Belaruskali: A Victim of the Latest Russia-Belarus Economic War?

On 19 August, CEO of Belaruskali, the valuable Belarusian company, Valery Kiryjenka held a press conference on the situation in the global potash market. Kiryjenka criticised Uralkali and hinted that Uralkali keeps trying to make a raider seizure of Belaruskali.

Last month, Russian potash producer Uralkali announced that it would suspend exports through the Belarusian Potash Company. Many have perceived this step as the beginning of a new Russian-Belarusian economic war.

Economic wars remain an important part of relations between Russia and Belarus. By the means of economic wars, Kremlin points the proper place to its younger brother and restricts the independence of Belarus. However, the current conflict differs from the previous ones. For the first time a Russian private company, not a public entity, creates a big challenge for Belarus. The consequences affect not only mutual relations, but the whole world.

The new economic war shows the importance of Belaruskali, which remains the largest taxpayer of the country. Currently the company is undergoing changes. Although Belaruskali will lose part of its profits because of the new war, it will remain an enterprise owned by the Belarusian state. If Uralkali had a chance to acquire the Belaruskali before, the current conflict has buried Russia's hopes to do so.

Why Uralkali Decided to Divorce

On 19 August, Belaruskali`s CEO accused that the Russian management has transferred a number of the BPC's contracts to the Uralkali`s own Trader, and then has gone away to work in the Uralkali. Thus, the Belarusian Potash Company lost most of its distribution network abroad.

Last month, Uralkali`s CEO Vladislav Baumgertner said that Belaruskali started selling fertilisers outside the Belarusian Potash Company, which terminates the existing agreement to jointly trade abroad of all meaning. The Belarusian side quickly blamed Uralkali for selling fertilisers through its subsidiary.

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Although both sides exchanged serious accusations, the roots of the conflict lie in the difference between aims of Belaruskali and Uralkali. For a long time Uralkali worked at only 50% of its capacity. The decline in production led to a retention of the high price of potash fertilisers on the world market. That was the purpose of Uralkali.

Belarus today has a very different goal: to earn now, and as much as possible. Belaruslkali remains one of the few companies that bring revenues into the Belarusian economy. In fact, Belarus was in a very beneficial position to increase the prices for potash while Uralkali was limiting its production.

Russians suspected the Belarusian enterprise of using “shady schemes” at the Brazilian market. Officially, this year Belaruskali has been responsible for nearly half of potash fertilisers imports in Brazil.

Economic Wars

Economic conflicts between Belarus and Russia remain a significant part of the official fraternal relations. Conflicts of delivery of energy to Belarus exploded in 2004, 2006, 2007 and 2010. In 2009, Russia banned the import of

Belarusian dairy products. Journalists called that conflict “milk war”.

Although economic conflicts between Belarus and Russia happen now and then today’s war has a few differences.

If the previous conflicts were conflicts between the states, today, a private company Uralkali has become one of the parties to the conflict. So far, Russian companies have never challenged Belarusian leadership at this level. Although it seems that Uralkali coordinated its decision with the Kremlin.

As the old economic conflicts were a continuation of the policy only with the use of other means, Minsk and Moscow solved them at the political level. Despite possible coordination, Uralkali`s leadership remains different from the Kremlin: the private company will not give up their own economic interests, if Lukashenka offers further Belarusian-Russian integration.

Previous conflicts have been more of a “local wars”, the current conflict has attracted the attention of the world media. Currently Uralkali covers about 20% of the world market. Belaruskali covers a little more – about 23%.

Before the global market crisis, the price of fertilisers reached $1,000 per ton, today it is about $400. At times, the price can go down to as low as $300 or even less. This is especially true due to the slowing pace of the economy in developing countries. In the short term, prices will fall, and manufacturers will start a new struggle for the redistribution of the market.

The Goose that Laid the Golden Eggs

Aliaksei Valabuyeu, a local politician from Salihorsk, where Belaruskali is based, explained Belarus Digest that “people in town have become really concerned. Belaruskali had several crises during the last 10 years. Back then, the enterprises forced people to go on a long vacation, and that means not only Belaruskali, but also other companies cooperating with the potash producer.” Salihorsk locals worry because the Belarusian Potash industry is undergoing serious changes.

In December 2012, Alexander Lukashenka signed a decree that Belaruskali can sell their products not only through Belarusian Potash Company, but also through other traders. After the break with Uralkali Belarusian state-owned company announced a new partnership with the Qatari firm Muntajat and the Brazilian company Sertrading.

Over the last month the Belarusian Potash Company also changed its board of directors. Former director Valery Ivanou went to work to the Presidential Administration, and his deputy, Alena Kudravets became chairperson of the trader. Previously she served as Belaruskali’s Deputy Director for Commerce and Logistics.

Because of the competition at the market, Belaruskali had to produce more fertilisers and sell them cheaper. In the end, Belarus will also suffer from these skirmish. If in 2012 the Belarusian producer brought in a profit of $780m, this year the figure may drop two-three times. Belaruskali`s CEO admitted that “he would never go into an alliance with the Uralkali after what they did. Although if Uralkali change owners and approach – everything is possible.”

Belaruskali will bring in much lower profits than expected before the break with Uralkali. The increase in production will lead to a further decline in prices and income of the Belarusian budget. The goose that laid the golden eggs, it would appear, will soon be laying ordinary ones.