Belarus

The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries, eight partner economies (Argentina, Brazil, the People’s Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa) and EU Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine).

Energy resources and market structure

Belarus is a net energy importer where domestic sources covered only 15% of its Total Primary Energy Supply (TPES) needs. The country relies heavily on imported natural gas and oil for power production (97 % gas-fired generation as of 2017) and its export-oriented refining and petrochemical industry, which exported about 13 mtoe of oil products in 2017 and is an important source of hard currency for the country.

Energy security is a major issue for Belarus and several state policies aim to increase the use of domestic fuels over imported ones, particularly those of peat and biomass, and stimulate energy conservation.

The Belarus energy sector is dominated by the state-owned companies, which are subordinated to the Ministry of Energy and the Council of Ministers. In particular, gas distribution and retail market of hard fuels and LPG are controlled by Beltopgaz while BelEnergo, a vertically-integrated company, dominates the electricity and heat sector. The petrochemical sector is controlled by Belneftekhim, a state monopoly. Belarus does not have an independent energy regulator. The Ministry of Economy is responsible for the sector regulation and tariff setting for industrial and for non-residential consumers of electricity and heat energy, while the Council of Ministers approves tariffs for households.

Prices and taxes

Energy pricing in Belarus is characterised by a complex system of cross-subsidisation, which is described in detail in the OECD (2018)¹ report. The Ministry of Economy approves the so-called “base prices” (cost reflective tariffs), which reflect all production and distribution costs, social contributions and taxes, etc. However, tariffs for certain categories of consumers, particularly households, are established at a level lower than “base prices”. In this case, the deficit is compensated (cross-subsidised) by higher tariffs for other consumer groups, particularly, industrial.

Heating tariffs for households are differentiated depending on the season of the year. Electricity tariffs for households are highly differentiated depending on the time of the day, use of electric stoves, use of electric heating and hot water boilers. Current tariffs are published at the web portal www.tarify.by.

The Belarusian State Concern for Oil and Chemistry BelNeftekhim is responsible for the regulation of prices on petroleum products by setting maximum wholesale and retail prices.

Key baseline taxes include VAT (20%), profit tax, property tax and land tax while small and medium-sized enterprises (SMEs) are subject to a single tax simplified taxation regime. A standard 20% VAT is applied to most goods and services. Prior to 2016, utility tariffs were exempt from VAT. Excise tax is applied on sales of liquefied petroleum gas (LPG), compressed natural gas (CNG), petroleum products and diesel. Environmental tax is levied on emissions, sewage discharge and waste disposal. A lowering 0.27 coefficient is applied to environmental tax rates on emissions generated in the process of fossil fuel combustion by power plants providing electricity and heat for households and social services institutions (healthcare, tourism and sports, education and culture). Extraction tax applies to the extraction of a wide range of natural resources including oil and gas condensate, shale oil, peat and brown coal (no natural gas production in Belarus at present).

Total support for fossil fuels in Belarus by support indicator (left) and fuel type (right)

![Graph showing total support for fossil fuels in Belarus](image)

Note: CSE=Consumer Support Estimate; PSE=Producer Support Estimate; GSSE=General Services Support Estimate.

*The above charts are based on an arithmetic sum of the individual support measures identified in the inventory. Because they focus on budgetary costs and revenue foregone, the estimates for partner economies do not reflect the totality of support provided by means of artificially lower domestic prices. Particular caution should therefore be exercised when comparing these estimates to those reported by the IEA for these countries. Data prior to 2016 was originally expressed in the second Belarusian ruble (BYR) but converted to the third Belarusian ruble (BYN) at a rate of BYN 1 = BYR 10 000. Data for 2019 are provisional.

Recent developments and trends in support

An OECD (2018) study on energy subsidies in Eastern Partnerships covered various types of support to fossil fuel consumers and producers. It demonstrated that in the case of Belarus, the largest subsidies are provided in the form of induced transfers, i.e., regulated heat, electricity and natural gas tariffs for households. An indirect estimate of these measures showed that the total value of supports provided in 2014 ended up to around BYR 14 303 bln.

As the scope of this Inventory is limited to budget transfers and tax revenue foregone, only five producer support measures and four consumer support measures were identified. Although the Budget Code of Belarus envisions provisions for various forms of state support, limited information is available in the public domain. Reports on budget execution provide information on executed government spending at a very high level. In particular, estimates on largest consumer subsidies such as budget transfers to compensate costs of utility providers and housing subsidies for low-income households is not available. Over the last five years, largest tax expenditure, VAT exemption for utility tariffs for households, was terminated. In 2014, it amounted to BYR 2 038 bln. Currently, six measures are ongoing.
### Examples of measures

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<th>Development of power grid and gas supply networks in rural areas</th>
<th>A state programme on the development of power and gas supply networks in rural areas was introduced in 2016. The programme aims to improve the accessibility of electricity and gas supply in villages. According to the Ministry of Energy of the Republic of Belarus (2019), around BYR 20 mln was allocated from the state budget for the construction (reconstruction) of 526 km of the power grid (0.4-10 kV) in 2018. In the same year, around BYR 8 mln was used for the construction of 135 km of gas supply pipelines in rural areas.</th>
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<td>VAT exemption for utility tariffs for households</td>
<td>According to Article 93 of the 2015 version of the Tax Code, the costs of energy resources supplied to households were not included in the VAT tax base. That meant that effectively, tariffs for households were kept at 20% below what they would have been without the VAT exemption. This tax exemption was phased out and the 20% VAT was included in utility tariffs starting on 1 January 2016.</td>
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