

# **New Privatisation Plans: Belarusian Authorities Prefer Western Investors to Russian**

On 20 January 2012, the authorities approved a new strategy to attract foreign direct investments. This document can be regarded as a new invitation for foreign business with advanced technologies to take part in privatization in Belarus. The authorities hope that Western businesses will come despite the country's poor human rights record and their failure to release all political prisoners.

Although the Belarusian authorities welcome energy subsidies from Russia and participate in Russia-sponsored integration projects such as the Single Economic Space, they are reluctant to invite big Russian business in. The pace of Belarusian privatization is slow – although many trade and service enterprises were privatized, medium and large industrial enterprises still remain in state hands.

## **Recent History of Privatization in Belarus**

Over the last two decades, most trade and service enterprises have been privatized in Belarus. However, instances of privatization of industrial enterprises remained extremely rare. Consider that between 2008 and 2010 only eight small and medium industrial enterprises were privatized.

In early 2011, there was a debate among the ruling elite between the proponents and opponents of privatization of industrial enterprises. Siarhiei Tkachev, an economic advisor to Lukashenka, insisted that the state could be no less an efficient owner than a private entity. Lukashenka said at that time that he was tired of talking about the advantages of private ownership, which were initiated by Prime Minister

Mikhail Miasnikovich and Deputy Prime Minister Siarhiei Rumas.

In the tough economic times of 2011 Lukashenka had to accept arguments from proponents of the expansion of privatization. The sale of unprofitable loss-making enterprises allowed to them to put money into the state budget. Besides, the government had already got rid of its obligation to pay salaries to workers of such enterprises. Some hoped that the purchase of enterprises by efficient owners would allow the government to start collecting more taxes.

Under the privatization program for 2011 – 2013, the government plans to sell 168 small and medium enterprises. However, so far only 38 companies have been sold for a total amount of BYR 170,000,000,000 (about \$20,000,000).

At a meeting of the Council of Ministers on 20 January 2012, many publicly agreed that the failure of the privatization plan for 2011 was caused primarily by the fact that directors of loss-making enterprises, fearing losing their jobs during the change of ownership, [hindered](#) the preparation of the enterprises for privatization in every possible way.

Therefore, a decision was taken to expand the privatization plan for 2012 significantly by including those enterprises which were not sold in 2011 and those which were planned for sale in 2013. The government approved a package of measures which would not allow blocking of the privatization process.

On 20 January 2012, the Council of Ministers and the National Bank adopted a joint resolution on a Strategy to Attract Direct Foreign Investment up to 2015. It is probably one of the most interesting documents of 2012 to understand the development of the situation in Belarus. This document can be regarded as an invitation to foreign business, which has advanced technologies and is willing to take part in privatization on the basis of transparent schemes. The strategy pays a lot of attention to public-private

partnerships, economic liberalization, and overall improvement of the economic climate in Belarus.

The document notes that:

*the implementation of the strategy will lead to an annual increase in the volume of direct foreign investment on a net basis (excluding debt to the direct investor for goods (works, services) in the amount of \$7,000,000 – \$7,500,000 before 2015 and to achieve at least 21 per cent share of foreign investments in the investments of fixed assets. The share of knowledge-intensive and high-technology products in the total volume of exports of goods will increase to 14 per cent.*

*The implementation of the strategy will also ensure the entry of Belarus into the top thirty countries with the best business climate in the "Doing Business" rating of the World Bank, and also the improvement of positions in the reports of international rating agencies: Moody's Investors Service, Fitch Ratings, The Heritage Foundation and others.*

## **Russian Businesses are Not Welcome**

Lukashenka and the First Deputy Prime Minister Uladzimir Siamashka have said repeatedly that Russian oligarchs want to buy tidbits of Belarusian state property for a pittance; they do not want to take part in privatization on the basis of transparent schemes. As Lukashenka said: "They want to fish in troubled waters". Besides, officials have said repeatedly that Russia is not a source of advanced technologies. In Russia, they spend more electric energy and materials per unit of output than in Belarus.

Russian observers note that Belarusian official authorities intend to prevent Russian companies from buying Belarusian enterprises as soon as privatization takes place in the

country. It is worth mentioning that only one out of 38 privatized enterprises was sold to a Russian company in 2011 (it was a clothing manufacture with 40 employees in Vitsiebsk.)

The strategy adoption should not be regarded in the context of Belarus-China relations either. Siamashka reiterated that China proposed polluting technologies. Moreover, the Lukashenka regime treats China as a separate domain of its foreign policy. As a rule, the documents on cooperation with China are not directed to other stakeholders.

The strategy can be regarded as an invitation for Western businesses to make money in Belarus in cooperation with Belarusian top-ranking officials. Broadening of privatization and economic liberalization in Belarus are primarily explained by the interests of high-ranking officials.

### **Preference for Belarusian and Western Businesses**

The top-ranking officials and Belarusian businessmen have accumulated considerable funds. Lukashenka is no longer making statements about the income of owners of luxury villas in posh Minsk suburbs. Those people would like to see their money working more efficiently in Belarus. They are afraid of dealing with the Russian large-scale business with its criminal components and prefer to invite law-abiding partners from the West.

A representative of KAAS concern management (Germany) delivered the following statement at the Minsk Forum in November 2008: "German business goes to the places where it is possible to make profit. It is possible to run a successful business even in China." Such remarks were actively hailed by the invited governmental officials. They nodded in approval and smiled.

The Belarusian governmental officials believe that the aggravation of political relations with the West will not

become a barrier for Western business. The top governmental officials hope that Western businesses can come to Belarus, if they are offered attractive conditions and personal guarantees (i.e., let's make a profit together). Their thinking is that they would do business in Belarus just like they do it in Azerbaijan, Kazakhstan, Uzbekistan, and the increasingly authoritarian Russia. Only time will tell whether their strategy will work.

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## **The Road to Russia is Paved with Good Intentions**

On 16 December two Belarusian citizens were added to the EU visa ban list, and EU assets of three companies associated with the Belarusian regime were frozen. The European Union continues to impose different sanctions on Belarus at the request of human rights activists. However, this policy fails to provide the EU with additional leverage in the country.

Today the EU can neither offer Belarus the prospect of EU membership nor significantly increase the amount of Eastern Partnership funding. If the Union wants Belarus to be more pro-European, it should try to develop a new engagement policy as Russia is steadily increasing its influence in Belarus with far-reaching political and economic consequences.

**Putin to Belarusians: "Fight For Joining Russia!"**

The Russian state is interested in gaining control over Belarus' economy and it has been coming closer to realizing this task step-by-step every year. Recently Gazprom became the owner of 100% of the shares of Beltransgaz – the Belarusian national gas transit pipelines operator. On 8 December Gazprom CEO Alexey Miller promised Beltransgaz employees a threefold increase in their salaries at the request of Russian prime minister Vladimir Putin.

Russian policymakers are trying to buy the loyalty of Belarusian citizens and convince workers of other Belarusian enterprises to “fight for joining Russia”. Putin made this statement on 1 August when he was answering question about the possibility of the Belarusian and Russian people to live in a united state.

### **What Russia Owns in Belarus**

Russian bankers are actively penetrating into the Belarusian banking sphere. Now they exercise control over 7 of 32 Belarusian banks: BPS-Bank (owned by Sberbank), former Mezhtorgbank (owned by Alfa-bank), Belgazprombank (owned by Gazprombank), VTB-Belarus and Bank Moscow-Minsk (owned by VTB), BelRosBank (owned by Rosbank) and Belvnesheconombank (owned by Russian Vnesheconombank).

Apart from the widespread penetration of Russian TV channels in Belarus, Russian businessmen also possess certain Belarusian mass media assets: leading Belarusian business and political newspaper “Belgazeta” and popular daily “Komsomolskaya Pravda” (Grigoriy Berezkin), Planeta journal (Gazprom), satellite TV and internet operator “Kosmos-TV” (Victor Vekselberg), newspaper “Argumenty i fakty” (Alexey Ananyev and Dmitry Ananyev), Interfax-Zapad (Mikhail Komissar).

Russian businessmen have also bought almost all the leading insurance companies of Belarus: TASK (Sberbank),

Belvneshstrakh, Belingosstrakh (Oleg Deripaska), Brolli and Alvena (Sergey Sarkisov and Nikolay Sarkisov merged these two companies into "Belrosstrakh"). They also possess significant assets in the leading leasing companies (VTB-Leasing, BPS-Leasing), gambling business (Shangri La casino, Columbus), construction (Itera, Su-155), pharmaceutical industry (Ferain-Bryncalov), restaurant business (Il Patio, TGI Fridays), mobile retail (Euroset', Sviaznoy) and milk industry (Unimilk).

Construction of Polatsk Hydropower Plant and the first Belarusian nuclear power plant is also led by Russian companies (Rosatom and Rostechologies). Moreover, in November Russian oligarch Mikhail Guceriev was granted the right to construct a new potash processing plant in Belarus named "Slavkaliy".

### **Selling Sovereignty to Keep the Status Quo**

All these facts clearly demonstrate that while the European Union is trying to put on pressure, Belarusian policymakers adjust their foreign policy and investment priorities without any significant changes in its internal politics.

Some opposition groups appeal to the Western community to ban the 2014 World Hockey Championship in Minsk, and urge the withdrawal of Western companies and investments from Belarus. They also demand to stop any cooperation between Western corporations and institutions with Belarusian authorities and companies (as in the case of Deutsche Bank and BNP Paribas). Ironically, none of the groups picket Russian embassies or Gazprom offices although it is Russia which provides billions in economic subsidies to the Belarusian regime while Western investment in Belarus is almost non-existent.

The "pro-isolation" group within the Belarusian opposition hopes that pressure on Belarusian authorities will contribute greatly to the democratization of Belarus through the fall of

the regime or alterations in its behaviour. However, the authorities want to keep their grip on power without changing their policies, so they simply ask Russian counterparts for help. And they do get this help in exchange for further concessions on economic and political sovereignty of the country.

### **When Europe Turns Away, Russia Steps In**

Nowadays there is a very popular thought among the Belarusian opposition that Lukashenka uses the argument for the strengthening of Russian influence in order to intimidate Western policymakers and manipulate Western public opinion. Nevertheless, this logic still works: the more Western countries prefer to isolate Belarus, the more Russia gains control over the Belarusian situation.

When there are no competitors to determine the future of Belarus' economy and politics, Belarusian assets lose their value and Russian businessmen can easily buy them at lower prices. This is just business and market laws in action. Following the creation of the Eurasian Economic Union, it is extremely important for the European Union to offer convincing incentives for Belarus and Ukraine or at least not to impede European companies and NGOs from working with Belarusians.

Russia is not a much more democratic country than Belarus, but the European Union considers it as one of its main partners in a globalized world. The existence of large private independent media outlets, international organizations, international business and international investments in Russia prevents its leaders from a final crackdown on its civil society and opposition.

The same situation could be true in Belarus. Lukashenka is just a functionary of the Belarusian political system that is shaped by different variables. When Belarusian exports to European countries surpassed the amount of Belarusian exports



to Russia, Lukashenka began to behave more friendly towards the EU. Of course, he is prone to cooperation with Russian leaders who are more similar to him in terms of their mentality and policies.

However, when he understands that collaboration with the West is beneficial, he becomes less radical in his statements and actions. There were no political prisoners in Belarus from September 2008 to December 2010 when Belarusian authorities believed in the will of Western states to significantly support the Belarusian economy.

On 30 November Russian Ambassador to Belarus Alexander Surikov expressed Russia's interest in privatizing the Belarusian Naftan and Mozyr oil refineries, as well as Minsk Automobile Plant (MAZ). Earlier Suleiman Kerimov wanted to buy the biggest potash manufacturer in the CIS, Belaruskali, for 15 billion US dollars, but Belarus was dissatisfied with the price offered, so the issue has been put off for now. Consider also that Russian mobile service operator MTS opted out of buying the state's 51% stake in one of three Belarusian mobile service operators – MTS Belarus.

### **Does Russia Want or Need to Incorporate Belarus?**

Russia does not need to annex Belarus as it would provoke tension on its borders, international condemnation and discord with such an action. However, with the large amount of control exerted over the Belarusian economy and its military potential, in the future it is not unforeseeable that Russia could create in Belarus a puppet government controlled by the Kremlin, which will significantly influence Belarusian internal and foreign policy. When Russia reaches this point, it will defend its Belarusian assets and rulers as its own, which will make it even difficult for the West to influence politics and human rights in Belarus.

If the European Union wants to determine something in

Belarusian politics, it needs to [strengthen](#) its lobby and economic presence in Belarus. It also needs to offer the Belarusian population, businessmen and civil society encouraging incentives to be pro-European. Europe can dramatically [liberalize](#) its visa regime, offer better opportunities in education such as the recently launched Open Europe Scholarship Scheme and [encourage](#) Belarus participation in the Bologna process and should not be afraid to deal with Belarus.

George Plaschinsky

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## **Selling Off the State – Belarus in Western Press Digest**

Auctioning of government property, a familiar debate about the extent of Lukashenka's domestic legitimacy, and a few sensationalist words about life inside a police state: a round-up of Western coverage of Belarus over the last month.

**Selling off the state.** The Belarusian Central Bank's auctioning of office supplies and furniture has drawn the most interest this month. [The Guardian](#), [The Independent](#) and [Business Insider Europe](#) reported on the auction of more than 500 office items at the end of October. The Guardian drew a clear link between the sale of safes, suitcases, and even a cardboard box, and Belarus' crippled economy, but reported that a Central Bank spokesman denied that the auction had anything to do with the crisis.

**Rule Through Fear or Consent?** Two bloggers have been engaged in a back-and-forth about the source of Lukashenka's grip on power: is it ultimately upheld through popular support or through authoritarianism? [Robin Tom West](#) insists that Lukashenka's rule is maintained primarily through support from a population which continues to welcome his strong leadership and neo-Soviet policy model. West also prescribes that the US engage in dialogue with the regime. [Kapil Kommeredi](#), on the other hand, insists that despite popularity in his early days, Lukashenka's power is essentially "underwritten by force", and that the West must not underplay the extent to which that the opposition is stifled and in need of assistance.

**Coerced into Compliance** [The Economist](#) for one suggests repression of the opposition is alive and well. It reports on the three young Belarusians who have revealed that they were recruited by the KGB to spy on key opposition figures. The three men have said that they were threatened with long jail sentences if they did not comply; they also suggested that duping their KGB masters was surprisingly easy. The article notes that Lukashenka's approval rating is at an all-time low, but also points to the absence of any strong opposition leader to challenge the president.

**Western Investors Back Down.** The [Independent](#) continues to cover the story of European banks' ties with the Belarusian government. At the end of October they reported that Deutsche Bank and BNP Paribas had followed Royal Bank of Scotland in agreeing not to sell any more Belarusian government bonds, following a campaign by Index on Censorship and Free Belarus now. Russian Sberbank remains the only member of the syndicate not to have declared an end to business with Lukashenka.

**Ten Steps to Lukashenka's Exit?** Seizing on Lukashenka's vulnerability in the context of the failing economy, Freedom House president David Kramer has set out [ten things the West should and should not do](#) to facilitate the regime's demise. He advocates extending sanctions to state-owned businesses,

increasing pressure for release of all political prisoners, engaging with civil society and preventing at all costs an IMF loan. On this last point, [Bloomberg](#) has reported that the IMF supports the government's recovery plan which includes boosting exports and tightening fiscal policy, and has reiterated that any loan is dependent on these reforms being implemented. Lukashenka has voiced his opposition to the plan.

**Minsk in literature** Finally, Eric Almeida's new thriller novel *Minsk Rises*— only available as an e-book— has been reviewed by [Nina Sankovitch](#). In setting the scene of the book she suggests Belarus is a “Soviet era dictatorship” in which all cultural life is controlled by the government. As for the book itself, it gets a positive review as a tale of a US businessman who gets caught up in the world of police surveillance and government control.

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## **Dodgy Bank Deals and Protest Theatre – Western Press Digest**

Belarus has returned to the spotlight of Western press coverage after brief periods of interest which followed the December 19th crackdown, subsequent international sanctions, and April metro bombing. The new reports focus on the IMF loan request and business relations between the West and Lukashenka's government. An occasional mention of rights abuses appear in a few concerned publications, with the Belarus Free Theatre leading the way in raising awareness amongst the Western public.

**Western banks with dirty hands?** The big Belarus story to make UK headlines has been the decision by a group of European banks to finally cease raising Belarusian government bonds.

More than \$800m in government bonds were issued by UK bank The Royal Bank of Scotland only a month after the December election crackdown. [The Independent](#) continues to devote more attention than any other major Western paper to Belarus. They led with this story early this week and were highly critical of such prolonged unethical investment by a state-owned bank. They argue that the decision to stop selling the bonds was only taken following considerable pressure from the campaign groups Index on Censorship and Free Belarus Now.

**Evaluations of Belarus in the context of 20 years since the 1991 putsch** appeared in a few sources. [The Financial Times](#) talked to US think tanks who point to Belarus as an example of those ex-USSR states where one leader has pushed out everyone else. [Fox News](#) categorizes Belarus as one of the three most authoritarian regimes in the former Soviet Union, and suggests a change to Lukashenka's rule looks extremely unlikely any time soon.

**The Belarusian request for an IMF bailout** which began to be considered on 29 August has gained some media attention. [The UK's Independent](#) reports that Belarus has introduced almost none of the conditions necessary for a loan which were laid out earlier in the month. It describes two schools of thoughts within the IMF: one that considers a loan without reform will only strengthen Lukashenka's oppressive regime, the other that sees a loan as necessary to prevent Moscow from gaining even more influence over Belarus.

**US-Belarus tensions rise.** Belarus' decision to freeze their pact with America to give up enriched uranium has hit [US headlines](#). The decision, which has been explained as a response to the most recent wave of US economic sanctions, has been described by the US State Department as "disappointing."

American experts have said they do not consider it likely the stockpile will fall into the wrong hands.

**Good news for the free press?** [Radio Free Europe](#) reports on changes in media consumption habits of Belarusians. Trust in state media has fallen sharply over recent months according to one source, due to the increasing disparity between the hopeful reports on the economic situation given in state papers and the daily hardships endured by ordinary people in buying basic goods. The article is optimistic that the market for independent news is expanding beyond the traditional intelligentsia, especially online, as people crave realistic accounts of the current economic situation.

**Economic hardship and reform.** The deteriorating economic situation for ordinary people continues to draw attention. Radio Free Europe describes '[Belarus on the Brink](#)': Tom Balmforth spoke with commentators in Belarus who predict the situation will only worsen in the autumn, with incomes likely to fall further and construction drying up entirely; this in turn may spark a revival of this summer's protests. He suggests that structural reforms to the economy are more urgent than ever. [Bloomberg](#) reports on the increasing difficulty of buying currency and meat products in Belarus, noting that Russians are taking advantage of the crisis, enjoying favourable black-market rates on their in-demand Russian roubles.

**Neighbours in the bad books.** Jeremy Druker from [Transitions Online](#) has expressed his disgust at recent revelations that Lithuania and Poland passed information to the Belarusian authorities which aided them in arresting human rights activist Ales Bialatski. He reports that activists who had regarded Poland as a safe haven feel betrayed.

**Spreading the word.** Belarus Free Theatre staged their production 'Minsk 2011' at the Edinburgh Arts Festival this month. [The Guardian](#) and [The Telegraph](#) offer very positive

reviews of the play, which treats issues of repression and censorship in Belarus through the theme of sexuality. Both consider it an important reminder of the repressive regimes which exist beyond the UK and which deserve attention.