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Russia breaks off cooperation with Belarus in exporting potash fertilisers

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On 29 July, a Russian company producing potash fertilisers, Uralkali, decided to withdraw from its cooperation with the Belarusian Potash Company (BKK), which it established together with the Belarusian potash producer Bielkali. BKK was founded in 2005, and was a joint Russian-Belarusian sales network for potash fertilisers, controlling up to 40% of the world market. The Russian side justified its decision by saying that Bielkali had exported some of its products outside the common network in the first half of this year, in violation of the commitments it had made. Similar complaints have been made against the Russians for many months, according to the Belarusian side. Uralkali's director said that cooperation could only be renewed within a new organisational and legal format. For its part, Bielkali announced the adoption of a new sales strategy; on 5 August, the company signed a contract with the Qatar-based Muntajat company on cooperation in the fields of export and distribution of potassium fertilisers.

Commentary

- The conflicts between the two parties in BKK had been growing since last year, partly due to the downturn in the global potash market and the competition for sales. Both sides had been increasingly competing for contracts with major customers, such as China, India and Brazil. In 2012, only 20% of Uralkali's exports were made within the BKK network, while the Belarusian side started independent supplies on a small scale at the beginning of this year.

- Uralkali's exit from BKK should primarily be seen as a fight for its position on the global potash market. This is indicated by the signing on 29 July of a contract between the Russian firm and China to supply 500,000 tons of potassium, even though this agreement was to have been concluded within BKK a few months ago. The Belarusian producer has effectively been cut off from one of its largest markets for many months. Bielkali's situation has been further exacerbated by the fact that, in contrast to Uralkali, it does not have such a developed sales network, hence its rapid signing of the contract with its partner in Qatar.

- It is possible that Uralkali's management is also operating politically, putting pressure on the Belarusian government to sell its shares in Bielkali, which the Russian side has repeatedly sought. Belarus's President Lukashenka has not officially ruled out the sale of these assets, but is asking over US$30 billion for them, which is too high a price for potential investors. This is one of a number of economic and political problems currently causing tensions between Belarus and Russia.

- Russia's actions could severely limit Belarus's access to world potassium markets, which will worsen Bielkali's financial results; the company is one of the country's main exporters and contributors to the budget. Last year, proceeds from the sale of potash fertilisers amounted to US$2.7 billion, or 6% of export earnings. Moreover, after Russia blocked the lucrative re-export to the EU of Russian oil products last year, Minsk hoped that the potassium industry would provide an opportunity to improve its deteriorating trade balance (which in the first half of this year amounted to over US$1.6 billion). It is possible that if Bielkali's new sales strategy fails, the Belarusian government will attempt to resume cooperation on terms more favourable to the Russians, perhaps even at the price of selling some of its shares in Bielkali.