

# Belarus and Russia spar over crude oil cutoff

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MOSCOW: Supplies of Russian crude oil headed to European markets via Belarus came to a halt late Sunday, officials said Monday, in the latest manifestation of rapid deterioration in relations between Russia and Belarus.

The head of Russia's oil pipeline monopoly accused Belarus of illegally siphoning off oil, beginning Saturday, during an escalating dispute over duties and transit fees. The Foreign Ministry in Belarus acknowledged the halt but denied responsibility, suggesting that the Russians had caused the stoppage at their common border.

Regardless of the cause, the disruption along the Druzhba, or Friendship, pipeline affected supplies of crude oil headed to Poland, Germany and Ukraine. In the short term, at least, the halt should have a minimal effect, since refineries in both countries maintain reserves. But a prolonged disruption could be worrisome. Oil prices initially rose on the news, then slipped late Monday. Still, the dispute rekindled concerns in Europe about the reliability of energy supplies from Russia.

Thirty percent of the oil imported by the European Union is from Russia, and half of that runs through Belarus, according to Derek Brower at Petroleum Economist.

Piotr Naimski, Poland's deputy economics minister who is responsible for energy security, said scheduled deliveries to Poland were halted Monday morning. "This shows once again that arguments among various countries of the former Soviet Union between suppliers and transit countries mean that these deliveries are unreliable from our perspective."

The shutdown of Druzhba, one of the world's largest oil pipelines, came a week after Russia and Belarus negotiated a last-minute agreement on supplies of natural gas to Belarus. The deal came after brinkmanship by both sides that raised the specter of disruptions of natural gas across Europe, like one that followed a dispute between Ukraine and Russia in early 2006.

Belarus, led by an autocratic president, Aleksandr Lukashenko, has reacted furiously to the terms of that deal and to Russia's tactics in the talks that led to it. Lukashenko, often called the last dictator in Europe, last week called Russia's conduct shameless.

Russia has responded by saying that it is raising the cost of oil and natural gas to market prices. Belarus and other former republics of the Soviet Union had long bought oil and gas at a discount, compared with European customers.

"Belarus has cast prudence to the wind," Andrei Sharonov, a deputy economic development minister, said during remarks on the radio station Ekho Moskvyy, referring to what he, too, called the illegal siphoning of oil. "This looks like a trade war." He later said that Russia would suspend all oil shipments via Belarus, blaming it for the initial disruptions. His remarks suggested the disruption could last indefinitely.

For the past decade, Russia and Belarus, two countries bound by history and deep ethnic, cultural and social ties, have moved haltingly toward the creation of a union, with shared borders, a common currency and even ultimately a single unified state, as negotiated in a 1996 treaty between Lukashenko and Boris Yeltsin, then president of Russia.

The union has never come to fruition under President Vladimir Putin, who succeeded Yeltsin. In the past month, the two countries have appeared instead to be negotiating the terms of their divorce, which, like most, is becoming nasty.

Beginning New Year's Day, Russia began charging Belarus \$100 per thousand cubic meters, or 35,000 cubic feet, of natural gas, more than double the \$46 it charged last year. The price is scheduled to increase steadily to the level charged in Europe — now \$265 on average — by 2011.

As those negotiations dragged on bitterly, Russia also imposed a separate new duty of \$180 a ton on oil it sold to Belarus, until now at steeply subsidized prices. Lukashenko's government responded to the oil duty last week by announcing a \$45 a ton fee on shipping oil across Belarus on its way to Europe. These are the fees at the heart of the dispute that has shut down the pipeline.

Sharonov, during his radio interview, said the Belarus began seizing the oil as payment for the transit fee.

The head of Russia's pipeline monopoly, Semyon Vainshtok, said that Belarus had siphoned 79,900 metric tons of oil since Saturday "without warning anyone." He added, "Transit is a sacred cow," vowing to use other means of transport to supply customers in Europe.

On Sunday, prosecutors in Belarus filed suit against Vainshtok, accusing him of violating customs duties by not paying the new transit fee. A hearing on Monday, however, was canceled.

In Belarus, there were conflicting reports about what unfolded. While the Foreign Ministry denied responsibility, an official from the Druzhba pipeline operator there told Russian news agencies that operations were halted on orders from Belneftkhim, that country's pipeline monopoly. Neither the ministry nor the companies would elaborate.

Belarus has used its low-cost supplies of oil and gas to shore up a Soviet-style economy and earn hard currency, in the case of oil, by refining and exporting it. For Lukashenko's government, the changing economics could weaken his iron control on the country.

"The Belarussian people may not realize the extent to which they have been propped up by Russian energy, the extent to which the Belarussian miracle that Lukashenko talks about was built on legs of clay," Rory MacFarquhar, an economist with Goldman Sachs in Moscow, said.

The impact in Belarus, where news is tightly controlled by the state, remains uncertain.

Pavel Daneyko, director of the Institute for Privatization and Management, a business consultancy in Minsk, Belarus, said that Lukashenko's government now faced two difficult options: an opening of the country's economy, or a populist propaganda war against Russia.

"If there is a clear war with Russia," he said by telephone, "then the society may be able to weather the situation."