

A Russian-Belarusian conflict against a backdrop of potassium fertilisers

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Vladislav Baumgertner, director general of Russia's Uralkali and (until recently) chairman of the supervisory board of the Belarusian Potassium Company (BKK), which is a Russian-Belarusian company exporting potassium fertilisers, was arrested on 26 August in Minsk. The Investigative Committee of the Republic of Belarus has charged him with acting against the interests of the Belarusian shareholders. On 2 September, penal proceedings were also launched against Suleyman Kerimov, the key shareholder of Uralkali (holding a 21.75% stake), who is also a member of the Federation Council of Russia. This appears to be a harsh reaction from Alyaksandr Lukashenka to Uralkali's decision to leave BKK a month earlier, which has seriously weakened the Belarusian manufacturer of potassium fertilisers, one of the country's key exporters. Russia is insisting that Baumgertner should be released and has warned it will impose a number of sanctions, including restricting the access of Belarusian dairy products to the Russian market and cutting oil supplies to Belarusian refineries. The tension is growing. Nevertheless, it seems that both parties will be looking to reach a compromise. Neither Minsk nor Moscow are interested in escalating the conflict. The obvious lack of unity in the stances adopted by the Russian elite on Belarus's actions may contribute to the willingness to reach a compromise.

Minsk's actions

Vladislav Baumgertner went to Belarus upon invitation from the Belarusian Prime Minister, Mikhail Miasnikov, to discuss the further operation of BKK. He was detained in connection with proceedings launched by the Investigative Committee of the Republic of Belarus on charges of abuse of power (article 424 of the Criminal Code of the Republic of Belarus). Four other members of BKK's management have also been charged. They are now wanted by Interpol upon request from the Belarusian authorities. The charges concern their activity at BKK, where both parties, i.e. Russia's potassium corporation Uralkali and Belarus's Belkali (jointly with Belarusian railways) each held 50% of shares, and together controlled around 40% of the global market of potassium fertilisers. The company was operating within this format from 2005 to 29 July 2013, when Uralkali decided to withdraw

from this co-operation, accusing its Belarusian partners of production export outside their common sale network.

Baumgertner and the other BKK managers have been charged with acting against the interests of their Belarusian partners, including spreading false information on the contracts concluded, prices and discounts, and thus taking over part of the income from exports. According to Minsk's estimates, the Belarusian partner's losses reached approximately US\$100 million. Furthermore, the Investigative Committee has claimed that the management of Uralkali decided to leave BKK at the end of July in order to escape responsibility for the dealings with had been raising increasing doubts among their Belarusian partners. The investigators are suggesting that Suleyman Kerimov deliberately used the drop in the prices of Uralkali shares resulting from its withdrawal from co-operation in order to increase his stake in the company. On 2 September, the Investigative Committee of the Republic of Belarus launched criminal proceedings also against Kerimov, as a result of which the Interpol has issued an arrest warrant.

Reactions from Moscow

On 27 August, Grigory Karasin, Russia's deputy minister for foreign affairs announced that the detention of Baumgertner might adversely affect political relations between the two parties. In turn, on 28 August, Gennadiy Onishchenko, the Chief Sanitary Inspector of the Russian Federation announced that reservations had emerged regarding the quality of over 30% of Belarusian dairy products sold to the Russian market. At the same time, Russian veterinary services imposed more rigid restrictions in force from 3 September and introduced a temporary ban on imports of swine and pork from Belarus, claiming that there was a risk of African swine fever virus transmission (it was discovered at the beginning of this year). Furthermore, on 28 August, deputy CEO of Russia's Transneft, the operator of the oil transport network, announced that the section of the Druzhba oil pipeline running to Belarus would have to be repaired, so oil transport reductions would be necessary. The Russian oil companies which export their output to Belarus have already been instructed to cut their supplies to Belarusian refineries from September by 400,000 tonnes, i.e. approximately 25%. This idea has, however, been opposed by Igor Sechin, the CEO of Rosneft, who is reputed to be influential in the Russian government elite; as a shareholder of the Belarusian refinery in Mazyr, he would incur losses as a consequence of these moves. It was also reported on 29 August that Transneft had decided to redirect part (no specific numbers were provided) of its previous oil transit via Belarus to the Russian ports of Primorsk and Ust-Luga, which potentially (depending on how much the transit would be reduced) could lead to a drop in supplies to Poland and Germany. The Belarusian side has not yet confirmed any cuts in supplies of Russian oil to Belarusian refineries. Moreover, Deputy Prime Minister Arkady Dvorkovich, drew attention to the fact that investigation into the re-export of Russian petroleum products by Belarus without paying due customs duties to the Russian budget was still pending in Russia. In turn, a representative of the Russia-controlled Eurasian Development Bank, Sergey Shatalov, has expressed a sceptical opinion on the possibility of granting another loan to Belarus from the Eurasian Anti-Crisis Fund.

Statements heard from representatives of the Russian government have been lacking in unity. On the one hand, the presidential advisor, Yuri Ushakov, on 30 August insisted on the immediate release of Baumgertner. On the other hand, Vladimir Putin's spokesman, Dmitry Peskov, stated on 2 September that it was not an issue for the Kremlin to be involved in, and emphasised that it was too early to make any decisive conclusions.

Lukashenka's motivations

All this suggests that Baumgertner's detention had been planned at least since Uralkali left BKK. The withdrawal from co-operation by the Russian partner could cause losses reaching, according to estimates, approximately US\$1 billion annually. This is a serious threat for the Belarusian economy, which has been facing serious problems (including a deficit of foreign currency), even more so since exports of potassium fertilisers was seen by Minsk as the last chance to improve its deteriorating trade balance (between January and July 2013, it was at -US\$2.16 billion). Therefore, Baumgertner's detention is first of all Minsk's reaction to the withdrawal of the Russian partner from co-operation in the potassium sector, which is crucial for Belarus. This could also possibly be an attempt to prevent a takeover of Belkali's assets, which Kerimov has tried to do on numerous occasions. It needs to be noted that Suleyman Kerimov and the head of the company's board of directors, Alexander Voloshin (who was head of the Kremlin Administration in 1999–2003) were also invited by Prime Minister Miasnikovich, which could mean that arrests of the entire management of this corporation had been planned. However, neither of them went to Minsk.

Conclusions

It seems that Alyaksandr Lukashenka is thus trying to force Russians to resume co-operation or compensate for the losses resulting from Uralkali's withdrawal from BKK. This could also be an attempt to cause a change in Uralkali's market strategy resulting in a reduction of potassium prices and a deterioration in the Belarusian manufacturer's situation. Nor may it be ruled out that Lukashenka also hopes to derive benefits from conflicts inside the Russian political and business elites. The signs which may indirectly hint at this are the toned-down statements heard from Putin's spokesman and Sechin – who has strong links with the president – while Kerimov is linked to Prime Minister Medvedev's milieu. However, arresting a high-ranking Russian manager visiting Belarus upon invitation from the Belarusian prime minister is a very risky move. This provokes Russia to react firmly so that it does not lose face, which has always been a top priority for the Kremlin. This is essential because it is affecting the image of Russia as a state which has special influence in Belarus and controls the post-Soviet area. Therefore, it is unlikely that Minsk will force Moscow to make any concessions this way. Furthermore, retaliation actions announced by Russia could expose Belarus to even greater losses than the ones resulting from the

discontinuation of co-operation with Uralkali.

The Russian side will most likely look to reach a compromise. Russia, given its long-term objectives in the post-Soviet area, is not interested in escalating the conflict with Belarus. One of the priorities in the Russian policy towards former Soviet republics is to build the Eurasian Economic Union and to include Ukraine in the integration structures. Belarus plays a major role in the Russian integration project; without its engagement, Moscow will not succeed in creating the Eurasian Economic Union planned for 2015. This is very important in the context of the current game which will decide on Ukraine's geopolitical orientation. Furthermore, ahead of the Vilnius Eastern Partnership summit, Russia is granting top priority to its actions towards those post-Soviet countries which are planning to sign documents aimed at enhancing their co-operation with the EU. Therefore, the reactions to Baumgertner's arrest are above all a sign of possible measures to come. However, unless Minsk is flexible, in addition to imposing the announced sanctions, for example the talks on Russian oil supplies to Belarus in the fourth quarter of 2013 and the whole next year, which were scheduled for September, could be blocked. For this reason, it seems that both parties will be seeking a safe compromise in the coming weeks, such as the conditional release of Baumgertner until the court trial. The lack of a uniform stance taken by Russian officials could prove beneficial for any compromise.