

# The Baumgertner Affair: an Oligarchic Win-Win

A nearly four month long “potassium war” between Minsk and Moscow has come to its logical conclusion. It has provided another example of Russia provoking Belarus' president and then quietly accommodating him.

As Uralkali manager Vladislav Baumgertner found himself back in Moscow, both Lukashenka and Putin have reason to celebrate their under-the-table potash deal. The Kremlin has successfully navigated yet another nagging conflict with its problematic ally, while Lukashenka has eliminated a serious economic threat to his power, a conflict that was created by a now-disgraced Russian oligarch.

## History of the potassium dispute

The potassium conflict between Russia and Belarus broke out in July 2013. Uralkali, the largest Russian potassium producer that was controlled by the oligarch Suleyman Kerimov, broke off its consortium with the state-owned Belarusian potassium monopoly Belaruskali on 29 July.

The reason for the break-up turned out to be the incompatibility of each companies' respective sales strategies, as both accused the other of selling potash bypassing their agreed upon joint sales channel. Despite the increasing competition on the global potassium market, Belaruskali insisted on maintaining high sales prices. Uralkali, which controlled the sales channels of the consortium, insisted on lowering the sales price and planned to compensate their losses by increasing the amount of potash mined.

In the wake of the break-up of the consortium, which

controlled over 40% of world potassium sales, the global potassium market has slumped. Major potash consumers in India, China and Brazil postponed their purchase orders due to market instability and expectations that potash prices would soon start to plummet. According to Bloomberg, third-quarter sales of Potash Corp., the largest competitor of Belaruskali, fell 29 percent.

In response to Uralkali's move, the Belarusian Prime Minister Mikhail Miasnikovich invited a high profile Russian delegation to discuss the potassium affair. On August 26, Baumgertner arrived in Minsk alone and, following a heated conversation with Miasnikovich, was [arrested and put in a high-security KGB jail](#).

### **Baumgertner: hostage or pawn?**

Lukashenka's decision to imprison a prominent Russian manager seemed erratic and inflammatory. However, the Kremlin reacted in a surprisingly restrained way. This happened for two major reasons.

First, Moscow realised that Kerimov's desire for higher and quicker profit spelled political trouble for Lukashenka. The export of potassium, along with oil refinement, remain the two main pillars of the contemporary Belarusian economy. In 2012, the net profit of Belaruskali exceeded \$770m, a company that provided nearly 19,000 working places. The disruption of potassium exports would have devastating consequences for the Belarusian economy and constitute a direct threat to Lukashenka's power.

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internationally and seriously faltering relations with Belarus. This explains the Russian president's reaction to his October meeting with Lukashenka, where Putin claimed he "wanted to solve the problem, not [reach a] deadlock, which can easily happen if we start an uproar [over the issue]."

Second, and perhaps equally important, Lukashenka has proven to actually possess the evidence necessary to prosecute Uralkali's management. In another aggressive move, he made the evidence public and requested Interpol to issue arrest warrants against Uralkali's top management. On November 22 the Russian prosecutor's office ultimately brought forth charges against Baumgertner after Belarus' concerted campaign.

### **In search of a solution**

Baumgertner's arrest caused a stalemate. Lukashenka craved personal vengeance against Kerimov, sought guarantees against a repeat of his tactics and demanded compensation for Belaruskali's losses. On October 11, during an interview to Russian journalists, the Belarusian president named the nationalisation of Uralkali as his preferred option.

The Kremlin, on the other hand, had different ideas. On September 13, a leak that made international headlines announced the purchase of Kerimov's Uralkali shares by banker Vladimir Kogan, a Putin associate. This solution satisfied no one. Kerimov deemed the proposed purchase price of \$3.7bn too low. Lukashenka lacked guarantees that Uralkali would not again become the target of speculative deals.

However, the deteriorating economic condition of Belaruskali undermined Lukashenka's bargaining power. The company lacked a sales network and faced the potential defection of its top management. As a result, in September 2013 Belaruskali's potassium production plummeted 44.5% to September 2012. A year-to-year decline in October 2013 constituted a weighty 14.2%. This prompted Lukashenka to seek a compromise.

## **Striking a deal**

Both sides reached a deal in November. Kerimov's share in Uralkali would be purchased by Mikhail Prokhorov, who, like Kerimov, is close to the Medvedev clan. This way its most important mining asset remains in its pool of resources. Besides, Prokhorov is seen as a long-term investor who has enough of his own capital to finance the deal.

Lukashenka found the guarantor for his side of the deal in Dmitry Mazepin, the owner of the second largest producer of nitrogen fertilisers in Russia. Mazepin intends to buy the shares of the minor partners of Kerimov – Filaret Galchev and Anatoly Skurov, which come to a total of almost 12% of Uralkali's stock, plus an additional 8% from unnamed holders. With nearly 20% of stock in hand, the oligarch will de facto call the shots in Uralkali, as Prokhorov lacks experience in the mining business.

A native of Minsk, Mazepin started as a Belarusian bank manager in the early 1990s, later moving to Russia to get into the oil and mining business. Lukashenka is looking to him to secure the terms of the deal in the long run and oversee the rapprochement between Uralkali and Belaruskali.

## **Back to the potash business as usual?**

There is little doubt that the new owners of Uralkali will try to reverse the damage done by the potash conflict and restore the broken consortium. Despite this, Belaruskali will hardly repeat its streak of extremely high profits that it enjoyed in the 2000s.

As the global potash market is becoming more competitive, the old strategy of limiting supply to maintain high prices will give way to a more open market, meaning falling profit margins. Neither will the new consortium be a carbon copy of the old one.

As Uralkali has emerged out of the potassium conflict relatively unscathed, it will inevitably act as the leading partner in the consortium. And as the economic situation in Belarus deteriorates, the next big thing in the potassium market may be the takeover bid for Belaruskali by its resurgent consortium partner.

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