

The end of prosperity: The state of Belarusian refineries

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The sanctions imposed by the West after 2020, along with the involvement of Alyaksandr Lukashenka's regime in the invasion of Ukraine, have severely impacted Belarus's petrochemical sector. The EU's embargo on the import of petroleum products, enforced since June 2021, has effectively cut off Belarusian exporters from profitable Western markets. Furthermore, sales to Ukraine, one of the country's key markets, have also been halted due to the ongoing war.

The Belarusian oil sector, once a significant source of profit, has recently been compelled to reorganise its supply logistics and redirect its exports. Following a challenging year in 2022, Belarus's two refineries, with support from Moscow, managed to partially recover their losses by capitalising on favourable price trends in the Russian fuel market. However, this industry, along with other sectors of the economy, has become entirely dependent on cooperation with Russia. While the refineries have adapted to the new circumstances, they were still forced to reduce oil processing by approximately one-third, which has negatively impacted their profitability and, consequently, diminished their importance within the national economy.

Petrochemical industry as an economic pillar

The oil industry, centred around two refineries in Navapolatsk and Mazyr, both constructed during the Soviet era, has long been considered one of Belarus's so-called strategic sectors, underpinning the country's financial stability since it regained independence. Consequently, the regime has consistently maintained control over these two refineries, managing them as part of the state-owned Belneftekhim corporation. Due to the scarcity of domestic resources – with annual oil production in the country fluctuating between 1.6 and 1.9 million tonnes – the sector has relied heavily on imported raw materials, primarily Russian Urals crude oil.

The preferential terms for oil supplies from the Russian Federation – such as the exemption of Belarusian recipients from paying export duties – enabled the Belarusian refineries to remain competitive in international markets for many years, both in terms of price and quality of petroleum products. These favourable conditions facilitated the gradual improvement in product quality through long-term modernisation programmes implemented at both facilities.



Until 2020, approximately 90% of Belarusian petroleum products were exported to the Netherlands and the United Kingdom, where they were purchased by international buyers on the exchanges in Rotterdam and London, while Ukraine also served as a key export market. The two refineries, with a combined processing capacity of approximately 20 million tonnes of oil per year, generated foreign sales of 10–17 million tonnes of fuel between 2010 and 2020, resulting in revenues ranging from over \$5 billion to \$14 billion. This represented 15–34% of Belarus’s export revenues during that period.¹ Additionally, the sector accounted for an average of 30–35% of industrial production and about 25% of budget revenues.²

Since July 2021, the Belarusian State Statistical Committee has classified data on trade operations, making it challenging to accurately

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assess the state of the oil industry. However, available information suggests that sales of petroleum products in 2021, estimated at approximately 9 million tonnes,³ remained one of the primary sources of export revenue. That year, total export revenues reached \$39.9 billion, representing an increase of nearly 37% compared to the previous year. Sales of fuel to Ukraine alone generated \$2.35 billion. At the same time, Western sanctions were already beginning to marginalise Belarus’s presence in EU markets – with Belarusian oil sector exports to the EU in 2021 amounting to only about \$240 million.

Difficult adaptation

The deterioration in relations with the West triggered by the repression of opposition forces after the 2020 presidential elections in Belarus, coupled with the resulting sanctions, placed the country’s refineries in a challenging position. In response to criticism and sanctions from Lithuania and Latvia, the Belarusian government decided to reorient fuel transshipments from the ports in these countries, which had traditionally served as the main export routes, to Russian ports. This shift was formalised under a bilateral intergovernmental agreement in February 2021. Consequently, over 2 million tonnes of Belarusian fuel were shipped through Russian ports in 2021, with more than 3 million tonnes following in the subsequent year.

However, the most significant blow to the petrochemical industry came with the full embargo on fuel imposed by the EU in June 2021, which was later supported by non-EU Western countries. As a result of this ban, Belarus lost access to the lucrative EU and UK markets.⁴ Additionally, the full implementation of these sanctions, delayed in most cases until the end of 2021, coincided with the Russian invasion of Ukraine, in which Belarus was complicit. For Belarusian fuel producers, this led to a complete blockade of sales to the Ukrainian market, their last remaining profitable export route.

New reality, new challenges

In 2022, the Belarusian petrochemical industry had to completely reorient its foreign sales markets, which included reorganising supply logistics. The only feasible option for Minsk was to deepen its cooperation with Russia, which from that point forward became not only the supplier of crude oil

¹ 2020 was an exception, as production dropped that year due to a dispute over supply conditions with Russia. This, combined with the downturn in prices due to the pandemic, reduced fuel export revenue to just \$2.7 billion. See A. Автушко-Сикорский, ‘Энергетический сектор: от ресурсного государства-рантье к государству-потребителю’, *Белорусский Ежегодник 2021*, nmn.media.

² K. Kłysiński, W. Konończuk, ‘An inexhaustible source of income? The significance of Belarusian refineries and the outlook for the future’, *OSW Commentary*, no. 81, 19 June 2012, osw.waw.pl; A. Автушко-Сикорский, ‘Энергетический сектор: резкое сокращение энергоносителей’, *Белорусский Ежегодник 2016*, nmn.media.

³ ‘Экспресс-анализ. Возвращение нефтяной ренты’, BEROС, March 2023, beroc.org.

⁴ P. Żochowski, ‘Painful EU sectoral sanctions against Belarus’, *OSW*, 25 June 2021, osw.waw.pl.

but also, effectively, the sole transit partner and, to some extent, the final recipient. Consequently, both the value and volume of goods transported via Russia have been steadily increasing. According to the latest data from the first quarter of 2024, petroleum products accounted for nearly 33% of the 4.6 million tonnes of Belarusian cargo transported during that period, with the majority directed to ports in northwestern Russia, particularly in the Leningrad Oblast.⁵

Furthermore, some fuel exports have been redirected to the Russian market, as evidenced by the incomplete data from the Belneftekhim corporation, which increased its sales to Russia by 55% in 2022, reaching \$1.1 billion, with a portion of that amount attributed to petroleum products. Despite this shift, Belarusian refineries in 2022 were forced to reduce their processing capacity to just 12 million tonnes, a decrease of about 30% compared to the previous two years, falling significantly short of their full potential. Consequently, exports also contracted by approximately 30%, totalling no more than 5.6 million tonnes.

At the same time economists from the independent Belarusian research centre BEROС estimate that, in 2022–2023, Belarusian fuel producers benefited from low prices for Russian crude, yielding an additional profit of \$3.6 billion compared to previous years. Of that, \$1.9 billion was generated in 2023, representing 2.6% of the country's GDP. As a result, the oil sector recovered to some extent from the downturn caused by the loss of key external markets and the increased costs of transporting goods to more distant Russian ports, as opposed to the closer Lithuanian and Latvian ports. Moreover, BEROС estimates suggest that approximately 16 million tonnes of oil were processed at the two refineries in 2023, with 14 million tonnes sourced from Russia and the remainder from domestic production. Of this, up to 9 million tonnes were allocated for export, marking an increase in processing by 4 million tonnes year-on-year. This indicates at least a partial return to pre-2020 levels, when processing consistently exceeded 18 million tonnes annually.⁶

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The positive trend in the fuel sector significantly contributed to Belarus's GDP growth of 3.9% in 2023, following a recession in the previous year (-4.7%). However, uncertainty remains as to whether the current levels of refinery production will be sustained. Pricing trends in the Russian oil market indicate a potential reduction in Belarusian profits by \$0.5–1 billion. Demand in Russia for Belarusian fuels, which had historically been unstable and modest, surged when domestic production dropped following Ukrainian air strikes on Russian refineries in early 2024. Even so, it did not exceed a few thousand tonnes per month (for comparison, in 2023, Russia imported only 45,000 tonnes of petrol from Belarus). One contributing factor to this limited demand is the preference for domestic Russian fuel producers, who lobby against imports of petroleum products in order to maintain their privileged position in the domestic market. It is also worth noting that the temporary shortages primarily affected specific products, such as high-octane petrol, which is relatively low in demand.

During 2022–2023, both Belarusian refineries completed their long-term modernisation programmes, likely facilitated by favourable raw material prices. In Mazyr, a project was implemented for the installation and deployment of H-Oil technology, which involves the hydrocracking of oil residues. This is expected to increase the depth of oil processing from 74% to 90%. Meanwhile, at Naftan, infrastructure work on coking was completed, which will boost fuel production and enhance processing

⁵ 'Экспорт белорусских нефтепродуктов в третьи страны через РФ в 2022 году составил более 3 млн тонн', *Белта*, 19 December 2022, belta.by.

⁶ 'Экспресс-анализ. Возвращение нефтяной ренты. Часть 2', BEROС, March 2024, beroc.org.

efficiency to 92–93%. Additionally, the introduction of these new technologies, will result in the annual production of 400,000 tonnes of petroleum coke, which is used, for instance, in metallurgy.

According to estimates, the combined processing capacity of both refineries should now reach 24 million tonnes, an increase of 4 million tonnes following modernisation. However, statements from industry representatives suggest that fully utilising the refineries' potential will be impossible under the current sanctions regime and due to the loss of access to the Ukrainian market. Available data indicates that processing levels have not exceeded 70% of capacity over the past three years.

Belarus recognises the limited demand for its fuels both within Russia and in third countries, which are difficult to identify due to the lack of available data. High logistics costs further exacerbate the situation. Therefore, both refineries have initiated efforts to diversify into the production of chemicals used in domestic and foreign industries, such as propylene, polypropylene, benzene, and polycarbonate.⁷

The Belarusian fuel sector is grappling with profitability, as indirectly evidenced by the financial results of companies in the Mazyr region and the city of Navapolatsk during the first two months of 2024. In both areas, the refineries are the largest taxpayers. The losses in public finances – approximately \$0.9 million and \$0.5 million, respectively – were almost certainly driven primarily by these refineries.⁸

Conclusion

Incomplete statistical data indicate that the refineries in Navapolatsk and Mazyr managed to endure the difficult year of 2022, when the Western embargo took effect and the war severed access to the Ukrainian market. Likely due to substantial support from Russia, the oil sector recovered some of its losses in 2023 by reorganising supply logistics and redirecting exports. As a result, the petrochemical industry is now entirely dependent on cooperation with Russia and subject to its preferences, mirroring Belarus's broader situation of isolation from the West since 2020. However, it is important to recognise that, despite favourable relations, Moscow is unable to fulfil all of Minsk's expectations, partly due to the limited capacity of Russian railways, much of which is committed to logistical support for the armed forces fighting in Ukraine.

Belarusian refineries have adapted to the sanctions regime and, according to available information, have managed to avoid mass layoffs, although there have been periods of reduced wages. However, they continue to face significant challenges, including decreased production, rising transport costs, loss of access to certain profitable markets, limited demand for fuels, and the need for further modernisation to diversify their product range. These factors have rendered the refineries unprofitable and heavily reliant on volatile Russian oil prices as well as the availability of Russian transport and port infrastructure. As a result, the national oil sector is struggling to survive, and it is unlikely to return to the level of prosperity it enjoyed prior to 2020 in the foreseeable future.

⁷ П. Алексеева, 'Санкции развернули топливный профиль белорусских НПЗ в сторону нефтехимии', *Наше Мнение*, 23 February 2024, nmn.media.

⁸ 'НПЗ в Беларуси несут огромные убытки', *Медиаектор*, 30 April 2024, mediavektor.org.