

# Russia Wants Belarusian Enterprises Instead of Promises

On 13 December, Russian Prime Minister Dmitry Medvedev proclaimed that Russia and Belarus may introduce a single currency. Various officials from both countries have regularly proclaimed such intentions since 1993.

There has been no result to these back and forth in the past two decades, yet officials apparently have more interest in the process than in outcomes. Integration talk hides the reality of the [diverging developmental](#) paths of two nations.

The results of bilateral relations are far from ideal as the decline by eleven percent in volume of Belarus-Russian trade illustrates. According to Medvedev, trade diminished due to negative processes in global markets. Indeed, declines might be a result of Russian policy. This is especially true after Russia's one-sided accession to the WTO took goods from cheap-labour countries squeezed out Belarusian goods from Russian markets.

Russia does not want to consider Belarus a partner. It strangles Belarusian enterprises economically to force Minsk into selling them to Russia. The most publicised cases concern Belarusian oil refineries and its defence industries.

Earlier, Lukashenka speculated on his being Russia's best ally. Now he has a harder time to gain favours from Moscow as Ukraine just became a lot closer to the Kremlin by rejecting the EU association agreement. It is no wonder then that the day after President Yanukovich of Ukraine got his deal with Putin Lukashenka rushed off to Russia.

## **Ukrainian Nuisance**

As Ukraine seemed to tilt towards the EU and Russia was on retreat in the region, Lukashenka believed that his positions as Moscow's only friend in relations with Kremlin were quite promising. On 6 December, he unexpectedly said that there was no obvious need to sell the Minsk Wheel Tractor Plant (MZKT).

Despite the fact that the plant has been on a Russian priority buying list as an established producer of world-quality civilian and military special transport vehicles. "I always wondered about this eagerness to sell the plant [...] sure, I am absolutely against it," he said. Such statement contradicts promises which Minsk had given Moscow for financial aid after 2011 financial crisis in Belarus.

After this latest Ukrainian rapprochement with Russia, Minsk had to adopt to a new view of reality. On 20 December Vice Prime Minister [Uladzimir Siamashka](#) said that next year a share in MZKT would be sold to a Russian investor. MZKT is a valuable asset yet it will lose in its value if Russia would implement its plan to [exclude non-Russian](#) enterprises from Russian arms production technological chains. Moscow already started to replace its foreign suppliers with Russian companies and emphasised that it would provide no special exemption for Belarus despite its being the most loyal Russian ally.

## **Tactical Oil Weapons**

Moscow resorts to similar unfriendly means to get their hands on Belarus' oil refineries. Russia declined to agree with the Belarusian government on a yearly balance sheet of oil shipments to Belarus. Moscow agreed with Minsk on Saturday only on their oil export plans for January-June. In this way Putin can keep Lukashenka on a short leash. The Russians did as much in 2013 and are apparently going to do it again next year.

As a result, while in 2013 Belarus was planning to import from Russia 23m tonnes of oil, it actually managed to get no more than 20.7m tonnes. Under these circumstances, Belarusian refineries face unpredictable workload schedules and can work only at 80-85 per cent of their full capacities which adversely affects their profitability.

Belarusian Vice Prime Minister [Pyotr Prakapovich](#) openly lamented on Friday that Moscow was not willing to refine more oil in Belarusian refineries and sent its own crude abroad of Customs Union leaving its allies without work and revenues. Indeed, the Belarusian government cannot provide refineries with sufficient volumes of oil and has to sell its shares in them to somebody who can bring the necessary oil in. Prakapovich announced that Minsk had already sent to Russian Rosneft' its offer to sell its state-owned majority share in Mazyr refinery next year.

### **Strategic Oil Weapons**

The Russian Prime news agency reported recently that Russia was preparing to sign with Belarus a protocol on prolongation of December 2010 agreement. That agreement destroyed political economic basis of Belarusian regime as it made Minsk pay [export duties](#) on Russian-origin oil and products extracted from it.

Before that, Belarusians get Russian oil on duty-free conditions, refined it and exported oil products, mostly to Europe, without paying any duties to Russia. The December 2010 agreement made Belarusian oil products' exports shrink and stripped the government of revenues estimated to be up to \$4bn annually.

Lukashenka repeatedly spoke of his hope that Putin will deliver on his promises and since 1 January Minsk will be relieved of its obligation to pay these duties. Moscow seemingly has better idea – Russian Deputy Prime Minister Igor

Shuvalov in October said that Russia would begin duty-free oil trade with Belarus only in January 2015 and only if Minsk removed all its trade exemptions with Russia inside the Customs Union.

### **No Overtake of Belarusian Industry**

The State Secretary of the Union State of Belarus and Russia Grigori Rapota on 4 December complained that only integration between several electronics firms (Belarusian Integral and Russian "Roselektronika; Belarusian Peleng and Russian "Roskosmos") has gone well. However, other planned projects in chemical and machinery branches faced their own difficulties – integration between "Hrodna Azot" and "Gazprom" and "Evrokhim"; MAZ and Russian KAMAZ.

As economic analyst Tatyana Manyonak told the Belapan news agency last week, it was Lukashenka who makes the final decision on the sale of Belarusian enterprises. And he is seemingly not in the mood to sell now. In addition to his ambiguous statements on MZKT, earlier in October, he publicly criticised the Russian proposals of the MAZ and KAMAZ merger, because the Russians failed to guarantee MAZ new investments, production increases, technological renewal and market expansion.

The Belarusian government has for a long time been demonstrating increasing economic and political nationalism. So far it managed to neutralise Russian pressure on many points while [getting from Moscow](#) substantial preferential economic treatment and assistance.

Even in the unfavourable conditions of 2011, as Minsk lost the option of "going West" after brutal crack down on post-election protests, the Belarusian government still managed to [get billions](#) of dollars of Russian help to overcome its financial crisis. For that, Lukashenka gave the Kremlin little more than a few promises most of which he does not seem to

plan to deliver on. These tactics have paid off – Russia scaled down its demands and now Lukashenka can sell the same things once again.

But this tug-of-war cannot last much longer. Beginning in 2010 Russian aid and subsidies have not been sufficient to bolster Belarus' ailing economy and the deficit of its current accounts regularly requires additional injections of funds. To get the money, the Belarusian government will both reform the economy and sell some assets. These economic changes will result in political shifts – however, this does not necessarily mean that they will lead to the establishment of a liberal democracy.