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Belarus to Revise Potash Strategy as Joint Venture Breakup May Hit Currency

By The Moscow Times

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MINSK/MOSCOW — Belarus is under pressure to find a new strategy to boost potash income due to fears that the loss of Russian partner Uralkali could see the country lose key export revenue and lead to its currency weakening.

Belarus, led by President Alexander Lukashenko since 1994, is Russia's staunchest ally among the former Soviet republics, but its economy is stagnating after a financial crisis in 2011.

Potash is one of the main export products for Minsk, which — according to Moody's rating agency — has annual debt repayment obligations of $2 billion until 2015. Belarus' foreign-currency reserves are about $5.5 billion.

The country, which has kept in place a largely Soviet-style economy with full employment and price controls, needs to react quickly to a decision by Uralkali on Tuesday to break its venture with the Belarusian Potash Company (BPC) and send potash sales through

Switzerland.

Belarussian state-owned potash producer Belaruskali said it was not consulted by Uralkali before the Russian company quit their joint venture but that it promised a new sales strategy to address the expected impact of its partner's exit.

"We have not worked out a strategy yet, so it is too early to say what it will focus on," Anatoly Makhlai, deputy chief executive with Belaruskali, said on Wednesday.

Belaruskali was a partner to Uralkali for eight years in BPC, which once held 43 percent of the global potash export market. Uralkali was at one point rumored to be interested in buying a stake in Belaruskali.

Uralkali predicted that breaking up BPC would cause the global potash price to fall by 25 percent in the second half of 2013. The announcement heralds a price war for the key crop nutrient which caused global potash makers to lose billions of dollars in market value on Tuesday.

Belarus' ruble hit 8,880 per dollar Tuesday, its weakest in a month, reflecting worries about the loss of export revenues to Minsk and concerns it may use devaluation to boost its accounts.

Fertilizers accounted for 8 percent of Belarussian gross exports in the first five months of the year and were one of the key generators of foreign currency, according to VTB Capital.

A fall in potash prices could lead to an increase in the full-year trade deficit of nearly $1 billion to $5.3 billion, VTB Capital said.

"[Lower export revenues] may negatively affect market players' moods and the level of trust in the [Belarus] ruble," said Dmitry Kruk, a Minsk-based analyst at the Belarusian Economic Research and Outreach Center (BEROC).

"In this respect, in the medium term, it may support a tendency towards ruble weakening."

In 2011, Belarus devalued its ruble by 65 percent trying to stem a balance-of-payments crisis. But emerging from that crisis, Lukashenko's government has doled out subsidized loans, raised wages and drafted ambitious economic development plans.

While the breakup of the venture has raised some speculation that it could be due to a political fallout, Uralkali said Wednesday that there were no political motives behind the move.

Lukashenko, who has not yet made a public comment on the issue, changed the head of BPC last week after his son carried out an audit of the company.

Moscow has kept Minsk as an ally by supplying oil to the country and traditionally charging it below market prices, analysts say. However, while low energy prices and financial help from Moscow are crucial for Lukashenko's efforts to keep the economy afloat, both countries have had repeated disputes over oil supplies.

Their rivalry also extends to more trivial matters — Lukashenko on Wednesday hooked

a catfish that was bigger than a huge pike Russian leader Vladimir Putin caught in Siberia this week.

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