Big business in Belarus - its genesis, conditions and prospects

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Over the past ten to twenty years, Belarus has seen a steep rise in the number of local dollar millionaires. This has somewhat undermined the myth of an egalitarian model of society promoted through the Belarusian state propaganda. There is a small group of businessmen among the top earners who, in exchange for their political loyalty and their consent to share profits with those in power, have enjoyed a number of privileges that allow them to safely conduct business in an environment typically hostile to private enterprise. The favourable conditions under which they are operating have enabled them not only to accumulate substantial capital, but also to invest it abroad. However, since such businesses are seen as providing a financial safety net for the regime, in 2011 and 2012 some of their directors received an EU travel ban, while their companies were subjected to economic sanctions by Brussels. At the same time, fearing that Belarus’s big business could become powerful enough to influence the country’s political scene (as has been the case in Russia and Ukraine), Alexander Lukashenka has actively prevented such players from becoming too independent. Consequently, Belarus has so far not developed its own elite class of oligarchs who would be able to actively influence government policy. The current informal agreement between the government in Minsk and big business has proved stable and is unlikely to change in the near future. Nonetheless, a reordering of state power giving Belarus’s big business significant political influence would be possible should Mr Lukashenka lose power in the next presidential election.

The origins of big business in Belarus

The notion of social justice and equality is one of the cornerstones of the Belarusian socio-economic model. It is, furthermore, one of the main propaganda slogans of the Lukashenka regime. The Belarusian president has repeatedly assured his people that there is no place for oligarchs and multimillionaires in the country under his leadership. By taking this position, the government has managed to prevent extreme economic divisions in Belarusian society - a problem which continues to plague, for example, its neighbour Russia. Lukashenka hopes that

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1 This paper attempts to present an in-depth analysis of the activities of a group of the wealthiest Belarusian businessmen, and of their relations with the regime. So far, there have been only a handful of extensive newspaper articles focusing on this group. Most of the available information, however, is highly speculative, and tends to be based on rumours and unofficial data. This presents a significant difficulty in analysing these developments. The author has made every effort to base his analysis on the most reliable information while drawing the reader’s attention to issues which are difficult to verify.

2 Alexander Lukashenka often addresses this issue during meetings with Russian journalists. See, for example, Sergey Dorenko’s 2011 interview, http://www.interfax.by/news/belarus/132440 and this year’s World Congress of the Russian Press in Minsk: http://www.regnum.ru/news/1480580.html. By doing so, Lukashenka is attempting to point out the differences between the oligarchic system in Russia and the Belarusian model of social justice.
this will allow him to retain his image as ‘father of the nation’, the defender of ordinary Belarusians (he first created this image in the 1990s). The approach is in keeping with the unwritten social contract between the government and the Belarusian people, which has for many years now won the president relatively high levels of public support and has discouraged Belarusians from joining large-scale protests staged by the opposition.

In reality, however, over the past decade or so, Belarus has seen the emergence of a relatively large group of very wealthy individuals, including a number of so-called “dollar millionaires”. A report issued last year by the international agency Wealth-X puts the number of Belarusian multimillionaires at 115, with an estimated joint wealth of $13 billion. It is clear that under an authoritarian system of government, and with Minsk’s tight control over the economy, large companies are unlikely to do well without some degree of support from the central authorities, since they object in principle to excessive growth in the private sector. This resistance stems from the fact that the Belarusian government wants to maintain the dominant position public sector companies have and thereby to retain its current control of the country’s economic system and, by extension, of Belarusian society. Under these conditions, it is impossible to accumulate substantial capital, and to set up, efficiently operate and expand private businesses without tacit consent from the government. Such consent, however, is usually negotiated through informal links with representatives of the regime and is contingent on winning the trust of the country’s top leaders.

This is evidenced by a slump in the fortunes of the first wave of Belarusian entrepreneurs, who began to amass great wealth back in the 1990s by taking advantage of the new business opportunities emerging after the collapse of the Soviet Union. After Alexander Lukashenka’s rise to power in 1994, however, some of them failed to secure the backing of the new administration. Among them were high-profile business figures such as Leonid Volk (trade in non-ferrous metals and gold), Alexandr Pupeiko (export and re-export of goods through Belarus to Russia), Ihar Pinkevich (grains market), Valery Shumsky (trade in oil and oil products), Andrei Klimov (construction industry, real estate) and Valery Kolosovsky (pharmaceuticals). Over the next few years, despite their earlier successes and growing profits, these individuals were subjected to repeated audits and financial penalties. All this subsequently drove them out of business and, in some cases, it forced them to emigrate. Regardless of the official reasons for the sanctions levied against these businesses (some of which, such as tax evasion, may have been well-founded), it seems that the main motivation behind Alexander Lukashenka’s actions was to eliminate any entrepreneurs from the market who had become too independent and did not owe their wealth to the new president. There was a risk that they would not be loyal to the new regime and potentially support other political groups, including the then relatively strong Belarusian opposition. At the same time, a new group of businessmen, backed by

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3 Based on the criteria adopted by Wealth-X, only those individuals with assets worth more than $30 million can be defined as multimillionaires. For more information, see: http://naviny.by/rubrics/finance/2012/10/17/ic_articles_114_17_9599/

4 The public sector produces about 70% of the country’s GDP and employs about two thirds of its citizens.

the new administration, began to gradually replace the first wave of Belarusian entrepreneurs. And although most of them had been present on the Belarusian business scene before, the dynamic growth of their companies was clearly facilitated by Alexander Lukashenka’s rise to power.

The wealth of the current Belarusian business elite

It is possible to single out a small group of particularly influential individuals among Belarus’s multimillionaires who for years have enjoyed special treatment and have substantially increased their assets - either through lucrative contracts, or through rather rare privatisation opportunities. According to available reports⁶, Belarus’s wealthiest entrepreneur, Uladzimir Peftiev, is worth an estimated $1 billion, potentially making him the only Belarusian billionaire. Peftiev’s assets include: Beltechexport (export of arms and military equipment)⁷, BT Telecommunications (investment in advanced technologies), Sport Pari (lotteries, gambling), Delovaya Set (Internet service provider), as well as Akvadiv distillery and a number of investments in logistics and real estate. Another member of the Belarusian business elite is Yury Chyzh. Among his assets, he owns Triple Group, which includes over twenty subsidiaries across a range of sectors, including construction and the manufacture of building materials, the production of foodstuffs, catering, and tourism. Another important area for Yury Chyzh is the petrochemical industry - his three companies: Neonafta, Traypenergo and Belneftegaz have in recent years supplied Russian oil to Belarusian refineries and exported Belarusian oil products to the EU and Ukraine⁸. Yury Chyzh’s total wealth has been estimated at approximately $200 million. Other leading Belarusian entrepreneurs include: Alexander Shakutin - the owner of Amkodor, one of the largest manufacturers of construction equipment and civil engineering machinery in the CIS and Eastern Europe; and

Alexander Moshensky, operating in the food industry, who owns the dairy producer Savushkin Product, as well as the fish and seafood processing plant Santa Bremor. The assets of the two businessmen have been estimated at $150 million and $90 million respectively. The list also includes Anatoly Ternavsky, the owner of Univest-M, a corporate group operating in the construction industry, including real estate development. However, Ternavsky, as with Yury Chyzh, has for many years been involved in supplying Russian oil to Belarusian refineries

⁶ Due to the reluctance of Belarusian companies to fully disclose their revenues and assets, all figures reported in this paper are based solely on publicly available estimates and the speculations of independent Belarusian journalists and experts. The main source of this data is a 2012 ranking of the 200 wealthiest and most influential Belarusian entrepreneurs, published by the Belarusian online newspaper Yezhednevnik. For more information, see http://www.ej.by/rating/business2011/

⁷ In May 2012, Peftiev’s controlling stake in the company was acquired by a previously unknown Russian businessman, Dmitry Gurinovich. Some sources have claimed that the transaction was a front. Although there is no conclusive evidence for this suggestion, it has been argued that Peftiev’s shares were sold to Gurinovich to free Beltechexport from EU sanctions, which the company (along with Peftiev’s two other businesses) was made subject to in 2011, following suspicions that it was offering financial support to the Belarusian regime.

⁸ EU sanctions were also imposed on Chyzh and his 18 companies constituting Triple Group. After the EU failed to reach consensus, three of these companies operating in the energy market were exempted from the sanctions, and to avoid difficulties in operating in EU markets, Chyzh separated them from Triple Group. At present, there is no reliable information about the current status of these companies.
and exporting petroleum products to the EU. Additionally, as the owner of an oil storage facility in south-eastern Belarus, Ternavsky holds a licence for the supply of oil products to domestic wholesalers. The investment portfolio of Ternavsky’s Univest-M groups is currently worth approximately $1 billion.

The symbiotic relationship between the regime and private capital

A closer analysis of the activities of big business in Belarus indicates the existence of an informal agreement between the incumbent regime and individual entrepreneurs. By complying with the unwritten rules of mutual coexistence, both parties are able to reap significant financial benefits. Under the deal, the companies are expected to refrain from supporting or financing the Belarusian opposition - although this appears to be a blanket ban affecting the country’s entire private sector. Furthermore, Alexander Lukashenka, fearing the regime’s power may wane, has consistently prevented any members of the Belarusian business elite from taking high public office. On the other hand, he has also blocked calls from the local nomenklatura (raised mostly by high-ranking officials), for privileged property rights to be granted to them, in order to protect himself from the emergence of strong centres of influence. Belarusian multimillionaires are also required to keep their wealth private, so as not to destroy the ideals of social equality that many Belarusians still believe in, and to avoid creating the impression that some Belarusian citizens are significantly wealthier than high-level government officials, including the president.

One of the important elements of the agreement between government and business is an informal obligation to provide funding for sports and the necessary sports facilities. Due to this Yury Chyzh has owned and bankrolled the Minsk-based Dynamo Football Club for over a decade. He is also the chairman of the Belarusian Wrestling Federation, and is known for investing in the development of sports infrastructure, including the construction of ice hockey rinks and the renovation of the Dynamo football stadium in Minsk. Meanwhile, Uladzimir Peftiev served for a number of years as the president of the Belarusian Tennis Federation, and together with Yury Chyzh and Anatoly Ternavsky, Peftiev has been an official sponsor of the Presidential Sports Club, managed by Lukashenka’s second son, Dzmitry. Although only donations to Belarusian sport are disclosed to the public, it seems very likely that through the unofficial and informal cooperation mechanisms and profit sharing, local big business also supports the Belarusian state, and perhaps even individual state officials, also in other areas. It is worth noting that the leading representatives of Belarus’s big business, particularly

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9 Along with Peftiev and Chyzh, Ternavsky is the third Belarusian businessman whose companies were made subject to EU sanctions. Following Chyzh’s example, Ternavsky also decided to remove its oil companies from the Univest-M holding in 2012, making it difficult to access information about their business activities. According to unofficial data, after losing access to EU markets, Ternavsky redirected the export of oil products to Ukraine.

10 The only exception in the group of businessmen with close links to the president is Alexander Shakutin, who is currently serving his second term as a senator in the Council of the Republic (the upper chamber of the Belarusian parliament). However, under the current political system, the Belarusian legislature has no significant impact on state policy. The post should therefore be seen more as a mark of prestige.

11 Much of the information on this subject consists of unverifiable speculation. Unofficial sources have suggested that several years ago Yury Chyzh’s Triple group signed a contract for the construction of a luxurious presidential residence in the primeval forest of Belovezhskaya Pushcha. It is possible that the cost of the construction will be met entirely by the contractor.
Yury Chyzh, Anatoly Ternavsky and Uladzimir Peftiev, have close links to the President’s two adult sons Viktor and Dzmitry, which further strengthens their position. The exceptional status of these individuals is evidenced by the lack of “reshuffles” within the group, and the fact that so far not a single member of the business elite has been arrested or has had his assets confiscated by the authorities. One may conclude therefore that the group constitutes an essential part of the financial safety net of the Belarusian regime. This prompted the European Union to issue economic and visa sanctions against several Belarusian businessmen (Chyzh, Peftiev and Ternavsky) for two consecutive years: 2011 and 2012.

In recent years, the Belarusian government has considered the possibility of recruiting the richest private entrepreneurs to its task of establishing several national holding companies capable of technological modernisation and able to compete in foreign markets. At the time, some experts suggested that Alexander Lukashenka was seeking to create his own group of oligarchs, meant as a counterbalance to Russian corporations interested in acquiring strategic assets in Belarusian heavy industry. However, it seems unlikely that the Belarusian business elite has sufficient capital at its disposal to compete against much stronger players from Russia. The matter is further complicated by the fact that the majority of Belarusian entrepreneurs have developed close links with their Russian business partners (for example, the importers of Russian oil: Ternavsky and Chyzh), which renders the alleged plans for a confrontation highly improbable. This could be the reason the central authorities have so far focused on establishing holding companies primarily on the basis of state-owned businesses. This might also explain why the Belarusian president has decided not to press on with the large scale privatisation of state-owned companies.

The government has decided to grant private corporations access to highly profitable industries which are critical for national security, such as the arms trade or the export of petroleum products. This indicates the regime’s trust in some businessmen and that they enjoy a special status.

12 According to unconfirmed reports, Ternavsky’s Univers-M employs the wife of Dzmitry Lukashenka, the president’s younger son. While the wife of Lukashenka’s older son Viktar, allegedly works for one of the companies owned by Uladzimir Peftiev. There are also rumours suggesting the president’s two sons, and particularly Viktar Lukashenka who coordinates the security sector, have been providing the necessary support and protection for the businesses owned by Ternavsky and Peftiev.

13 With the exception of the entrepreneur and banker Viktar Shevtsov, who was arrested in 2011 despite his close links to the Belarusian regime. The exact circumstances of his arrest, however, remain unclear. In addition, the Belarusian media occasionally publish reports alleging a breakdown in the relations between Belarus’s wealthiest businessmen and Alexander Lukashenka or his sons. So far, however, none of these allegations have been borne out by reality.

14 This hypothesis was put forward by, for example, the Belarusian independent economist Yaroslav Romanchuk; see. http://m.wyborcza.pl/wyborcza/1,105226,11317566,Oligarchowie_Lukaszenki.html

15 In 2012, Amkodor was used to establish a holding company of the same name; later that year, however, the central authorities blocked a previously announced project to create a holding company based on the dairy plant Savushkin Product, owned by Alexander Moshensky.
It is worth noting that the main company responsible for the immensely profitable re-export of Russian petroleum products in the form of solvents and diluents to the EU in 2012 was Interservice, owned by Nikolai Vorobei, a businessman with close links to Yury Chyzh. The legality of this arrangement was subsequently questioned, and in August 2012 Russia successfully blocked further shipments. Until then, however, this trade was one of the main sources of foreign currency for the Belarusian budget, and therefore it could only have been controlled by a company with close links to the government. The privileged position of the Belarusian business elite is also evidenced by the fact that, although in principle Alexander Lukashenka has objected to calls for privatisation, he has on several occasions issued special decrees allowing individual entrepreneurs to acquire state-owned companies at prices significantly lower than their market value. Such a decree paved the way for Alexander Shakutin to obtain permission in 2011 to acquire three state-owned heavy equipment manufacturers, while in 2012 Nikolai Vorobei was allowed to buy a feed concentrate production plant in Navapolatsk17. Occasionally, the privileges enjoyed by trusted entrepreneurs take on a virtually feudal dimension, as was the case in August 2012 when Yury Chyzh was allowed to lease over 300 hectares of land near his home village of Sabali (Brest region) by special presidential decree in order to build an open-air ethnographical museum18. Recently, the preferential treatment has been followed by a series of honours awarded to the key members of the business elite: In June last year, Alexander Lukashenka awarded state decorations to Alexander Moshensky and Yury Chyzh. Moreover, the wealth accumulated by these individuals, through the government’s implicit support, has also enabled them to invest their money abroad. Yury Chyzh now owns two businesses in Latvia - Mamas D. (biofuel production) and Alus D. (breweries)19. In late 2012 Alexander Moshenky purchased the Russian fish processing plant Russkoye More for $52 million, and Alexander Shakutin is currently negotiating the acquisition of several Serbian engineering plants set for privatisation.

Conclusions

Since Alexander Lukashenka’s rise to power nearly twenty years ago, Belarus has witnessed the emergence of a large group of wealthy businessmen who owe their success largely to the tacit support offered to them by the current regime. In exchange, the government demands political loyalty from them along with a share of their profits. The business elite is made up of a small group of particularly privileged businessmen with very close links to Alexander Lukashenka and his family. With the regime’s approval, the members of the group have been steadily building up their assets and have facilitated a series of ventures, which were both highly lucrative and vital to the national interest, such as the export of petroleum products or the arms trade.

16 The revenue generated from re-exporting these products in 2012 reached more than $2.7 billion.
17 According to an approved investment plan, by 2021 the plant is to be converted into Belarus’s third refinery (in addition to the refineries in Navapolatsk and Mazyr). Its target capacity has been set at 1.5 million tonnes of petroleum products.
18 See: http://pravo.by/main.aspx?guid=3871&p0=P31200369&pl=1
19 A report published in December 2012 suggested that Chyzh’s stake in Mamas D. had been either transferred or sold (the details remain unclear). The shares are now owned by two Belarusian citizens working for one of the companies belonging to Chyzh’s Triple Group. It is therefore likely that the change of ownership was simply an attempt to evade EU sanctions.
The informal agreement governing the relations between Lukashenka’s regime and big business has so far proved highly effective, stable, and capable of bringing tangible benefits to both parties. It does not, however, guarantee the system long-term stability. It is possible that local business leaders will begin to call for greater autonomy as the amount of capital accumulated by big business increases and the position of Belarusian firms in foreign markets strengthens. This may also lead to them demanding the possibility to shape public policy or to them seeking an active role in running large and strategically important state-owned businesses. Being aware of this danger, Alexander Lukashenka has been trying to hold back the leading Belarusian entrepreneurs and has blocked privatisation initiatives which would benefit them. These efforts have been aimed at preventing the emergence of a new class of oligarchs in the country. The president has also taken measures to block an excessive influx of big capital from abroad, especially from Russia. Lukashenka is aware that groups of influential oligarchs in both Ukraine and Russia will with varying levels of intensity and success try to influence state policy in Belarus and to affect economic decisions. Such a turn of events would directly threaten the president’s position, and so the ‘oligarchisation’ of the Belarusian political system is unlikely to begin in earnest until after Alexander Lukashenka leaves power.