



Although summertime lets us relax and enjoy the calm in politics, the *Bell* continues to be published. For summer rhythm and the scarcity of events allow us to analyse in depth political and economic developments in Belarus. Therefore, in the present issue you'll find the contribution by *Elena Rakova* presenting the history and analysis of privatization process in Belarus. The article is relevant with respect to the recent IMF statement warning Belarus to make more efforts while negotiating the provision of the Russian credit. According to the IMF, Russian credit is vital for Belarus in order to avoid economic complications. The other advice given by the Fund is to prepare state owned enterprises for privatization.

It seems likely that the official Minsk will listen to these advices. Probably as it has listened to the inducement made by the American delegation. During the official visit to Minsk American Congressmen and Senators urged the Belarusian leader to free the American citizen convicted in Belarus for the alleged industrial espionage and the use of fake documents. The topic of Belarus-USA relation is analysed in detail in the article by *Alena Daneika*.

Taking the chance, I wish you pleasant and inspirational summer holiday.

Julija Narkeviciute, Editor

HISTORY AND PROSPECTS OF PRIVATIZATION IN BELARUS

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Privatization: value system of the government

There can be no transition from a command-administrative to market economy without privatization. Privatization has always been an instrument that tackles a number of issues starting from reconstruction of the economy and rise of its effectiveness to a boost of individual enterprises' production. However, complexity and scale of privatization in Belarus have sometimes led to errors, miscalculations, failures and corruption. The problem has been frequently aggravated by the fact that privatization in the CIS and CEE countries is a 'killer' of inefficient and loss-making industry settled during the era of socialism. Such an economy and its volume becomes merely redundant under the new economic conditions.

The government of Belarus has used challenges and errors made during the process of privatization to stop it. Favourable conditions in raw materials' market (potassium, oil products), customs union with Russia and its subsidies enabled the authorities to modernize many of Belarusian plants and claim the effectiveness of state ownership. As a result, by

2009 but less than a third of the country's enterprises were turned into joint-stock companies (JSC)¹.

Moreover, the very idea of privatization in Belarus has been substituted with the concept 'transformation of an enterprise into a JSC' (corporatization). As a result, enterprises undergoing reformation were merely changing their patterns of ownership by turning into JSC. The state owns over 75% of shares in 70% of newly-formed JSC, and as little as 10% of all Belarusian JSC do not have government's share in their stock capital (all of them had been set up prior to 1996).

Furthermore, the state keeps actively interfering into operative, investment, personnel, and price policy of corporatized business using administrative and legal levers. Thus a conflict over the price policy of mobile service providers arose in 2009: after the devaluation of the Belarusian rouble by nearly 30%,

¹ A change of the legal status of an enterprise into a joint-stock company is the first step in the process of privatization in Belarus: a unitary state enterprise changes its legal status, forms its authorized capital, sets a number and a nominal price of its stock and etc. The state becomes the owner of 100% of the newly formed enterprise's shares. Just after the change of the legal status of an enterprise the state decides about the selling of its certain stock package.

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BELARUS-USA: REGIME STILL IN PLACE, SITUATION ALTERS

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It would be wrong to assume that investors from both the East and the West did not express interest in Belarusian businesses. However, the leadership of the country imposed a number of conditions for privatization deals that lead to the absence of applicants.

both operators – MTS and Velcom - increased their rates. The government reacted immediately by ‘recommending’ to return to former prices. MTS, controlling interest of which belongs to the state, obeyed whereas Velcom, that belongs to Telecom Austria, started a debate and launched negotiations with the government seeking to find a compromise. The government interferes in activities of other JSC as well, thus infringing the interests of private owners (for example, those of *Gazprom* that has stocks of *Beltransgaz*).

It would be wrong to assume that investors from both the East and the West did not express interest in Belarusian businesses. However, the leadership of the country imposed a number of conditions for privatization deals (irremovability of the staff, suspension of social infrastructure, nomenclature and production volume) that lead to the absence of applicants. For example, a number of enterprises of chemical and petrochemical industry were transformed into JSC and prepared for privatization in 2002, though they never ‘found’ their new owners.

Ideological beliefs of the authorities contributed significantly to the prevalence of state-owned property in Belarus. In authorities’ point of view, state-owned property can be as efficiently managed as private. As a result, entire branches of industry were prepared for privatization but still continued to be run by the state. Among those branches were petroleum refinement (2003), beer (2006), cement and confectionery industries (2007)². This was possible since the economic situation in the country allowed to give priority to state ownership that constituted the basis of the socio-economic model of the country.

Energy shock and change of values

The year 2007 became a turning point in the government’s attitude towards privatization. The reasons for the change were solely economic. The price of Russian gas doubled and a customs duty on Russian oil was introduced. As a consequence, the trade balance that never had a significant net surplus, plunged into minus. To restore the balance the authorities undertook several demonstrative sales that brought over 1.2 bn USD into the budget (see Table 1). To compare, in 2006 the budget received 0.03 mln USD. *Beltransgaz* was sold at a particularly good price of 2.5 bn USD. It can be explained as a political desire of Russian authorities to take control over Belarusian transit. To sum up, privatization in 2007 was implemented behind closed doors. It can be characterized by the absence of discussions and tenders (virtually all deals were filed under the President’s decrees) and sales to foreign enterprises.

2008: unfulfilled expectations

In 2008, both the authorities and potential investors were sharply disillusioned due to the mutual

overestimated expectations. Early in the year there were talks that the country’s property was being ‘prepared for sale’ since the trade balance still had problems. The demand for potential Belarusian holdings was examined and a number of major deals was being planned. In the middle of the year the world saw a peak of prices for assets. Naturally, the authorities expected significant profits from sales. However, as early as in the fall of 2008 the global financial crisis kissed all these plans and expectations goodbye.

Still, over the year, the government maintained investors’ expectations by making remarkable changes in legislation. As a result, the provision of the ‘golden share’ was abolished, other steps intended to liberalize the stock market were made, the three-year privatization programme was passed and the corporatization process intensified. While in 2007 there were as few as 5 corporatized enterprises, the number grew to 156 in 2008. Among the newly established JSC there were many potentially interesting enterprises in machinery, military-industrial complex, and chemical industry. Yet the most ‘interesting’ enterprises were labeled as strategic, i.e. banned from privatization. Moreover, the authorities have repeatedly stated their readiness to sell as little as 25 % of shares at the first stage while imposing tight conditions on potential owners.

As a result, there was only one notable privatization deal completed in 2008. 85% of shares of the mobile service provider *BeST* (the third largest in Belarus) were sold to a Turkish enterprise.

Other negotiations, ranging from selling the controlling interest of two major state banks to European counterparts to selling MAZ to O. Deripaska’s agencies, were practically stopped or cancelled due to the global crisis.

In summary, Belarus carried out case-by-case privatization in 2007-2008, several deals brought remarkable revenues into the country. The authorities grew confident in the liquidity and existing demand for Belarusian assets. In addition, the basket of shares intended for distribution varied from 1% to 100%, yet for different price. The geographical whereabouts of new owners differ greatly as well.

2009: forced privatization?

The prospects of Belarusian privatization remain unclear for the year 2009. In accordance with the approved three-year privatization programme active corporatization is to be continued. However, this policy does not presuppose mass sale of state shares to private investors. The authorities insist on solely fiscal approach that presupposes receiving of maximum benefit. As the President has repeatedly stated (namely the President dictates the tone and the speed of privatization in the country), ‘nobody will sell anything at an easy rate, for crisis prices’. The authorities do not trust private property, preferring to distribute to investors as little as 25% of shares (‘one should work a couple of years first, and then we will see’). They do not consider privatization as a reorganization instrument of outdated businesses and economy as a whole. One will barely find pri-

² The so-called ‘milk’ war between Russia and Belarus in June 2009 is explained by an alleged objective of Russian companies to acquire a portfolio of 12 Belarusian milk processing plants and Belarus’s reluctance to sell them.

Table 1. Main privatization deals in 2007-2008.

The name of privatized enterprise (share sold) 2007	Industry	The buyer	Amount of deal, USD mln.
Mobile operator Velcom (31%)	Telecom	SB-Telecom ¹ , Cyprus	556
Beltransgaz shares ² (12.5%)	Gas transit	Gazprom, Russia	625
Motovelco (99.7%)	Machinery	ATEC Holding GmbH, Austria	7.2
JSC Berezovski kombinat silikatnyh izdelii (100%)	Construction	Triple Ltd, Belarus	0.15
Belvnesheconombank (47.4%)	Banking sector	Vnesheconombank, (VEB) Russia	24.1
Belschetehnika (30.1%)	Metallurgy	Dainova Ltd., (Ukraine-Russia-Great Britain JV)	2.815
ATEP-5 (1.51%)	Transportation	Norvegijas Riepas, Latvia	0.21
Orbita-Service (26.78%)	Repairing of home radio electronics	FE Elitepartner, Belarus-Ukraine	0.187
BelOMO-Stroi (51%)	Cash registers production	Vanjes Holdings Ltd, Cyprus	0.21
2008			
Mobile operator BeST (80%)	Telecom	Turkcell, Turkey	500
Beltransgaz (12.5%)	Gas transit	Gazprom, Russia	625
Experimental plan named after Gastelo (49%)	Machinery	JSC Amkodor, Belarus	1.08
Red October (91.25%)	Shoes production	Ltd. Marko (Belarus)	0.084

1 In October 2007 Cyprus SB-Telecom sold Belarusian package to Telekom Austria for .EUR 535 m.

2 According to the signed contract, Gazprom annually buys 12.5% of Beltransgaz shares for 625 mln USD till 2011 (50% shares for 2.5 bn USD).

Source: The State property Fund.

Privatization will not become massive in 2009. Yet the pressure on the balance of payment due to the deterioration of export and external pressure of creditors will whip it up all the time.

vatization in the package of anti-crisis measures. Rather, the means to develop small and medium businesses and the support of large state businesses are viewed as main instruments. Given the global economic crisis, the efficiency of such approach raises doubts since, as the crisis aggravates, the profitability and potential value of Belarusian businesses is declining while financial resources in the world are still in deficit.

Despite all these complexities, however, there is an intrigue developing around Belarusian privatization. On the one hand, there is a conflict with Russia. Russia prefers to take a more active part in Belarusian privatization (petrochemicals, dairy, meat plants). On the other hand, the rest of the world is pushing for privatization (the EU and particularly the IMF which, under the conditions of granting a badly needed stand-by credit to Belarus, keeps gradually imposing new terms.³ and forces the government to implement market reforms).

³ Recently the Executive Council of the IMF has completed its first review in the framework of an agreement on "stand-by" credit for Belarus. The conclusions reveal that the Fund not only approved the factual allotment of credit in the amount of 679,2 mln USD, but had increased the amount of financial support up to 3,52 bn USD. The IMF anticipates Belarus will pass a new law on privatization and set up a privatization agency to implement the 'ambitious' program in this sphere.

One can state with confidence that in 2009 privatization will not be transparent and will proceed on the case-by-case basis. Most likely (if the relations between Belarus and Russia do not grow sour once and for all) the largest Russia's state bank *Sberbank* will acquire the controlling interest of the third-large Belarusian bank *BPS-Bank* (although its sale was previously intended for a large European bank). Deals are likely in the insurance sector as well as in petrochemicals and machinery. However, the deals will be made either under powerful external pressure, or as a last resort.

Meanwhile, the thesis of 'nomenclature privatization' will hardly be proven out, since the authorities need currency too badly to let the state property go. Rather, the nomenclature will keep raising its capitals by issuing permissions and engaging in other control and regulatory activities.

Privatization will not become massive in 2009. Yet the pressure on the balance of payment due to the deterioration of export and external pressure of creditors will whip it up all the time. Thus economics will catalyze both political and market reforms in the country. Therefore, 2010 may see significant changes happen in Belarus.

The visit of the solid delegation of the American Congressmen to Minsk that took place in late June 2009, however, enables to speak about the possibility of changes in the American attitude towards Belarus.

BELARUS-USA: REGIME STILL IN PLACE, SITUATION ALTERS

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For the first time in the last decade, Belarus was paid an official visit by a representative delegation of American Congressmen. The guests expressed their gratitude to the Belarusian authorities for the possibility to visit the country. Herewith the vital importance of the Act on the Democracy in Belarus was not forgotten, hopes for democratic changes in Belarus were stressed. Thus, it was implied that the development of the Belarusian-American relationship is possible only on condition of systemic reforms in Belarus.

It has been less than a year since Belarusian and Western analysts voiced their doubts regarding the possibility of radical changes in Belarus-USA relationship under the present Belarusian leadership. In the fall 2008 to my question whether an official visit of American representatives to Belarus was feasible, Chargé d'Affairs ad interim of the United States in Belarus Jonathan Moore replied that in the near foreseeable future that could hardly be expected. The visit of the solid delegation of the American Congressmen to Minsk that took place in late June 2009, however, enables to speak about the possibility of changes in the American attitude towards Belarus.

The obvious reasons for that could be the following. First, the alteration of the attitude of the EU that in the wake of the Georgian-Russian war became terrified by Russia surrounding its borders. Second, it has been acknowledged that the policy of sanctions failed to be fruitful. Finally, encouragement of the official Minsk in its attempts to create at least the semblance of democratization has played its role.

Deeds, not words are being expected from A. Lukashenka

The delegation was headed by Senator Benjamin Carden, Chairman of the Congress of Helsinki Commission, Congressman Christopher Smith, Chief representative of the Republican Party within the Helsinki Commission and Senator Richard J. Durbin, assistant of the leader of the majority of the Democratic Party in the Senate. Benjamin Carden titled the very fact of the visit as a proof of the United States' interest in the dialogue.

During the meeting with the President A. Lukashenka, the Congressmen stated that Belarus failed to meet international standards and discharge obligations it had assumed in the sphere of the basic rights and freedoms. Still, Congressman Doggett stressed the very fact of A. Lukashenka talking

about the necessity to eliminate barriers existing between the two countries was highly positive. Yet the Belarusian leader was not able to name any barrier that could be removed. Instead, A. Lukashenka simply denied the human rights violations that he is being reproached with.

The possibility to support Belarus economically was discussed during the meeting. However, it was pointed out that the scope of support would depend on concrete steps made by the Belarusian authorities. Hereby it was made clear that America cannot be taken in by mere promises. 'Words are great but deeds are much better' – Christopher Smith summed up.

So far, the only outcome of this visit is the protocol on the intention to revise the bilateral relationship. The given protocol is appended by the list of mutual pretences, expectations and conditions. Meanwhile the indirect outcome of the visit was the release the American citizen Emmanuel Zeltser pardoned personally by the President. Mr. Zeltser due to widely known reasons despairingly needed help and the Congressmen helped him out. In fact, the given symbolical gesture may show the nature of the political system of the USA: the state protects concrete rights of a concrete person. To offer a hand to the person, publicly named as the last dictator in Europe, to free the American citizen. Why not?

Belarus is the country where everything is possible

In his last interview, Chargé d'Affairs ad interim of the United States in Belarus Jonathan Moore spoke about a solid foundation for the development of the Belarus-USA relation that the new American administration is highly interested in. It was not for nothing that the official Minsk greeted the choice of Americans: in this sense, Barack Obama is a much more attractive figure than his rival in the pre-election campaign John McCain. The latter was rather tough when it came to the Belarusian leadership.

Still, it becomes increasingly clear that the idyll in the Belarus-USA relations can hardly be feasible due to the underlying differences in historical experience and the absence of understanding of democratic traditions in the mass conscience of Belarusians. Long years might be necessary to awaken the interest in and the need for democratic procedures in Belarus. Another issue is whether the alteration of the internal political situation of Belarus may be accelerated through contacts in the field of science, education and culture.

Almost a year away, the agreement on trade and economic cooperation entered into force. Belarus was included into the list of countries that enjoyed custom concessions under the Generalized System of Preferences of the USA.

Talking about culture, the traditional musical festival *Ambasovisha*, traditionally held on the initiative of the US Embassy in Belarus, is worth mentioning. Greeting the participants at the Ambassador's residence where the event took place, Jonathan Moore said: 'Belarus is the country where anything may happen'. Whether these words were a demonstration of American optimism, or a pleasant diplomatic gesture of the outgoing diplomat, it is for you to decide. More important is the fact that Mr. Moore, host the festival, taught the participants a small lesson in democracy. Having his own likings for the competitors, Mr. Moore did not participate in the poll and deliberately chose the role of an observer. Although quite amusing compared with the actual political campaigns, the poll was organized in strict accordance with democratic standards. The winner was elected by the majority of votes. Groups that had never been paid attention by mass media took part in the competition. In this way, comparatively small, basically young listeners were shown the advantages of a free choice.

Excursus into the History of Belarus-USA Relations

First steps

The USA recognized the sovereignty of the Republic of Belarus in 1991. The same year diplomatic relations were established. In early 1992, the Embassy of the USA was opened in Minsk, which was, by the way, the first foreign diplomatic representative office in Belarus of the given dimension. Joint declaration on the intention to consolidate the cooperation between both countries was signed during the visit of the Chairman of the Presidium of the Supreme Council Stanislav Shushkievich to the USA. In January 1994, the President of the USA Bill Clinton paid an official visit to Belarus. Permanent visits of the heads of the foreign affairs and defence departments of both countries' governments took place. In autumn 1995, President A. Lukashenka visited the USA on the occasion of the 50th anniversary of the UN.

It has to be noted that the USA assisted Belarus in the implementation of the programme on liquidation of strategic offensive arms and reconstruction of the defence industry. USA assisted Belarus in reduction of nuclear threat possibility under the agreement signed in 1992. 123 mln USD were allocated to Belarus under the given agreement. Cooperation of Belarusian and American military servicemen commenced within the framework of the NATO programme *Partnership for Peace* which Belarus acceded to in 1995 and continues to be its member to the present day.

Economics

Along with diplomatic contacts economic relations have been developed. In April 1992, the USA granted Belarus the status of the most-favoured-nation. Almost a year away, the agreement on trade and economic cooperation entered into force. Belarus

was included into the list of countries that enjoyed custom concessions under the Generalized System of Preferences of the USA. The system enabled Belarus to export goods to the USA at reduced custom rates or even custom free. In 1995, the inter-governmental committee on the facilitation of the development of American business in Belarus started its activities. Later on the Agreement on the Promotion and Mutual Protection of Investments entered into force. Such famous companies as Coca-Cola, McDonald and Ford Motor came to Belarus.

Development of Situation in Figures

In 1993, the share of the Belarusian export to the USA amounted to 5.2%, that of the Belarusian import – to 8.2%. In the beginning of the 90s, the USA was the leader among foreign investors in Belarus. In 1993, the USA held the third position in the list of the countries setting up joint ventures in Belarus, allowing only Poland and Germany have the first two positions. Meantime in 2008, the USA held the 11th position among the trade partners of Belarus (CIS not included) and the 17th among exporters of Belarusian goods. Commodity circulation made up 2% of Belarusian foreign trade.

However, it should be noted that before the *Act on Democracy in Belarus* (2004) was enacted, political controversies did not affect the development of economic relations.

From Declarations to the Act on Democracy

Controversies in Belarus-USA relations after 1995 grew alongside with the changes of the internal political situation in Belarus. In 1996, the USA refused to recognize the results of the referendum that legalized the amendments and the supplements to the Constitution of Belarus. America did not recognize the authority of the National Assembly formed after the dissolution of the Supreme Council of the 13th convocation. Belarus accused the USA of interference into its internal affairs. In February 1997, strict criticism of the situation in Belarus appeared in the discourse of American diplomats. Notions 'self-isolation', 'disregard of the accepted international obligations', 'breach of the accepted standards of democracy' started to prevail. Contacts with official representatives of Belarus were gradually cancelled. Meanwhile, relations with representatives of the opposition, NGOs and independent mass media were being developed. An attempt to normalize the relations was made by the American party in 1997, however, unsuccessfully.

A story of the eviction of American diplomats, including the Ambassador, from their residence in Drozdy under the pretext of canalization repairs turned into a big scandal. American diplomats left Belarusian capital for that time being. Only in 1999, the problem of the new residence was resolved and the Ambassador of the USA to Belarus resumed his

Belarusian authorities were pointed to the absence of the freedoms of speech and meeting, dependence of the judicial system on the authorities, repressions against otherwise-minded in politics and religion, uninvestigated disappearances of famous politicians and flaws in the electoral legislation.

office. By that time it was nearly two years that the Congress was debating the 'the Belarusian issue'.

The results of all electoral campaigns, organized in Belarus after the referendum in 1996, were not recognized by the American Administration. The Belarusian authorities were pointed to the absence of the freedoms of speech and meeting, dependence of the judicial system on the authorities, repressions against otherwise-minded in politics and religion, uninvestigated disappearances of famous politicians and flaws in the electoral legislation. Over time, the list of pretences and expectations was growing longer. The apogee of dissention between the USA and Belarus must have been the *Act on Democracy in Belarus* signed by the President George W. Bush in December 2004. The document was a reaction of the USA to the violation of human rights in Belarus.

The first draft of the *Act on Democracy in Belarus* appeared in 2001. The law provided for the economic sanctions and measures to terminate contacts with the official Minsk. In particular, it interdicted any governmental agency to provide the Belarusian authorities with any form of financial assistance. The document prohibited any strategic export to Belarus with the exception of humanitarian aid and expenditures on democratic activities. The representatives of the USA in international organizations were told to vote against any assistance to Belarus. The Act contains requirements to the Belarusian authorities as well. It was demanded to release all political and religious prisoners, to lift politically motivated accusations against the oppositionists, to investigate the disappearance of

the Belarusian opposition members, to cancel all forms of intimidation and repressions against the opposition, independent mass media, trade unions and NGOs and to hold free and fair presidential and parliament elections. The *Act on Democracy in Belarus* was adopted by the Congress in 2004 and given two years validity that was extended twice. In 2006, it was signed by G. W. Bush, this year – by B. Obama. The greatest knock for the Belarusian authorities, however, was the decision to expand the economic sanctions, particularly, to the concern *Belneftexim*. Such sanctions threatened with direct and considerable losses and therefore became the reason of a full scale diplomatic war that broke out in early 2008.

Namely 2008 was titled by Jonathan Moore as the worst phase in the mutual relation. It was the phase of economic sanctions and mutual decrease of diplomatic missions. 30 of 35 American diplomats, including the Ambassador, had to leave Belarus. Mr. Moore defined everything that happened later as 'minor but nonetheless growth'.

Irrespective of the fact that the validity of the *Act on Democracy* has never been cancelled (and it was reminded to the Belarusian side during the visit) America has softened its stance. The fact that the IMF granted a loan to Belarus is the best prove: it would have been impossible without America's approval. According to the statements made by the Congressman Smith in Minsk the anomaly remained as it was, irrespective of some cosmetic changes. Yet the situation has changed and the Americans must have decided to try to talk.



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