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The end of prosperity? The West blocks the export of Belarusian potash fertilisers

Kamil Kłysiński

On 1 February, the Lithuanian rail freight carrier LTG Cargo stopped transporting Belarusian potash fertilisers from the Belaruskaliy potassium company. Transit was suspended in connection with Vilnius's decision to terminate the bilateral agreement to transport the company's products to the port of Klaipeda, where Belaruskaliy has a 30% stake in the cargo terminal. Lithuania's actions are related to the US sanctions announced in two packages on 9 August and 2 December 2021, under which a total ban on concluding contracts with the Belarusian producer and cooperation with its exporter was introduced. These restrictions also apply to potential intermediaries, which is why Vilnius decided to block the transit, seeing any further cooperation with the exporter as a threat to state security. On this basis, the offers of transport services submitted by two Belarusian companies not yet covered by the US sanctions regime were rejected. Other companies have also offered to cooperate, but the decision will also most likely be negative in these cases. The Belarusian government has made a strong protest and demanded compensation for the financial losses caused by the restrictions introduced. Next, on 2 February, Minsk announced a blockade of rail transit via Belarus of fuels and fertilisers from Lithuania as part of its retaliation. The decision came into effect on 7 February.

Minsk has stated that it will be able to find alternative transit routes, mainly through the Russian ports of St. Petersburg and Murmansk. Kremlin spokesman Dmitri Peskov confirmed on 2 February that talks on this issue were underway, but did not give an unequivocal answer as to whether Moscow could actually support such a move. The Belarusian government has also noted that some recipients of the potash fertilisers are ready to continue their cooperation despite the US sanctions regime: interest in importing 1 million tonnes of fertilisers from this country has preliminarily been expressed by the Indian contractor, inter alia. Belarus produces 11–12 million tonnes of potash fertilisers annually, of which at least 6 million are shipped abroad. In 2019–20, the export value of this product amounted to US$2.7 billion and US$2.4 billion respectively, accounting for 7 to 9% of total exports.

Commentary

- Belaruskaliy is one of the pillars of Belarusian exports. The value of the income generated from the potassium sector is 4% of GDP. The domestic potash industry is based entirely on local deposits, which significantly reduces production costs, and is unique for a country which is otherwise poor in natural resources. The Lithuanian

blockade will significantly hamper the implementation of current trade contracts. As a result, the sales value of Belarusian potash fertilisers will drop significantly (by as much as 80%). Vilnius's decision will also cut the profits of Belaruskaliy, one of the most important entities in domestic heavy industry. This will deal a serious blow to an economy which is already ineffective and devoid of stable growth factors, and burdened further not only with sanctions imposed by the US, but also by the EU's ban on fuel imports from Belarus last June. As a result, the economic recession forecast for this year (which the World Bank estimates at 2.8 percent) may be exacerbated even further.

- Lithuania's blockade of the transit of fertilisers to Klaipeda will *de facto* cut off Belarusian exporters' access to global markets, as the vast majority of exports have been carried out through this route. Contrary to the declarations Minsk has made in recent weeks about the diversification of transit directions, it has as yet been unable to find an alternative that would be equally logistically and financially advantageous. The plan for transit via Russia, which will be more expensive – for reasons including the greater distances to the ports of St. Petersburg and Murmansk – has yet to be finalised. Moreover, Russia is unable to offer sufficient transhipment infrastructure for 6 million tonnes of fertilisers. Therefore even if an agreement is reached, Belarusian exporters will only be able to ship part of the contracted deliveries via this route. Moreover, it is still possible that a Russian competitor, Uralkaliy, will block the Belarusian fertilisers from gaining access to the Russian ports in order to defend its own position on the global market. This company may also demand that Russia prevent the Belarusian fertilisers' transit by rail to recipients in Asia, and (in the extreme case) try to take advantage of this situation to take over at least part of the shares in the Belarusian company. Nor would Belaruskaliy's problems be solved by redirecting the shipments to Latvian or Estonian ports: here, too, the limited infrastructure is an obstacle, and moreover, both countries will act in solidarity with Lithuania's position.
- On 7 February, Minsk introduced a blockade of Lithuanian transit through Belarus, which is intended to force the other side to restore the cargo traffic. It seems that the regime hopes to maintain its sales markets thanks to the low price of fertilisers (which may have some significance in the context of the dynamic increase in global food prices); according to the contracts currently in force for Belarusian fertiliser importers, this price will not exceed US$300 per tonne, while on the spot markets it has already reached US$700. The Belarusian authorities also expect that the price difference will make it possible to cover the additional costs resulting from the change of transit options, for example to Russian ports, without harming the exporter's profit margins. However, it may turn out that the disruption of the rhythm of deliveries in connection with the blockade and the risk of the impact of US sanctions will lead to the end of cooperation with at least some of the company's partners. In January the Norwegian company Yara, which has recently imported about 10–15% of Belarusian fertilisers, announced that it would no longer order any further deliveries of them as of 1 April this year.
- Belaruskaliy's problems may also be exploited by its competitors from other countries, for which the situation means an opportunity to increase their share on the global potassium market. At the beginning of February, the Canadian company Nutrien declared that it could increase production by 29% in order to cover any shortages resulting from

the disruption of supplies from Belarus.