

The Main Economic Problems of the Energy Sector of the Republic of Belarus

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Belarus is a country with a stable and rapidly growing economy. From 2000–2012, the gross domestic product (GDP) grew at an average annual rate of 7%. Factors associated with economic growth include the government's focus on policies regarding social and economic development, external market conditions, which are favourable for export, growing domestic demand and productivity of labour. The energy sector plays a key role in the development of the national economy. The goal of Belarus' energy policy is to ensure a sustainable energy supply for consumers through improving the energy security of the country, maximising the efficient use of fuel and energy resources and the potential of the fuel and energy complex and reducing the dependence on energy resources imports in parallel with using the benefits of Belarus' geopolitical position as a transit country for energy trade between Russia and the European Union.

One of the problems which appeared due to the strict government regulation of the electricity sector is so-called "cross-subsidization". Nowadays the mechanism of energy prices does not fulfill its stabilizing function and this causes significant damage to the economy of the country.

The current energy policy has two major disadvantages: first, the need to sell electricity at rates with preferences leads to an additional economic burden on the state energy companies. Second, the policy of selling electricity at low prices stimulates excessive consumption and does not provide sufficient preconditions for energy conservation.

In order to avoid these disadvantages it is appropriate to fund the given preferences by the entire society, not the state energy companies, as this kind of help is the obligation of society.

Belarusian authorities generally understand the complexity of the situation and try to solve it.

The recent goal for the next five years stated by the Belarusian authorities is to route about €3.4 billion of investment in the energy sector. This includes €1.8 billion for the modernization of the existing power plants, €1 billion - for energy saving measures and about €0.6 billion for increasing the share of local fuels in the energy mix. The main disadvantage of the program is that it is focused on the provision of the energy-intensive economy by the electricity and heat. It should be underlined that considerable work has been done in this direction: in the past 9 years energy consumption in Belarus decreased by 40% and the gross domestic product (GDP) grew by 65%. The fuel balance structure also changed a lot. In particular, the consumption of coal today is four times lower, of fuel - 3 times lower, while the share of gas increased to 65% . At the same time in order to produce one dollar of GDP 4-5 times more energy is consumed than in Western countries. Belarus consumes approximately 2 times gas and electricity per person more than the European average.

Nowadays one of the most important issues in this direction is motivating households to save energy, which implicates the reform of the household sector. Today the households consume about 20% of all electricity and 60% of heat produced in Belarus.

Over the past year in addressing these issues has been done serious work. On 1 February 2013 the population of the Republic of Belarus pays the electricity consumed by a three-stage system based on the amount of electric energy consumption during the month. This decision was confirmed by the Council of Ministers of №63 from January 26, 2013. It is expected that this system of payment in the long term will lead to significant savings in residential electricity.

Having created an effective motivating system, state can attract inward investment into energy saving equipment and technologies that will be more beneficial for Belarus than complicated way to new energy sources.

In 2013 electricity tariffs for households were increased five times: in January, February, June, August and September. Single rate for electricity in houses equipped with electric stoves, during the year increased by 91% to €0.037 per 1 kWh. The tariff for houses not equipped with electric stoves is now stands at €0.044 per 1 kWh (increased during the year by 91%).

According to the Ministry of Finance, the profit of RUE "Minskenergo" in 2012 amounted to €2.2 million, RUE "Vitebskenergo" – to €24.8 million, RUE "Gomelenergo" - €10.5 million, RUE "Grodnoenergo" - €7.1 million, RUE "Mogilevenergo" - €2.6 million.

The increase in tariffs for electricity for households at the beginning of this year allowed the state energy companies to obtain additional profit. However, its size cannot cover the entire debt for natural gas that has accumulated on the results of the recent years. The satisfactory financial results of the state energy companies in the year 2012 first of all provided the possibility for the state energy companies to cover the shortfall that formed in 2011 from insufficient level of tariffs that did not compensate the costs. However, the state energy companies in 2013 are still in debt for natural gas that was set in 2011-2012.

Despite a significant increase in tariffs, the cost of electricity for households in 2010 - 2013 decreased from €4.1 to €2.7 cents per 1 kWh (1.5 times). What is one of the reasons for the deficit. In order to cover the losses from cross-subsidizing the state energy companies require additional funding. It should be noted that the cost of electricity for industrial users in 2006 – 2013 increased almost 2 times (from €5.2 to €10.3 cents per 1 kWh).