Russia and Belarus

The prospect of union between Russia and Belarus

Tensions have arisen between Russia and Belarus over changes to Russian oil taxation that will deprive Belarusian President Alexander Lukashenko’s regime of an important Russian subsidy. Requests by Minsk for compensation have been met by demands from Moscow for closer integration, producing speculation that Russia might even be seeking to absorb its closest ally. It has been posited that closer integration might have the ultimate aim of providing Russia’s president, Vladimir Putin, with a way to stay in power after the end of his second consecutive term in 2024. However, the dispute should be understood more within the context of Russia’s progressive attempts over the past 15 years to reduce its subsidies to Belarus’s inefficient economy, and of more recent desires, in light of tensions between Russia and the West, to pull Belarus even more into the Russian orbit.

Slashing subsidies

Russia is changing the way it taxes oil. In order to boost revenue, over the period 2019–24 it will cut the export tax on oil from 30% to zero and raise the tax on oil production. This ‘tax manoeuvre’ stands to be highly costly for Belarus, which had been exempt from the oil-export duty. That exemption allowed it to import Russian oil at below-market prices, either for refining or for directly re-exporting — mainly to the European Union. Belarusian oil and oil-product exports can therefore undercut those of Russia, and moreover have been subsidised by the Russian budget. Moscow’s tax manoeuvre will resolve both of these problems. However, this trade is a vital source of income for Belarus: ‘mineral products’, primarily crude oil and refined oil products, account for around one-quarter of its exports. The Belarusian government has said that the tax manoeuvre will cost it US$300 million in 2019, rising to around US$2 billion in 2024, equivalent to 4% of GDP.

The production tax will increase the price of oil domestically. Moscow will compensate Russian oil refineries through additional tax breaks. Discussions about compensation for Belarus — either through a discount on the price of oil imported from Russia or through a state-to-state transfer — have been ongoing, including in a series of meetings between Putin and Lukashenko, but as yet there does not appear to have been any agreement.

Rather, Russia appears to be using the issue to pressure the Lukashenko regime for closer integration. The Russian prime minister, Dmitry Medvedev, said in mid-December that financial support from Russia would be conditional on Belarus making progress on implementing the 1999 Union State agreement between the two countries and introducing a shared currency, customs service, tax system and supranational court. This would severely curtail Belarus’s independence, as these arrangements would be dominated by Russia.

The Union State idea arose in the late 1990s as an idea to bind the two countries closer together under supranational institutions — a way for Russia’s then-president Boris Yeltsin to placate interests within Russia that were pushing for full unification, and because Lukashenko himself, with Yeltsin weak, saw the possibility of assuming its leadership. Lukashenko’s enthusiasm swiftly faded once the more vigorous Putin succeeded Yeltsin, and the agreement has remained largely theoretical.

After Medvedev’s December ultimatum, Lukashenko claimed that Russia was trying to take over Belarus. The realisation of the Union State concept as currently conceived would not entail full absorption of Belarus into Russia, but it would mean much greater Russian dominance, and it is possible that it could serve as a prelude to a full union, or that Russia could under certain circumstances attempt outright annexation.

It is helpful to understand this dispute within the context of Putin’s long-standing aim of reducing subsidies — typically in the form of supplying oil and gas at well-below-market prices — to aligned states in the post-Soviet space, or making such subsidies conditional on closer integration as with, for example, Armenia’s membership of the Eurasian Economic Union (EEU). Belarus relies on Russia for natural gas as well as oil. Cheap Russian gas is vital for Belarus for its heating, power and its industrial output, such as fertilisers, that is another important source of foreign-currency earnings. Disputes over oil and gas volumes, pricing and what Minsk is willing to concede in return for discounts have become a regular occurrence. Notable examples include 2004, when a dispute over the price paid by Belarus for Russian gas was linked to a bid by Gazprom to take over the Belarusian gas-pipeline system. In 2007, an oil-price dispute led to oil transit to the EU being halted for three days. In 2009, refusal by Minsk to privatise certain industrial firms prompted Russia to ban Belarusian dairy exports in the so-called ‘milk war’. Tensions also escalated markedly in 2016–17. These disputes have typically been resolved by limited Belarusian concessions in return for continued Russian largesse.

Moscow also appears to have been irked by Belarus’s independent foreign-policy stance. Over the past decade, Lukashenko has intermittently pursued better relations with the West in response to difficulties with Russia, in the hope of unlocking alternative sources of funding. Most recently, Lukashenko failed to side with Russia over its actions in Ukraine — unsurprisingly, given the implications for Belarus itself — and did not recognise Russia’s annexation of Crimea. Given Russia’s own tense relations with the West, Putin may wish to pull Belarus further into Russia’s orbit in order to keep it fully aligned with Moscow. Moreover, the EEU, an alternative channel of promoting integration in the post-Soviet space that includes Russia and Belarus alongside Armenia, Kazakhstan and Kyrgyzstan, has been a disappointment from Putin’s perspective — in part precisely because Russia, the dominant member, has not been generous with the terms of membership. This has perhaps prompted Putin to return to the Union State idea for Belarus.

A Putin power-play?

There has also been speculation that a union between Russia and Belarus could be used to keep Putin in power after his second consecutive term as Russia’s president — the constitutional limit — ends in 2024 (he was also previously president for two consecutive terms in 2000–08, followed by a spell as prime minister in 2008–12). In 2024, Putin will be 71 years old. While Yeltsin’s transfer of the presidency to his chosen successor Putin in 2000 offers a precedent, Yeltsin was already ailing. The experience of other authoritarian presidents in the region, notably in Central Asia, suggests that retirement is unlikely to be seen as
an option due to fear of prosecution by successors.

Putin has ruled out changing Russia’s constitution to allow another term as president. There appears to be no appetite to repeat the controversial ‘castling’ manoeuvre with Medvedev when the two switched offices in 2008–12, which achieved its purpose but caused considerable friction within the elite owing to the uncertainty created within the power structure. One option for Putin could therefore be to assume the presidency of the Union State of Russia and Belarus – with the position gaining real powers by making the Union State an effective reality. Moreover, should the Russian economy continue to underperform, undermining Putin’s popularity, the de facto absorption of Belarus could be presented as a major foreign-policy success to crown Putin’s final term as president and ease the transition to a new arrangement.

It is worth noting that other options exist for Putin to remain in power, including becoming chairman of Russia’s state council, an advisory body to the president that could make Putin the power behind the throne to his chosen successor. Moreover, 2024 is still some way off, so consideration of his options is still only tentative. As such, the issue of how to keep Putin in power after 2024 is unlikely to be the driving force behind the current difficulties in relations with Belarus, even if the solution to Putin’s conundrum may potentially emerge as one of the results of a new settlement between the two countries.

Minsk’s limited options
Belarus is in a weak position. Despite some attempts at economic diversification, its economy remains highly reliant on Russia. Beyond its role as Belarus’s main supplier of energy, Russia is the main market for Belarusian-manufactured goods, which account for around 40% of Belarus’s exports. Russia therefore has other potential economic levers it could use to put pressure on Lukashenko.

Belarus’s energy dependence on Russia could be compounded by its new nuclear power plant being built at Astravets, close to the Lithuanian border, funded by Russian loans and using Russian technology, and due to begin operating in December 2019. Belarus had planned to sell the electricity produced to EU countries. Lithuania, however, which strongly opposes the plant owing to the safety risk it poses, has vowed to prevent this, and other EU countries support its stance. Belarus therefore risks being saddled with costly loan repayments to Russia for the plant – around US$1bn annually in 2021–36 – and no market for selling the electricity to fund these repayments except for, primarily, Russia.

Finally, Russian media is widely consumed in Belarus, and there is the potential for a propaganda offensive targeting Lukashenko, as occurred during a previous dispute in 2009–10. That would be a particular risk for Lukashenko if one of Putin’s ambitions were to have the Belarusian leader replaced by someone more pliable before handing over the Russian presidency to a younger successor in 2024.

Lukashenko is threatening to tack towards the West—for example, declaring on 5 March that he would pursue better relations with NATO and the EU—but this gambit has limits. Significant financial assistance from the IMF, other multilateral organisations or the EU will not be forthcoming in the absence of structural economic reforms, but Lukashenko has always resisted these because they would undermine the social contract with the population that underpins his rule: the provision of good living standards and full employment. Similarly, the regime’s resistance to substantive political liberalisation will ultimately limit any political realignment towards the EU.

Hard to swallow

Nevertheless, absorbing Belarus outright would be difficult for Russia. Firstly, it is questionable whether the Belarusian population would support it. Baring for maintaining independence has steadily expanded since 1991. Based on independent opinion polls conducted to 2016, some 50–60% are now in favour of Belarusian independence, compared to around 20–30% who would support unification with Russia. The remainder are either undecided or say that they would abstain from such a vote. Moreover, the Belarusian public generally appears to value good relations with the EU as well as with Russia. According to a 2018 EU-funded opinion poll, trust in the EU in Belarus is the same as trust in the EEU: 47%.

Secondly, Lukashenko and the Belarusian political class will not be easily pushed aside. It is very unlikely they would be willing to trade independence for a downgraded status within an enlarged Russia.

Even though Russian is an official language in Belarus and the country is largely Russian-speaking, unlike in Ukraine there are no areas of the country with a strong concentration of ethnic Russians (who comprise in total just 8% of Belarus’s population). Nor are there issues pertaining to their rights that could be used to destabilise Belarus and open the way for Russia to advance its interests.

Moreover, a concern for the Kremlin would be that despite his perceived flaws, Lukashenko is probably the best guarantor of Belarus remaining within Russia’s orbit. There would be a risk that a successor enjoying popular support could reform the economy, shed Lukashenko’s dictatorial baggage and so make feasible a genuine shift towards the West.

Absorption of Belarus could bring significant political gains for Russia and would not entail major economic costs. Neither, however, would it bring significant economic gains. For absorption to bring fiscal benefits for Moscow compared to the current arrangement, Belarus’s inefficient and subsidy-dependent heavy industries would need to be restructured. But this would be impossible without provoking public discontent. Moreover, the Lukashenko elite is not particularly venal by the standards of former Soviet states. Efficiency gains would therefore be difficult to realise. Indeed, Moscow would probably have to buy the loyalty of the Belarusian population by increasing subsidies. Even the realisation of the Union State concept, rather than full absorption, would likely find Russia having to bail out Belarus if its economy were not reformed, as has been the experience in the euro area, another supranational structure with a single currency.
Papering over the cracks for now
Given this delicate balance, neither side seems to be seeking to force the issue immediately. A working group on deeper integration was established in December, tasked with assessing how far the requirements of the Union State treaty have been fulfilled, but it is not expected to produce any recommendations in the short term.

The latest round of talks between Putin and Lukashenko, held in Sochi on 13–15 February, did not produce a breakthrough. They did, however, result in a more conciliatory tone from Lukashenko, who expressed openness to unification while questioning whether the Belarusian and Russian people were ready for it. At a press conference on 1 March, Lukashenko said further integration with Russia was a ‘must’, but that major issues first needed to be resolved. In any case, he insisted, Russia would not ‘swallow’ Belarus. He suggested that the two countries might adopt a single currency, yet reiterated that deeper integration was dependent on popular support. It appears therefore that the issue is being frozen for now.

Moscow may view next year as a more auspicious time to ramp up pressure on Minsk. Presidential and parliamentary elections are due in Belarus in 2020, and Lukashenko confirmed at the start of March that he will stand again for the presidency. Moscow could make things difficult for him ahead of the vote. The price that Russia will charge Belarus for natural gas that year is yet to be agreed, and the threat of a steep price rise ahead of the election could serve as a useful means of leverage.

Outlook
It seems likely that in order to offset the impact of oil-taxation changes on its economy, Belarus will in the near-to medium-term be required to make concessions to Russia on integration that will further reduce its independence. However, these concessions will be limited and incremental, and are unlikely to go nearly as far as to result in Belarus’s absorption into the Russian Federation or even the full realisation of the Union State concept. Lukashenko and the Belarusian elite will not willingly relinquish power, and the risks for Russia of trying to dislodge them would seem to outweigh the rewards.

The current disagreement may well remain frozen until at least 2020, when Belarus’s presidential election could offer Russia a favourable opportunity to increase pressure on Lukashenko. Further ahead, Russia is likely to continue to seek to narrow Belarus’s room for manoeuvre. This gradual squeeze would likely tighten ahead of 2024, if the creation of a role with effective powers at the head of the Union State did indeed prove to be Putin’s favoured option. The eventual succession to Lukashenko may also prove to be an opportune moment for Moscow to look to exploit its economic leverage over Minsk in order to further anchor Belarus in Russia’s orbit and deny future Belarusian leaders the prospect of alignment with Europe.