

Belaruskali v Uralkali: Between Politics and Criminality

On Monday, Belarusian authorities arrested the general director of Russian potash company Uralkali. Vladislav Baumgertner, who came to Minsk to negotiate with Prime Minister Mikhail Myasnikovich.

About a month ago, Uralkali stopped cooperation with Belaruskali and started selling potash at lower prices and taking away Belaruskali's customers. By this action, Uralkali changed the situation on the global potash market and weakened the positions of Belaruskali, the national Belarusian potash company.

Belaruskali, meanwhile, is amongst the three biggest taxpayers to the state budget, so it is no wonder that Minsk resorted to radical measures and launched a wide-scale campaign against major Russian oligarch Suleiman Kerimov. Kerimov is the majority shareholder of Uralkali and its main decision-maker.

Moscow responded with measures which could create [a new trade war](#) between Belarus and Russia – by cutting oil shipments and threatening to reduce Belarusian food import. Minsk still insists the affair is primarily criminal. It demonstratively sent arrest warrants to Interpol and promised to capture Kerimov themselves.

A Five-Billion Dollar Bribe?

In 2005, state-owned Belaruskali and private Uralkali founded the Belarusian Potash Company to sell their products together. In this way they could control up to 40 percent of the global potash market. The partners influenced prices and reaped more profits as a result of their cooperation.

But then Uralkali changed hands and the new owner of Uralkali, Suleiman Kerimov, continued enhancing his business. In 2011, he bought the second Russian potash company, Silvinit. The next target was Belaruskali. Kerimov had to cut a deal with President Lukashenka.

Yet his efforts were futile. The Belarusian leader sometimes outrightly refused to sell Belaruskali and sometimes demanded a price of \$30bn which Kerimov was not willing to pay. In October 2012, Alexander Lukashenka said, "some Russian oligarchs" had offered to pay him a bribe of \$5bn if he agreed to sell the national potash company for \$10bn. Most likely, this alleged proposal came from Kerimov.

Uralkali's effective owner had a lot of opportunities to put pressure on Belarus. First, Uralkali could extract potash cheaper than its Belarusian counterpart. Second, Uralkali could put his people in key positions in the Belarusian Potash Company and take control over its trading personnel. This meant that Minsk had to believe what the Uralkali people said.

Belarus Strikes Back?

As a result, Kerimov could both negotiate with Lukashenka and gradually undermine Belaruskali's stature in global markets. The Russian producer started to sell potash without the mediation of the Belarusian Potash Company (BKK). Last year, Uralkali sold only 20% of its produce through the Belarusian Potash Company.

Belarusian media published numerous examples of other abuses, as well. Thus, in July, Russian management annuled a contract between BKK and an Indian company which, according to Belarusian officials, caused \$90m losses for Belaruskali. The Russian head manager of BKK Petrov redirected the ships to export Russian potash instead of Belarusian. Recently, Minsk revealed the story of a billion dollar loan taken by Uralkali and guaranteed by the BKK, i.e., potentially making the

Belarusian government responsible for repayment if Uralkali itself failed to do it.

The Belarusian side itself was no vegetarian in this capitalist feeding frenzy, paying back in kind, only its potential to influence the situation were much smaller. Thus, while Uralkali single-handedly gave discounts to Chinese buyers, Belaruskali granted preferential conditions to Brazil. In December 2012, Lukashenka issued a presidential edict to the effect that Belaruskali and the Belarusian Potash Company no longer had a monopoly on exporting Belarusian potash.

The edict appears to be a proportional response to Uralkali's policy to sell potash outside the agreed scheme. Yet there is here another point to make. When the Belarusian side noticed that Uralkali was trading potash not through the Belarusian Potash Company but on its own (in violation of the agreement), Minsk did not resort to legal measures. Instead, it decided to break the agreement itself. Post-Soviet business is still not about law; it is about force and might.

Kerimov's team insist that Uralkali recently [left the agreement](#) on selling potash through the BKK because of Lukashenka's decision to revoke Belaruskali's monopoly. Uralkali's move caused a kind of earthquake for the entire branch, and with its market capitalisation fell by \$20bn, prices plunged. The Russian *Izvestia* daily compared the situation with "Saudi Arabia deciding to leave OPEC."

Uralkali is the only world's potash producer which can survive such fall

In this way, through Uralkali Kerimov was given a clear opportunity to build up his potash empire further. As the Russian media proudly noted, Uralkali is the world's only potash producer which could survive such a fall. For Uralkali, production costs are only \$62 a tonne while for Belaruskali they are about twice higher, and for other North American and European companies production costs are \$100-200 a tonne.

Under these conditions, Kerimov has a chance to buy not only Belaruskali, but begin to seek further acquisitions as well. The Belarusian potash company, however, has been hit especially hard – its market capitalisation fell by 60-80 percent, while the same losses of Uralkali amounted only to 20-30 percent.

Whom to Blame for the Uralkali Affair in Belarus?

Essentially, Uralkali has pursued its own natural interests in this story, yet such an undermining of Belaruskali's position in order to buy it have hardly any relation to civilised free market rules. Moreover, the behaviour of Russian side would be punishable in most Western countries as a combination of wide-scale fraud, abuse of office, and fraud.

The Belarusian government has blamed Russian business practices, Kerimov and his managers. State media recalled the wild years of Russian capitalism in the 1990s when criminal businessmen bought up even strategic enterprises for a nickel after undermining their positions and putting their own people into the administration. Yet state journalists were silent when it came to discussing the people who let Kerimov's team conduct business in Belarus for years and nearly took away the most profitable of Belarus' national corporations.

The current Belarusian head of state should be the first to explain how this was all possible as he has personally decided Belaruskali's fate for all these years. He brought Belaruskali (then 35 per cent of the global market) into an alliance with the then much smaller Uralkali (then 13 per cent of global market) in 2005.

The consequence was not the expansion of Belaruskali into Russia, but the threat of Belarusian potash being stolen through dubious manipulations. In addition, the Belarusian government did not invest anything into the training of its own specialists to sell potash if something went wrong in

their cooperation with the Russians, and undertook next to no measures to establish its own trading network.

At the moment, we can only guess how adventurous the policies of the Belarusian government have become in recent years from anecdotes leaked to the media. For example, how top Belarusian officials [celebrate their meetings](#) with “serious investors” from firms worth \$20,000. The non-transparent nature of the Belarusian state ensures that decisions of even a national dimension are taken according to the will of a handful of insiders and hardly any outsider can calculate their consequences.

Such affairs show the failure of the current regime not only to develop the country but even to ensure that national assets remain intact. The Uralkali affair is the biggest indicator of this phenomenon, but it is definitely not the only one.

Belarus-Russia: History of Disintegration

In the last days of July, the backbone of Belarusian economy – the potash industry – suffered a severe blow dealt by its Russian partner.

The Russian company Uralkali refused to work anymore with the Belarusian Potash Company (BKK), a joint enterprise of Uralkali and Belaruskali authorised to sell their products throughout the world.

These developments have seriously weakened the global position of Belaruskali. The “potash collapse” is just one more illustration of the problematic relations between Belarus and

Russia.

Both Russian private business and the government do not perceive their Belarusian counterparts as equal partners. Additionally, Belarusians have to work with Russian business without a sufficient legal framework. In these circumstances, integration between the two countries has had no real chance from the very beginning.

Some bigger agreements simply failed or fell apart like the joint companies in the potash or oil industry. Other projects were implemented many years behind the schedule – whether it be [military cooperation](#) or the sale of Belarusian pipelines to Russia.

Younger Brother Is Always Wrong

Russian Uralkali, of course, immediately blamed Belarus for the failures of the joint business venture. The Director of Uralkali said to the Vedomosti daily newspaper that it was Lukashenka who allowed the national mining company Belaruskali to sell potash without involving the Belarusian Potash Company and violated thus the previous agreement to work through this company. Yet the Uralkali itself has sold a bulk of its own goods without the Belarusian Potash Company. In the least, the Russian position looks dubious.

An information war followed soon afterwards. “This situation confirms only one truth – Belarusians, as always, are incapable of working with partners in a civilised way,” said the well-known Russian political commentator Andrei Suzdaltsev Radio of Liberty.

Yet the background of this story indicates that something different might have happened. Suleiman Kerimov, the Russian owner of Uralkali, wanted to acquire Belaruskali as he previously acquired another competitor of Uralkali – Silvinit. If he only managed to add Belaruskali to its business empire, he could control up to 43% of global potash market. Kiryl

Koktysh of the Moscow State Institute of International Relations says that Uralkali's actions may indicate Kerimov's attempt to force Minsk into selling Belaruskali.

With all of its problems, the Belarusian Potash Company was, according to Belarusian economic web-portal zautra.by "probably, one of the most successful strategic Belarusian-Russian economic alliances to have existed since the moment of the Soviet Union's demise". This begs a question: if this was the best, how exactly have the other projects?

Belarusian-Russian Integration: History of the Decline and Fall

The chronicle of [Belarusian-Russian integration](#) looks like a tug-of-war between Minsk and Moscow. Pompous rhetoric are dismissed by the reality of trade wars and agreements' delayed implementation. The list of failed major projects between the two countries is another skeleton in the closet of bilateral relations.

Project	Years of Implementation	Costs (planned or factual)
International Potash Company	1992-2005	No data
Belarus-Russian oil company Slavneft	1994-2002	Sold in 2002 for USD1.86 billion
Belarus-Russian oil companies Rosbelnafta and LYUBel-Oil	1995-2001	Russian investment by 2002 was planned to reach USD 550 million

Modernisation of Minsk brewery Krynica by Russian Baltika beer company	2000-2003	Factual Russian investments reached USD 10.5 million, a controlling block of shares was promised to be sold in 2001 for USD 50 million
Project on PET-granules production on facilities of Mahilyou's company "BelPAK" by the Russian Itera	2001-2006	By 2003, Itera allegedly invested more than USD14 million.
Development project Minsk-City by Itera	2008-2012	Planned amount – USD 4.8 billion

It is more to the point at this time to talk about Belarus-Russian disintegration rather than integration. Some experts admit that the problems in Belarus-Russian relations exist yet believe that some areas are integrating smoothly, defence cooperation in particular.

Anais Marin of the Finnish Institute of International Affairs argues in a publication of the Polish Centre for Eastern Studies that defence cooperation is "unfold[ing] regardless of the disputes that sporadically sour relations between Minsk and Moscow, standing out as the main achievement of the Union State [of Belarus and Russia] – if not the only one". Yet, Minsk has delayed the implementation of every military agreement with Moscow, sometimes for years – as happened with the [Single System of Air Defence](#).

On the other hand, Moscow failed to equip its closest ally with adequate arms – only now, has Belarus finally [replaced](#) its remaining old air defence systems, the S-200,

with the S-300. The Russian army meanwhile is already replacing the S-300 with S-400. Belarus has no real prospects to get any S-400 in coming years. It is no wonder, then, that the Kremlin does not care about its Belarusian allies. Despite the rhetoric of Belarusians defending Moscow, Belarus pursues its own military policy and enters military agreements with Russia when it wants Moscow to foot the bill.

No Friends in Moscow

There are numerous reasons explain the failure of individual projects in Belarus-Russian relations. Yet there is one fundamental factor. Russia does not perceive Belarus as an independent state with its own needs and interests. "Russia believes that Belarus is its property," said once in Belsat TV Belarusian analyst Paval Usau. Actually Moscow looks in the same patrimonial way on all post-Soviet nations. The latest Russian-Ukrainian trade war proved this point once more.

Partly, Belarus itself is guilty of the discriminatory behaviour that has been coming from Russia. First, Belarus is still failing to consolidate its own nation and to draw a dividing line with Russia. After all, good fences – both physical and mental – make good neighbours. The very close alliance between the US and Israel is a model proposed by Lukashenka for Belarus-Russia relations. Yet Washington looks on Tel-Aviv as an independent nation not as a breakaway territory. In particular, this means that Washington wishes for Israel to be robust and powerful. It is better to have a stronger ally.

On the contrary, Moscow considers any Belarusian success as a threat. Thus, in recent years it did not welcome attempts by Minsk to [diversify its sources](#) of imported oil. Russia actively counteracted Belarus' policy of buying Venezuelan oil, which is quite logical from the Kremlin's perspective. If the Kremlin considers Belarus not as an ally but simply a breakaway territory, then this territory should not become

strong. The reasons that Moscow does not give Belarus new military equipment become clearer when this is considered. As Anais Marin put it, the Russian establishment sees Belarus as a territory, and not real ally.

Second factor between Russian dismissive stance towards Belarus is lack of a [Belarusian lobby in Russia](#). The Belarusian government has done a lot to find such support in Russia. Minsk tried – rather successfully to present itself as the last island of sunk empire and to mobilise Russian right-wing political groups. The Belarusian regime clearly could find some support among Soviet-time generals, right-wing intellectuals and regional industrial bosses. Yet this support appears rather unorganised and gives Belarus little leverage in disputes with the Kremlin.

A Civilised Divorce

In last decade, Russian officials have effectively renounced earlier rhetoric of integration with Russia. They apparently had no illusions that what Lukashenka has done – at least in the last decade – resembles a gradual separation from Russia. Furthermore, Minsk is not Russia's marionette. For all its services, the Belarusian state received from Russia subsidies which last year amounted to ca. USD10 billion (16 per cent of GDP).

Oddly enough, it is often Western policies which drives Belarus into the Kremlin's hands. So, for example, the problems of the Belarusian Potash Company began last year when the EU threatened to [impose sanctions on Belarus](#). It created a favourable atmosphere for Russians to put pressure on Minsk to sell Belaruskali to Russian potash magnate Kerimov. The media then reported about plans to found a new Russian-dominated potash company – Soyuzkali – whose office had to move from Belarus to Switzerland, i.e., under control of Kerimov. It did not happen, yet contributed to a crisis inside the Belarusian Potash Company.

The Russian option for Belarus remains elusive. Objective opportunities which exist for Belarusian business and individual Belarusians in Russia are offset by huge biases against them that are regularly demonstrated by Russia. Moreover, aggressive Russian attempts to take over Belarusian assets leave little space for integration and cooperation between two countries. In a word, Belarus is not as close to Russia as frequently assumed and the West should never dismiss Belarus as an active actor.

Soyuzkali is Hustled to the Finish Line

On 10 September during his meeting with managing director of the Belarusian Potassium Company (BPC) Aleksandr Lukashenka made the following statement:

"In the events involving BPC, even if some issues are still not resolved, then they became less relevant: there are no conflicts or even matters of argument. However, we need to streamline the work and may be even the structure of the company."

What matters of argument have been taken from the agenda related to BPC? What structural reform of the company is Lukashenka likely to contemplate?

Belarusian Potassium Company Moves to Switzerland

Change of jurisdiction of the Belarusian Potassium Company CJSC to Switzerland was initiated as early as last year by Uralkali, the Russian shareholder of BPC. It happened straight

after division of the potassium market in Russia by merger of two of its main players, Uralkali and Silvinit. Businessman Suleyman Kerimov, currently a co-owner of Uralkali, was involved in this process.

In April 2011, new top managers of the amalgamated company Uralkali-Silvinit came to a meeting with Aliaksandr Lukashenka with an idea to move the office of the special exporter of Belarusian and Russian potash fertiliser to Switzerland. The following arguments were put forward. Switzerland, due to particularities of local laws, ranks among the low-tax jurisdictions. This is why relocation of the office of BPC to another jurisdiction would allow the company to raise cheaper funding for implementation of joint investment projects.

Besides, this would also help avoiding possible sanctions against Belarusian products if they are introduced (at that time, this matter was brought into focus).

"The first integration project of Belarus and Russia"

It was not easy for the Belarusian government to decide on the change of jurisdiction of BPC. The government held a number of meetings dedicated to this topic but the matter was still under discussion and did not get unequivocal support among concerned officials.

Because repartition of the Russian potassium market was carried out at the instigation of political forces in the Russian leadership, we may suppose that managers of Uralkali had recourse to these forces in order to close the chapter on the Belarusian discussion.

The project to create Soyuzkali – this "first real major integration project of Belarus and Russia", as it was qualified by First Deputy Prime Minister of Belarus Uladzimir Siamashka, – was brought to the highest political level.

In late July 2012, First Deputy Prime Minister of Russia Igor

Shuvalov and Deputy Prime Minister of Belarus Siarhiej Rumas instructed the concern Belnaftakhim and the Ministry of Industry and Trade of Russia with participation of Uralkali and Belaruskali to submit proposals regarding establishment of a joint venture Soyuzkali by 1 September 2012.

Shortly thereafter, Aleksandr Lukashenka also reminded the government to resolve the issues related to the work of BPC. According to him, "there should be no more doings around this, even if we have to review our relations with the Russians". As it was said, the shareholders should either work together or go into free floating.

It was evident from the beginning that none of the parties intended to break off relations. Uralkali, which declared synergetic effect of joint work with the Belarusian producer of potassium chloride in the world market, does not need it. Moreover, as most analysts say, Uralkali was bought for reselling (the timeframe of possible resale has not been announced yet), and thus the company needs only positive signals to encourage the stock price growth.

Belaruskali, which does not have its own trader network, also does not need a breakup. Besides, the Belarusian party expects a particular payoff from the joint export policy with the Russian company. A year and a half ago, Aleksandr Lukashenka called unification of potassium assets in Russia "a revolution in the world potassium market", probably expecting that such "revolution" would unfailingly affect growth of the global prices on potassium.

The Russians insisted on a technical audit

So, it was clear from the beginning that the shareholders would have to come to terms on outstanding matters regarding establishment of the successor of BPC. "Nobody speaks of a breakup. There are some peculiarities... Some people who would like to get back to "muddy water", Uladzimir Siamashka said

earlier.

However, despite an instruction to come to terms by 1 September the shareholders were not able to take the outstanding issues off the table at the meeting of the board of directors of the Belarusian Potassium Company on 21 August.

Two key questions remained unsolved just a few days before 1 September. The first regarded the balance of sales volumes of potash fertilizer in external markets. An issue of pricing policy – elaboration of the price formula for potash fertilizer – was not fully solved.

While establishing BPC, Belaruskali and Uralkali signed an agreement which provided that the export quotas would be divided among principal shareholders on the basis of their established production capacities. Initially, the share of Belaruskali amounted to 60%, and the share of Uralkali amounted to 40%. However, after the merger of Uralkali and Silvinit the maximum production capacities of Uralkali reached 12.5 million tons this year, and those of Belaruskali amount now to 10.3 million tons.

The shareholders agreed that Soyuzkali would work on the same principles which were agreed at the creation of BPC: the shares of Uralkali and Belaruskali in sales would depend on the maximum production capacities of each of the companies. At the same time, they did not agree what the current ratio was and how often it should be revised.

The Belarusian party deemed unfair the existing allocation of the sales volumes in BPC between Uralkali and Belaruskali: 47.5% to 52.5% in favour of the Russian shareholder. The Belarusian party would like to have 49.15%, and the Russian shareholder would have 50.85% of the sales.

The outstanding issues in the establishment of Soyuzkali were discussed at a meeting of the presidium of the Council of Ministers on 30 August. Press secretary of BPC Filip Hryckou

said after the meeting that "the parties came to terms on the matters of principle, disagreements were removed, and currently we work on the details of the algorithm of interaction between the Russian and Belarusian shareholders".

Reportedly, the parties were not able to agree on all positions regarding the terms of establishment of Soyuzkali. The Belarusian party continues to insist on a single-channel system of sales through an exclusive trader, while Uralkali would like to maintain sales through its trader, Uralkali-Trading.

The issue of allocation of quotas for sales and export of potash fertilizer between the Belarusian and Russian founders of BPC also remained problematic. Aliaksandr Lukashenka spoke of it during his meeting with managing director of BPC Valiery Ivanou on 10 September.

According to Lukashenka:

"In fact, the Russians themselves insisted on an independent audit of production of potash fertilizer, and we agreed that the sales of potassium would depend on this. How is this question being solved now? As far as I know, the Russians are very reluctant to agree on increasing export of the Belarusian part of potash fertiliser, and it would be legal."

Will Soyuzkali be managed from Minsk?

Managing director of Uralkali Vladislav Baumgertner confirmed on 11 September that all matters were not arranged conclusively, and there were outstanding issues related to shares of two companies in the sales volume of Soyuzkali as well as issues related to calculation of the average price. "But these are technical issues. They cannot remain unsolved because both Belaruskali and Uralkali are very interested in continued existence of the joint trade company".

It is already known that Soyuzkali will be created on a parity basis – Uralkali and Belaruskali will each own 50% of Soyuzkali. The new trader will be registered in Switzerland. The Russian party estimates that the process of establishment of the company will take additional six to nine months. As a result, Soyuzkali may start operating in the second half of 2013.

For some time, BPC and Soyuzkali will legally coexist in parallel but at a certain point of time business will be fully transferred to Soyuzkali and the contracts will be renegotiated, Vladislav Baumgertner said. "As soon as Soyuzkali starts working normally, we will leave BPC", he added.

However, the question of expediency of transfer of a number of regulatory functions to a new potassium trader remains one of the most sensitive for the Belarusian government. Concerned Belarusian officials still do not have concurrent views about it. It is no coincidence that Uladzimir Siamashka pointed out repeatedly earlier that while Soyuzkali would be registered in Switzerland, the field of competence of this company would remain in Minsk. As he said, "BPC will operate in accordance with the same algorithm as before".

BPC earlier also pointed out in its official commentary that "change of jurisdiction of the company does not imply in this case an actual transfer of its office from Belarus to Switzerland" – "the activities of Soyuzkali will be coordinated from Minsk, while the company gets a number of new possibilities related to preferential tax treatment as well as to access to bank credit resources". Now, there is no word about any kind of coordination of activities of Soyuzkali from Minsk. At least, neither party speaks about it.

Earlier, Aliaksandr Lukashenka also said that "the potassium company should deal not only with sales of potash fertilizer but also of complex, mixed fertilizer", which is now in demand

in the world market. It seems, however, that this issue is not among the Russian party's priorities.

The Russian shareholder does not exclude that Soyuzkali will deal with sales of other types of fertilizer along with the potassium chloride. "If it creates additional value and gives us some synergetic effect in the context of reducing costs, it will be possible. But it is not being studied seriously yet", Vladislav Baumgertner said in this regard.

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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.

in the wake of parliamentary elections Lukashenka ordered to fulfil populist promises to increase the average salary throughout the country to \$500

But in the wake of parliamentary elections Lukashenka ordered 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.

the wealthiest Belarusian businessman Vadimir Peftiev sold his enterprise Beltekhexport that came under EU sanctions to a Russian businessman

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.

Vice-PM Semashka suddenly said that authorities would never sell a controlling interest in BelarusKali

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](#).