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Belarus Potash Pits Chinese Against Uralkali

By The Moscow Times

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China may thwart Russian efforts to control almost half the potash market as Belarussian President Alexander Lukashenko seeks to sell part of fertilizer producer Belaruskali to stave off a deepening economic crisis.

Uralkali expressed interest last month in buying a stake in Belaruskali in a deal that would give the Russian company 45 percent of global potash production as food shortages boost demand for the potassium compound. Lukashenko, who values Belaruskali at $30 billion, may opt to sell a smaller holding to a Chinese company, said Lilit Gevorgyan of IHS Global Insight in London.

“The Russians realize that Lukashenko is short of cash and this is a fantastic opportunity,” Gevorgyan. “But he’s realizing that he’s finding himself increasingly in Moscow’s pocket, so if he could negotiate a deal and convince the Chinese to take a stake, it would be much better for him.”

The potential fight for Belaruskali, which produces 15 percent of the world's potash, pits Russia's drive to boost its influence in the former Soviet Union against China's strategy of investing to secure the raw materials it needs for a burgeoning economy. Chinese bidders may include Sinofert Holdings and China BlueChemical, according to analysts.

Belarus is the world's third-biggest producer of potash, behind Canada and Russia, with China and Germany tied for fourth, according to the U.S. Geological Survey. The five countries accounted for 83 percent of production last year.

First Deputy Prime Minister Vladimir Semashko said in June 2010 that Belarus may sell a minority stake in Belaruskali to Chinese investors for as much as $7 billion. Belarus' Belapan news service reported May 24 that talks were continuing.

"Chinese companies will definitely join in bidding," said Xu Hongzhi, an analyst at Beijing Orient Agri-Business Consultant. State-owned companies "have a strong incentive to grab resources overseas because they're short of the raw material and heavily dependent on imports." Sinofert, China's biggest fertilizer importer, is the most likely bidder, Xu said. China BlueChemical is also a contender, Bank of America Merrill Lynch said last year.

Calls to Li Qiang, a spokesman for Sinochem, Sinofert's parent company, weren't answered. Xi Yuxin, Bluestar's spokesman, said he had no information about interest in Belaruskali. Alexander Timoshenko, press secretary for the Belarussian Council of Ministers, declined to comment.

"The situation reflects both China's increased confidence as a global player in the post-crisis world, and its fragility as an importer of natural resources," said James Beadle, an investment adviser at Societe Generale in Monaco who focuses on emerging markets.

China has invested in projects from Latin America to Africa to secure access to resources. The Export-Import Bank of China agreed to lend Belarus $1.1 billion to help build a cellulose plant, improve highways and electrify a railroad, the state-run Belta news service reported June 14.

Belarus has set a high price for Belaruskali, which is probably worth $20 billion to $25 billion, said Marina Alexeyenkova, a managing director at Gazprombank. Russia, which coordinates potash sales with Belarus, would lose the trading arrangement if China were to buy into Belaruskali.

The China-Russia competition comes as Belarus seeks aid from the International Monetary Fund, which has said the government must let the currency trade freely and ease price controls. Russia and other former Soviet countries agreed last month to lend Belarus $3 billion on condition that it sell $7.5 billion of state assets.

Chinese potash prices rose to $470 a ton last month from $115 in 2001 and peaked at $635 in April 2008 amid concern about global food shortages.

Lukashenko, a 56-year-old former Soviet collective farm boss, is facing unrest after Belarus devalued its currency by 36 percent in May as it struggled to close a current-account deficit that swelled to 16 percent of gross domestic product last year.

"The negotiations with the IMF are going to last some time," Gevorgyan said. "The bottom

line is that he's trying to raise as much cash as he can because he knows there is a direct link between the worsening economic conditions and his future."

Uralkali, controlled by Suleiman Kerimov and his partners, may be interested in Belaruskali if the price creates value for shareholders, chief executive Vladislav Baumgertner told reporters June 28. No negotiations by Uralkali management are currently underway, he said. Kerimov's Nafta Moskva has held talks with Sberbank on financing a deal, bank chief executive German Gref said June 16.

Gazprom is ready to pay $2.5 billion for the half of Belarus' natural gas pipeline it doesn't already own, chief executive Alexei Miller said June 30.

"Russia is using its economic strength to gain leverage across the former Soviet Union," said Roland Nash, chief investment strategist at Verno Capital, a Moscow hedge fund that manages about $140 million. "If you can go and buy key assets in a country, then you have a lot of influence over it."

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