

New Nuclear Ambitions of Belarus

Last Thursday, director of the Nuclear Energy Department Mikalaj Hrusha unexpectedly began to talk about the need to enlarge Belarus' atomic energy program. According to the Belarusian authorities, the first Belarusian nuclear power plant may have four rather than two reactors.

Until recently, the government was planning to install two Russian-designed and built reactors with a capacity of 1,200 megawatt each. The current plan is to increase the entire Belarusian energy system capacity to 8,000 megawatt.

However, it appears that the authorities will fail to achieve one of the main objectives of the project: energy independence. On the contrary, the nuclear plant may make Belarus even more dependent upon Russia.

Scramble For German Energy Market?

Belarus plans to build its nuclear plant 18 km from the town Astraviec on the border with Lithuania. The first reactor is expected to be put on line in 2017 and the second not later than 2018. Russian corporation «Atomstroieksport» will construct the Belarusian plant. Officially, it is the “leading engineering company of the 'Rosatom' state corporation which builds nuclear energy sites”.

The project is, however, controversial for the Russian side because Minsk opposes the establishment of a joint enterprise to sell the produced energy. In addition, Russia is also planning to construct by 2016 a nuclear power plant in its Kaliningrad enclave. This may lead to competition on the regional energy market between Kaliningrad and Belarusian nuclear installations. Lithuania and Poland are also going to build their own nuclear power plants, and no wonder, they are

not eager to see Belarus as a rival in selling energy. All these nations also hope to sell energy from their nuclear facilities to a new large German energy market which will emerge as Berlin closes down all its nuclear power plants.

The issue of financing the Belarusian nuclear power plant, however, needs final settlement. The costs of its construction are estimated at USD 9bn, including 6bn to construct reactors and 3bn to build infrastructure. Since the very beginning Belarus has had no money with which to pay the costs. It planned to get a special loan from Russia, first for USD 6bn and then for USD 9bn. Moscow hesitated because the loan could actually be spent not on the nuclear power plant but rather on supporting the bankrupt Belarusian economy.

When the Russian prime minister Vladimir Putin visited Minsk in March 2011 the countries signed two cooperation agreements to build the new power plant. One related to the “parallel work of energy systems” of both countries, the other dealt with construction of the nuclear power plant. Russia committed to provide USD 9bn as a loan for construction. The Belarusian parliament ratified the agreements on 20 October “in a closed session”, as the government knew about nuclear sensitivities of ordinary Belarusians who directly [suffered](#) from the 1986 Chernobyl nuclear disaster. The Belarusian regime is suppressing even the slightest protests against the new nuclear project, persecuting activists and banning any rallies and mass events about the problem*.

A Completely Russian Power Plant?

On 11 October, the «Atomstroieksport» signed an agreement to construct the first and second reactors in Astraviec in North Western Belarus. It is unclear how all these documents can be amended because clearly Belarus needs more money to double the capacity of its nuclear industry. Belarusian officials emphasized that to add two more reactors would presumably be cheaper than to construct the initial two, as basic

infrastructure will already be in place. Nevertheless, today the government does not even have the money to cover the current needs of the country and cannot afford additional spending on a nuclear project from its own funds.

Media and NGOs raised environmental concerns about the Astraviec power plant, although some of them might be linked to economic and political interests of the neighboring nations, particularly Lithuania. The river Vilia flowing through the Lithuanian capital has been chosen as a water source for the new nuclear site. That could potentially threaten regional environmental security. Yet at the same time, the Lithuanian government itself is going to build a new nuclear power plant on the Belarusian border in Visaginas which undermines the sincerity of its concerns for the environment in the region. Meanwhile, on 20 October the Belarusian deputy minister of energy said that the IAEA and European Commission had no objections to Minsk concerning the location of the nuclear facility.

According to the recent reports of the Belapan news agency, some work has already begun on the Astraviec site. Yet the actual launch of full-scale construction still depends on a final agreement with Russia on its financing. It means that construction initially planned to begin this autumn may only start in spring 2012.

Announcing the project of nuclear power plant construction, the Belarusian ruler Aliaksandr Lukashenka [talked](#) about energy independence – meaning, of course, independence from Russian gas and oil. Since 2007 the Belarusian government even toyed with the idea of giving the nuclear power plant contract to non-Russian corporations – US, Japanese, French or German. Yet it had no money to pay for it, and the result was both sad and ironic. The Belarusian regime managed to get money only from Moscow.

Now, the whole enterprise will be run by the Russians. The

Russians will design and construct the plant for Russian money. The future Belarusian nuclear industry most probably will have to work under the guidance of Russian technical specialists. In addition, Russia will supply fuel and take back used nuclear material. The plant is likely to become part of an enterprise selling energy in the region and returning profits to Russia to pay the loan. Whether Belarus will gain any real benefits from the project, aside from the illusion of technical advancement and one more dangerous site, is likely a question without a positive answer.

SB

China Helps an Ailing Autocracy

On 8 November Minsk signed a deal with Dagong Credit Rating Co Ltd, China's largest credit ratings agency, to assess its sovereign credit rating. State-owned Dagong may issue a more favorable rating than the US agency Standard & Poor's, which downgraded Belarus from B to B- in late September.

The deal is part and parcel of Beijing's bailout for Belarus – in September, China inked a deal to provide a \$1 bn bailout loan by end of 2011, on more favorable terms than the Russia-led Eurasian Economic Community and the IMF. Beijing is willing to help a fellow autocracy off its knees, but the support comes with a price: stakes in Belarus's strategic state-owned companies.

At face value, Beijing seems to be exploiting a downturn in

the Belarusian economy. One could argue that China pursued similar acquisition strategies in Western Europe in the aftermath of the 2009 crisis, although China's impact in Belarus is greater and the political implications are more significant. This version of events jives well with the view that Chinese investors are "neo-mercantilists". But this picture is too facile.

Chinese investment comes in diverse clusters of coordinated projects. Belarus is no different. Large Chinese delegations that visited Minsk in March 2010 and September 2011 have initiated investment projects in up- and downstream industries, comprising several modes of entry. In the power sector alone, the value of investment projects carried out and planned amounts to \$3 bn. Not all of that capital may be registered as FDI, since China often lends capital to Belarusian firms, who are then obliged to contract Chinese firms. Nonetheless, with Belarusian FDI averaging less than \$2 bn per year, China's investments would make a big impact even without equity investments.

China is set to make its biggest mark in power generation, and the main investments have gone into revamping four coal-fired thermal plants. Among the thermal plants is 5-Minsk, a key source of power for the nation's capital – capacity will increase nearly fourfold to 610 MW. The air pollution this will cause for Minsk is considerable – CO2 emissions are set to quadruple. Equally controversial is China's foray into nuclear power. It is entering a bidding process to build twenty 110-330 kWt substations to distribute electricity from the Belarusian Atomic Energy Station. The proposed site remains contested on environmental safety grounds. The Fukushima catastrophe and the ensuing nuclear debate in Western Europe this year have increased Western pressure to abandon the plan. This is why the implicit support from China is welcome news to Lukashenka.

However, China is also promoting clean energy in Belarus. According to an agreement signed last month, a new 40 MW hydropower plant is to be built at Vitsebsk by 2015. A further \$500 m in investments could flow into a cascade of smaller hydro plants. On a smaller scale, China is breaking ground on wind power with a 1.5 MW farm in Grodno region. China today is the world's top producer of wind turbines and has installed considerable capacity in its less populous western regions.

Beyond the power sector, a shining example of technology transfer is in telecoms. According to a bilateral agreement signed in September, China will help Belarus launch its first communications satellite within the next 30 months. Belarus will become the seventh country to carry out such a project with China.

Further downstream, China is engaging in several areas of manufacturing. On the one hand, China National Machinery Industry Corporation (Sinomach), China's largest machinery producer, is keen on acquiring prized assets in the machinery industry, which form the core of Belarus's export capacity. On the other hand, joint ventures are underway at chemical plants for sodium carbonate, nitrogen fertilizer, cellophane, and paper. China might be interested in using these industries as a platform for exports to Russia and the EU. In a sense, China is supporting dirty industry on Europe's "periphery" – though it might help to bring in more modern, less polluting technologies.

The emergence of such diverse investment activities since 2009 underscores the coordinated nature of Chinese investment. Not surprisingly, there is talk of a new industrial park for Chinese companies. Beijing Fandian, a luxury hotel chain, has begun construction on a new branch in Minsk to be inaugurated in 2013, which will cater to Chinese businesspeople and officials. The hotel might play into Lukashenka's explicit efforts to create a "Chinatown" in Minsk.

Indeed, some hope that Minsk may become a new center for the Overseas Chinese community. Chinabelarus.net, a Chinese-language site established in 2008, is already a popular networking tool for Overseas Chinese. The breadth and scope of Chinese engagement in Belarus could be impressive. But Beijing is likely to monitor each step of the way. The Chinese companies entering Belarus illustrate the importance of what is at stake. At least five of them have a market cap of over \$500 m and are publicly listed (either directly or through their parent).

At a time when Belarus is mired in crisis, Beijing's commitment to investing extensively with top companies is quite bold. As an emerging power, China now has sufficient capital, technology, and know-how to contribute, particularly in telecoms and clean energy. In the process, it can serve as an engine for employment, productivity gains, and technological progress, which in turn can stimulate economic growth. Large industrial projects could exert a centrifugal effect on corollary industries. In the short run, moreover, China's vote of confidence could attract other investors to enter Belarus, allowing FDI inflows to shore up the country's balance of payments.

But China is exporting some of its negative practices as well. It is supporting potentially hazardous projects in nuclear power, thermal power, and chemicals production. More importantly, while the West is intensifying its boycott of Minsk – most recently Deutsche Bank and BNP Paribas – Beijing is helping a fellow autocracy off its knees. As President Lukashenka so aptly put it: “We will always remember that our Chinese friends stretched out a helping hand to us in times of crisis.”

Iacob Koch-Weser, contributing writer

(This is the second article of a three-part [series](#))