



The Evolving situation between Russia, Belarus and Azerbaijan

Posted by [Heading Out](#) on January 9, 2007 - 12:00pm

Topic: [Supply/Production](#)

Tags: [azerbaijan](#), [belarus](#), [druzhp](#), [germany](#), [oil pipeline](#), [poland](#), [russia](#) [[list all tags](#)]

It hardly seems any time at all since we heard that [Belarus and Russia had signed an agreement](#) that had set the price per thousand cu meters at \$100, Gazprom was going to use part of the money, over time, to purchase a 50% share in the Belarus pipeline company, and another crisis had been averted.

Except that the story dealt only with natural gas, and there is a second fuel, oil, that also makes its way from Russia, through Belarus, to places like Germany and Poland. It carries about 20% of the total supply. (The photo on [Robert Amsterdam's site](#) shows you how large the diameter of the Druzhp pipe is, large enough, he notes, to carry 1.2 mbd of oil to Germany and Poland. It is thus one of the [highest capacity pipelines in the world](#). And on Monday Russia turned that tap off. For much the same reasons as, last year, they closed the tap on the natural gas pipeline feeding through Ukraine. Large volumes of the fuel headed west were being siphoned off. It is not, in fact, the Russian government that is directly involved in this dispute, at least superficially and at this point, but rather the Russian oil pipeline company Transneft. Their story is that, as with Ukraine, Belarus did not want to pay the new duty on the oil, that [Russia was now demanding](#).

Last month, Russia imposed an export duty of \$180 per ton of oil sold to Belarus, a severe blow to the country's reprocessing industry and government revenue. Belarus responded by imposing an import duty of \$45 per ton of Russian oil that crossed its territory.

UPDATE: When I said that most countries had reserves that would get them through the crisis I forgot to look at Belarus, and they apparently only have a week's worth. And the second point is that without customers for their oil, Russia might have to cut back production by up to 1 mbd, since it will run out of places to store the oil, and has only a very limited means of alternate shipping (which includes a lot of railcars.)

UPDATE 2 It now appears that Russia [refused to meet](#) with the Belarus delegation today.

However, a quick resolution to the dispute seemed distant after the Russian government refused to meet a Belarussian delegation that arrived in Moscow on Tuesday.

Andrei Kabyakov, the Belarussian deputy prime minister, flew there for talks with his Russian counterpart but failed to start negotiations.

"The Russian side told us... they are not yet ready for talks," Vladimir Naidunov, Belarus's first

The same source also mentions that President Putin has warned Russian oil companies to consider cutting production.

Belarus had been taking the cheaper Russian oil and refining it, and then selling it on at a considerable profit. This provided a subsidy to the nation that Russia has apparently got tired of paying. However, with legitimate supplies to the country turned off, but with oil passing through the Druzhba line on its way west, [Belarus apparently felt that they had to act](#) to keep their refineries operating.

"On 6 January the Belarussian side without any warning unilaterally started the illegal tapping of oil from the Druzhba pipeline designed solely for the transportation of oil to consumers in western Europe," said Semyon Vainshtok, president of Transneft.

"Nine hundred tonnes of oil have been illegally tapped from the pipeline in the last 24 hours alone ... and a total of 79,000 tonnes since 6 January."

According to the Russian deputy Trade and Economic Development minister, Mr Sharanov, Belarus had seized the oil to cover the \$45 a ton transit fees. The stoppage has cut the flow of oil to countries such as [Poland](#) which gets around 92,000 bd through the pipe, and another 24,000 bd delivered by tanker. It has also closed supplies, which flow through [the Southern branch](#) to [Hungary](#), Slovakia and the Czech Republic. It is not, however, completely clear that [who shut the line](#) since Rigzone quotes the Belarus pipeline spokesman thus

There was no information available from Polish or Belarusian pipeline authorities as to when supplies would be resumed.

The Belarusian government would at minimum keep the oil tap turned off until talks start between Sidorskiy and the Kremlin, a Belgaztrans official told Deutsche Presse-Agentur dpa.

The unfolding events show the clear benefits of having some form of a strategic reserve of fuel. And in this case it appears that all the countries affected have got sufficient oil set aside that it will not be [a serious problem for a while](#).

The German government confirmed that the pipeline, which supplied two refineries in Germany, had been shut down. Andris Piebalgs, the EU's energy commissioner, said he was seeking an "urgent and detailed explanation" of the cuts from authorities in Belarus and Russia. Ferran Tarradellas Espuny, the Commissioner's spokesman, added that Poland had 70 days of reserves and Germany 130 days to ensure no short-term fallout from the dispute.

However the talks, that appear to be beginning in Moscow < a href=<http://www.timesonline.co.uk/article/0,,2-2537540,00.html>> about the crisis may not be resolved that quickly

A government delegation from Belarus flew to Moscow last night to try to negotiate a settlement. But Mr Sharonov said that there would be no talks until Minsk cancelled its tax. Europe should expect to see the natural resources giant use the same ploy in the future to extract market prices for oil and gas out of former Soviet states, experts said.

And if this were not enough of a problem to raise questions on Russian reliability, in the face of relations with its neighbors, [Azerbaijan](#) has just shut off the supply of oil to Russia, following the doubling of gas prices from Russia to Azerbaijan.

Azerbaijan, which has its own substantial gas and oil reserves, imported about 4.5 billion cubic meters of natural gas from Russia in 2006 to cover domestic consumption. But the country refused to meet Russia's demand that it pay US\$235 (€180) per 1,000 cubic meters of gas – up from US\$110 (€84.50).

Last year, SOCAR exported 1.172 million tons of oil via the Russian-controlled pipeline running from Baku to the Russian Black Sea port of Novorossiisk.

An international consortium led by BP PLC that is developing offshore oil fields in Azerbaijan will continue to use the Baku-Novorossiisk pipeline in addition to a new U.S.-backed pipeline running from Azerbaijan to Ceyhan, Turkey, known as the BTC.

In a related development, the government sharply raised the domestic prices Monday for gas at the pump, electricity, water and natural gas for industrial use.

However, given the developing situation the Baku-Novorossiisk may not be [running as full](#) since one of the producers has recognized that Azerbaijan power stations are switching to oil, and thus will need the oil, they have cut off exports, until at least April, when they anticipate supplies from the Shakh Deniz field. The other oil producer the Azerbaijan International Operating Company (AIOC), will continue to supply around 70,000 bd to the pipeline.

Well the Chinese wanted to secure their imports of oil by ensuring that a large portion come by land and thus be safe from the threat of naval interdiction. I am not sure that the current goings on will give them any great confidence in that option either.



This work is licensed under a [Creative Commons Attribution-Share Alike 3.0 United States License](#).