

# Belarusian Privatisation and the Future of BelarusKali

On 22 June Belarusian president asked PM Mikhail Miasnikovich to tackle inflation and ensure that the country's average salary would reach \$500 by the end of the year. In fact, it is not the right time to share oil revenues with the population when authorities badly need free money to repay their foreign debt and modernise the economy.

The Belarusian leadership understands that reforms are inevitable, but they fear to change radically the existing system of power and redistribution in hopes of maintaining the status quo with the help of Russian subsidies. But the more loans are taken and reforms protracted, the more money will be needed to change direction and get on the right track. Russian businessmen are waiting with impatience for Lukashenka to announce that socialism is over and the sale of state property is open.

## Prerequisites for Privatization

Authorities managed to overcome the consequences of a large-scale crisis that started last spring. In particular, the first quarter saw a trade surplus of \$700m. This indicator became positive for the first time in many years, though this happened only [due to Russian oil and gas discounts](#). Moreover, the National Bank accumulated \$7.975bn in gold-exchange reserves by 1 May – enough to pay the country's import expenses over 50 days. And the inflation rate is going down.

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to fulfil populist promises to increase the average salary throughout the country to \$500 (in contrast to nearly \$250 in January), rather than to continue on with a program of tough fiscal discipline. Thus he made the same mistake as he did before the presidential election in 2010. The economy has not yet demonstrated any breakthrough to justify such a raise in salaries. On the contrary, the production of machinery and electrical equipment fell by more than 12% and stockpiles of goods are rising. It clearly shows that foreign consumers have become less interested in Belarusian products.

Thus Belarus is becoming increasingly dependent on Mr. Putin's whim. If he wants, the oil discount season may come to an end very soon. And what does he want? He would like to help his friends from Russian business acquire Belarusian enterprises. Terms of the Russian-sponsored \$3bn EurAsEc loan entailed the privatisation of \$7.5bn of Belarusian state assets over the next 3 years.

### **The Last Klondike of State Property in Eastern Europe**

The officials in Minsk are making attempts to resist the pressure. On 2 May the vice-PM Siarhei Rumas denied the very existence of list of enterprises intended for privatisation. But everybody knows that privatisation is inevitable because Belarus does not possess any other significant sources of revenue. The IMF may possibly know it even better as it waits for [repayment of \\$3.8bn of Belarusian debt](#) over 2012-2014.

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Today Belarus is the only Eastern European country that has not yet implemented large-scale privatisation. The state owns about 70% of all industries, including metallurgy, oil refining, chemicals manufacturing and many others. As European countries [impose sanctions](#) on Belarusian companies, Russian

businessmen are waiting with impatience to gain economic control over the country in the centre of Europe. In May the wealthiest Belarusian businessman Vadimir Peftiev sold his enterprise Beltekhexport that came under EU sanctions to a Russian businessman Dmitry Gurinovich.

If the EU's aim is to assist Russian businessman in acquiring Belarusian state assets, sanctions are probably the best option. Now the biggest Belarusian company Belkali agrees to establish a new potash trader SoyuzKali in Switzerland instead of the existing Belarusian Potash Company that is accounting for 43% of the global market. Who is its partner? It is the largest Russian potash producer, Uralkali, whose management thinks that Switzerland is better than Belarus because of lower "political risks".

### **So, Minsk or Switzerland?**

At the beginning of the deal, Belarus expressed the wish to expand activities of the Belarusian Potash Company, but leave the enterprise on its territory. For example, deputy foreign minister Alexander Gurianov stated on 14 June that "Minsk will preserve important coordinating functions". However, vice-PM Vladimir Semashka said a week later that the Belarusian Potash Company would remain only "for some time with some functions".

The new trading company SoyuzKali will be created on a parity basis, with each potash producer owning 50% of the shares. But some observers think that Uralkali's leadership will lobby the Kremlin to approve a structure which would allow it to obtain partial control over BelarusKali without purchasing it.

Though some experts suggest that having a headquarters in Switzerland may help avoid EU and US economic sanctions, it is hardly possible, because the involvement of the Belarusian government in this project is evident. It is rather the intention to benefit from access to funds at reduced interest rates based on the company's efficiency and not on the low

credit ratings of Belarus and Russia.

### **Possible Privatisation of BelarusKali**

BelarusKali, one of the world's largest potash producers, is a valuable asset and several countries stand in a queue for its shares. According to Indian newspaper Business Standard, the Indian government set the purchasing of a part of BelarusKali as one of the priorities of its foreign economic policy. The Kazakh ambassador to Minsk Ergali Bulegenov dropped a hint during his interview to Belarusian TV that Kazakhstan might acquire 25% of BelarusKali shares.

China could also be interested in such a deal given that it buys prominent amount of BelarusKali's fertilisers and is on good terms with the Belarusian authorities. And there is, of course, Russia and Suleyman Kerimov for whom the acquisition of BelarusKali means becoming the world's number one potash producer and thus overcoming Canada's Potash Corp.

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However, it is not easy to buy BelarusKali. Lukashenka announced on 8 May that its price is estimated at \$32bn. And a week later Vice-PM Semashka suddenly said that authorities would never sell a controlling interest in BelarusKali at all.

### **Privatisation is Lukashenka's Nightmare**

Although privatisation allows the Belarusian regime to receive vast sums of money to survive, it would change the very essence of the existing power system. It would allow different stakeholders to influence Lukashenka's policies and put an end to his model of "[market socialism](#)". That is why the authorities are trying to put off any final decision.

A government insider recently told leading Belarusian news portal TUT.BY that the decision to postpone privatisation had

been made after the analysis of those [who would be potential buyers](#) of Belarusian state assets. According to some estimates, Russia would acquire 80% of the enterprises.

Unfortunately, European and American businessmen [do not want to invest](#) in Belarus due to human rights violations and absence of the rule of law. And that's a pity. Lukashenka will step down sooner or later, but if most of the country is controlled by Russia, [there would be no European future for Belarus](#).