come from Russia. Moreover, Russian natural gas accounts for 90 per cent of heat and electric energy production.

The growth of energy independence and diversification of suppliers should become a strategic goal for the government in the coming years. The new Concept sets concrete goals up until 2035. Belarus plans to reduce the share of Russia in its energy imports from 90 per cent to 70 per cent. Most strikingly, the government plans to reduce the share of gas in production of electric and heat energy from the current 90 per cent to 50 per cent.
Another related problem the authorities will have to deal with is high energy consumption in the economy. The heavy industries built in the USSR consume huge amounts of energy, and many of them work on decades-old, outdated technologies.

For example, Hrodna Azot, a chemical industry enterprise, consumes 10 per cent of all imported gas. Apart from high energy consumption, these demand large state subsidies and demonstrate low economic efficiency. Reform of these industrial giants would resolve a whole bunch of problems, but the government seems unwilling to do that due to high social costs.

Belarusian citizens will also have to change their energy usage habits. The population has for a long time enjoyed discounted prices on public utilities for home use, including energy, as a part of the government's social policy.

While an average Pole or Lithuanian has to pay $160-170 for communal services, Belarusians currently pay only around $40. This has caused much criticism from market reform advocates and international creditors of Belarus. Finally, the government has agreed to reform this sector and citizens are seeing their bills grow constantly.

Petroeconomy and the EEU
market

In the last decade oil products have accounted for a third of Belarusian exports and brought in up to $16bn of revenue annually. Together with potash, oil products filled the Belarusian budget, allowing the government to keep a tight grip on the economy without introducing reforms, and preserving the loyalty of citizens.

Russia, of course, remains the cheapest and most profitable option for Belarusian oil refineries located in Mazyr and Navapolack. At times of economic tension, Belarus has in the past attempted to threaten Russia with turning to alternative sources of oil. In 2010-2011 Minsk shipped oil from Venezuela and Azerbaijana decision that had no economic grounds but brought political results eventually, as Russia returned to more favourable contract terms with Belarus.

However, the Belarusian oil business now faces a number of challenges. Belarus as a member of the Eurasian Economic Union (EEU) remains in an unfavourable position as regards oil consumption. The single market of energy resources in the EEU will come into force only in 2025, a condition that Russia insists on and Belarus strongly opposes.

More fundamentally though, the sector itself presents a bigger problem for Belarus. Reliance on Russian oil as a major export commodity means backwardness in other sectors, dependence on oil price jumps and of course the supplier. The current drop in oil prices and subsequent economic decline present a good lesson for the Belarusian leadership, but will they learn from it?
Will nuclear power plant increase energy independence?

In the early 2010s a new nuclear power plant (NPP) was proclaimed as the hope of the Belarusian energy sector. It is intended to cover a quarter of the country's energy needs, with its first reactor to be launched in 2018.

However, the case for energy independence in this instance looks doubtful, as Russia remains the key actor at all stages of the project's implementation. Russia provides its design, supplies its most important components, as well as the nuclear fuel. Finally, the whole project is financed by a $10bn Russian loan.

An expert from the Institute of Energy at the National Academy of Sciences who wanted to remain anonymous told Belarus Digest that Belarus can in fact purchase uranium elsewhere, but the issue of utilisation of exhausted fuel will remain nevertheless.

Besides, the NPP is located only 55km away from the Lithuanian capital Vilnius. This poses a number of other security threats which the Belarusian authorities prefer not to talk about. Lithuanian officials and NGOs have been criticising Belarus since the project's inception, saying that Belarusians have not properly assessed the environmental impact of the NPP and do not want their neighbours to get involved.

Belarusians never witnessed a real public debate on the NPP, rather ridiculous for a nation that suffered dramatically from the Chernobyl disaster. Yet the plant may in the end prove to
be the lesser of two evils compared to gas and oil dependence.

Can Belarus become energy independent?

Belarus remains trapped in energy dependence primarily because of the inertia of its leadership, who are scared to change the status-quo and implement sector reforms. High revenues from oil could be used to develop alternative and local energy resources, which Belarus uses to a minor extent. Belarus has natural resources which have fine energy potential: rivers, woods, swamps and biomass.

Energy efficiency, which the authorities like to talk about but fail to introduce, should become a technical standard in all spheres, from construction and transport to agriculture.

Alternative and green energy is the area where the European Union has vast experience and will be eager to assist in both expertise and financing. For example, the EU has allocated €8m for local development projects in 2014-2017, where energy is a priority area. Belarus could receive many more funds for green energy were it to demonstrate real interest in cooperation in this area.

Large enterprises with old energy-consuming technologies should be reformed and replaced by an economy based on small and medium business, the service sector and IT. In the long run, this would not only reduce energy consumption, but would also change the structure of budget revenues and dependence on oil refineries.

Energy efficiency, which the authorities like to talk about but fail to introduce, should become a technical standard in all spheres, from construction and transport to agriculture.
Last but not least, Belarusians should learn how to save energy – something they had no need to know about in the state-run economy. Raising energy prices to market levels should be accompanied by comprehensive education programmes to teach the population how to live in a new energy reality.