



Monthly Monitoring

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Politics

I. Foreign policy

Although summer is traditionally quiet and uneventful for international relations, Belarus went through an action-packed political season. The Uralkali case became the top newsmaker this August as far as both foreign and domestic policy departments were concerned. In late August, the conflict around Belarusian Potash Company (BPC) went far beyond the framework of a regular business dispute between the two major producers and evolved into a large-scale transnational political conflict.

On August 26, Russia's First Deputy Prime Minister **Igor Shuvalov** said that the Russian government had nothing to do with the dispute between Uralkali and Belaruskali. However, three days later, on August 29, Deputy Prime Minister Arkady Dvorkovich announced that Russia could revise "some of the bilateral cooperation issues with Belarus" because of the situation with Baumgertner's detention. Specifically, Dvorkovich mentioned possible crude oil delivery cuts and punishments of those implicated in the "solvent/diluent business," whereas **Gennady Onishchenko**, Russia's chief sanitary inspector, said that the Russian sanitary watchdog was not satisfied with the quality of Belarusian dairy products.

Nevertheless, Russian Prime Minister **Dmitry Medvedev** and President **Vladimir Putin** have refrained from making official statements so far, being aware of Moscow's weak position in this dispute. On the one hand, to provide public support for an oligarch at such a level would be a very unpopular measure; on the other hand, a top-level public conflict in the Customs Union would undermine the image of the integration endeavor. The Belarusian side waged a media war on the Russian trader that is just as heated as the former gas and dairy wars.

In August, an official Sri Lankan delegation led by President **Mahinda Rajapaksa** paid a visit to Belarus. During that visit, Belarus and Sri Lanka signed eight bilateral agreements to expand two-way engagement in some areas. Specifically, the two countries signed agreements on trade and economic collaboration, on avoidance of double taxation and prevention of income tax evasion, on military and technical collaboration, on contacts in travel and tourism, and on mutual legal assistance in criminal investigations.

II. Authorities

Uralkali CEO **Vladislav Baumgertner**, who was detained in Minsk on August 26, had arrived in Belarus at the invitation of Prime Minister **Michail Miasnikovič**. Along with the other top managers of the Russian producer, he was accused of abuse of power and misuse of authority.

Given the nature of the political and economic relations between Belarus and Russia, that move by the Belarusian side was extremely risky. It must have been a thoroughly planned and thought-out step, rather than an emotional spontaneous decision by the Belarusian authorities. The move was supposed to address at least the following objectives:

- To make sure that the Russian side will be more flexible in negotiating the compensation for Belaruskali's losses in the wake of the dissolution of the potash cartel and transfer of some of the BPC contracts to Uralkali;
- To make Uralkali look like an unreliable trade partner;
- To show its tenacity and ability to assert the national interests in every way possible.

Prime Minister **Michail Miasnikovič** was the one to pay the image costs of the actions taken by the Belarusian authorities in order to strengthen their bargaining positions. Also, the super-centralized nature of the Belarusian political system was made apparent.

In August, Commander of the Air Force and Air Defense of Belarus **Oleg Dvigalev** was appointed Commander of the United Regional Air Defense System of Belarus and Russia meaning that the controversy around the appointment of the commander was finally resolved. The decision was made by the residents of the two countries 18 months after the agreement on the creation of the United Regional Air Defense System came into effect. Previously, military analysts had anticipated long and painful negotiations of this matter, thinking that the Kremlin would like to see the force led by a Russian officer.

III. Opposition and civil society

The authorities go on with their controversial policy on the opposition and NGOs, which we mentioned in previous Timeline issues.

In August, there were new arrests of opposition activists for political reasons. A few dozen participants in the "Tell the Truth!" campaign were detained in their office and spent more than three hours at a police station. Fines were imposed on the human rights activists **Tacciana Reviaka** and **Uladzimir Labkovič**. Former political prisoner **Uladzimir Jaromenak** was sentenced to a three-month arrest. At the same time, **Zmicier Daškievič**, "Malady Front" leader, was released from prison after his sentence was extended last year. On the whole, the authorities do not impede campaigns in the framework of the "Popular Referendum" initiative.

On August 30, the establishment of the coalition "Civil Alliance for Fair Elections for a Better Life "Talaka"" was announced in Homiel. Seven organizations expressed their willingness to join the alliance: the United Civil Party, Belarusian United Left Party "A Just World", organizing committees of the Workers' Party, Belarusian Women's Party Nadzeja, association "For Fair Elections", party "Belaruski Rukh" and the organization "Young Belarus". The Belarusian Christian Democracy and Belarusian Social-Democratic Party (Hramada) are likely to join the coalition. The Belarusian opposition forces thus gravitate towards one of the two coalitions, which will likely nominate their candidates during the 2015 presidential election.

Economy

I. Foreign trade

On August 5, Belarusian Potash Company concluded a framework agreement with Qatari Muntajat trader on joint sales of potash fertilizers. Representatives of the Qatari trader assure that Muntajat is capable of selling up to 3 million tons of Belarusian-made potash fertilizers annually. The deal with the Qatari company will help Belaruskali make up for the losses caused by the recent price drops in the international potash market. However, to completely recover, the Belarusian potash giant will need more contracts for deliveries of its potash.

On August 26, Uralkali CEO **Vladislav Baumgertner** was detained in Minsk following his meeting with Belarusian Prime Minister **Michail Miasnikovič**. The official motive behind the arrest is the criminal case initiated in connection with reported cases of abuse of power by the top managers of Belarusian Potash Company (BPC), including Baumgertner. The top managers are accused of working out a fraudulent trading scheme, which inflicted up to USD100 million losses on the trading company. Baumgertner's arrest must have been inspired by Uralkali's withdrawal from BPC, the move that brought about a drop in global potash prices, as well as the demand of major consumers, specifically, China and India, to reduce prices for their 2014 contracts. The reduction in the global potash prices will affect Belaruskali's revenues (they already fell by 13.8% year-on-year in the first half of 2013).

On August 29, the Russian Federal Service for Veterinary and Phytosanitary Surveillance (Rosselkhoz nadzor) imposed limitations on supplies of Belarusian pig products to Russia. The restrictions apply to live pigs, genetic materials and pig products with no heat treatment. The official reason for the limitations is the unfavorable situation with the African swine fever in Belarus. The limitations will produce a negative impact on the country's foreign trade figures: export of pig products to the Russian Federation accounted for about 5% of Belarus's GDP last year.

According to a statement by the Russian Federal Service for Supervision of the Consumer Rights and Human Well-Being (Rospotrebnadzor), 30% of the dairy products that Russia imports from Belarus fail to meet quality and safety requirements. No limitations have so far been imposed on the import of Belarusian dairy products; however, if Russia decides to introduce restrictions, Belarus will lose a substantial part of its export to the Russian Federation. Of the 9 million tons of dairy products that Russia imports annually, 4 million tons are delivered from Belarus. Further, the Ukrainian association of dairy producers demanded that quotas should be imposed on the import of Belarusian dairy products. Their application is based on producers' reports about a major increase in the volume of Belarusian dairy products supplied to Ukraine.

Russian oil transport company Transneft decided to cut crude oil deliveries to Belarus in the third quarter of 2013 by 400,000 tons. Belarus will therefore be unable to receive the planned 5.3 million tons of crude oil in the third quarter. The reduction is formally necessitated by repairs of a 700-kilometer section of the Druzhba oil-main; however, many analysts draw a connection between short oil supplies and the "potash dispute", which erupted following the arrest of Uralkali CEO Vladislav Baumgertner.

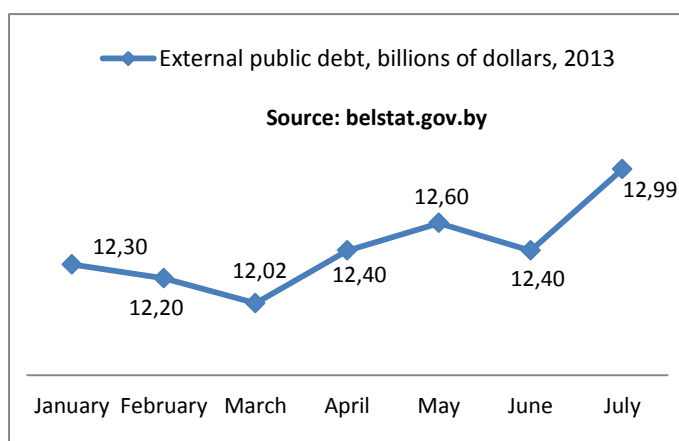
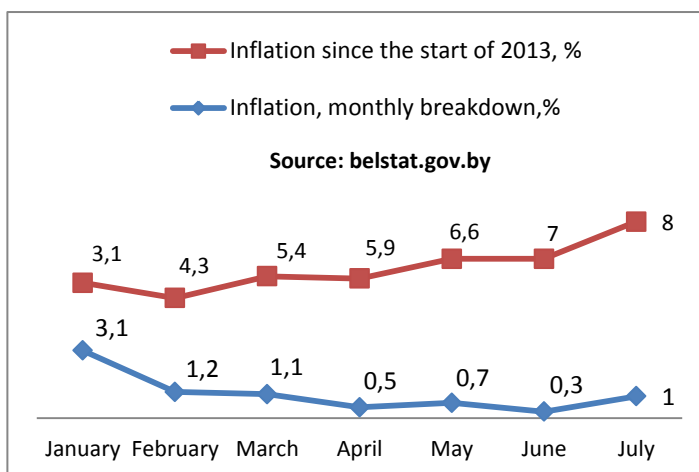
In August, OAO MAZ contracted deliveries of trucks to the State Food and Grain Corporation of Ukraine and the government of Turkmenistan. The Belarusian producer is expected to deliver 1,000 trucks to Ukraine within 18 months and 2,000 trucks to Turkmenistan.

II. Financial sector

As of August 1, 2013, the country's commodity trade deficit stood at USD2.155 billion. As in July, Belarus only registered a surplus in trade with Kazakhstan and the EU, at USD407.5 million and USD774.6 million, respectively.

Belarus's GDP grew by 1.4% in January-July 2013. Compared with January-June, GDP growth slowed from 0.3% to zero. GDP keeps growing mostly through increases in retail turnover in the domestic market and capital investments (up by 19% and 10.2%, respectively), rather than foreign trade efforts.

Consumer inflation amounted to 1% in July and reached 8% in January-July, whereas the target for the year had been set at 12%. Consumer inflation accelerated by 0.7 of a percentage point month-on-month.



As of August 1, 2013, Belarus's external public debt was at USD12.9 billion. In July alone, the debt expanded by 3.3% in the U.S. dollar terms, or by USD398.6 billion. Since the start of the year, the debt expanded by 20.2%, including currency translation differences. The figures recorded in July can be attributed to the depreciation of the Belarusian ruble and floating of USD625.3 million in state foreign exchange bonds.

Gold and foreign exchange reserves had dropped below the psychological USD8 billion threshold to USD7.9 billion by August 1, 2013 (calculated in accordance with international standards). In July, they fell by USD101.3 million. Since the start of the year, gold and foreign exchange reserved had shrunk by USD178.7 million, or by 2.2%.

III. Real economy

Industrial output went down by 4.5% in January-July 2013, compared to the same period in 2012; however, the challenge of unsold inventories still remains, as stocks amounted to 74.4% of the average monthly production volume.

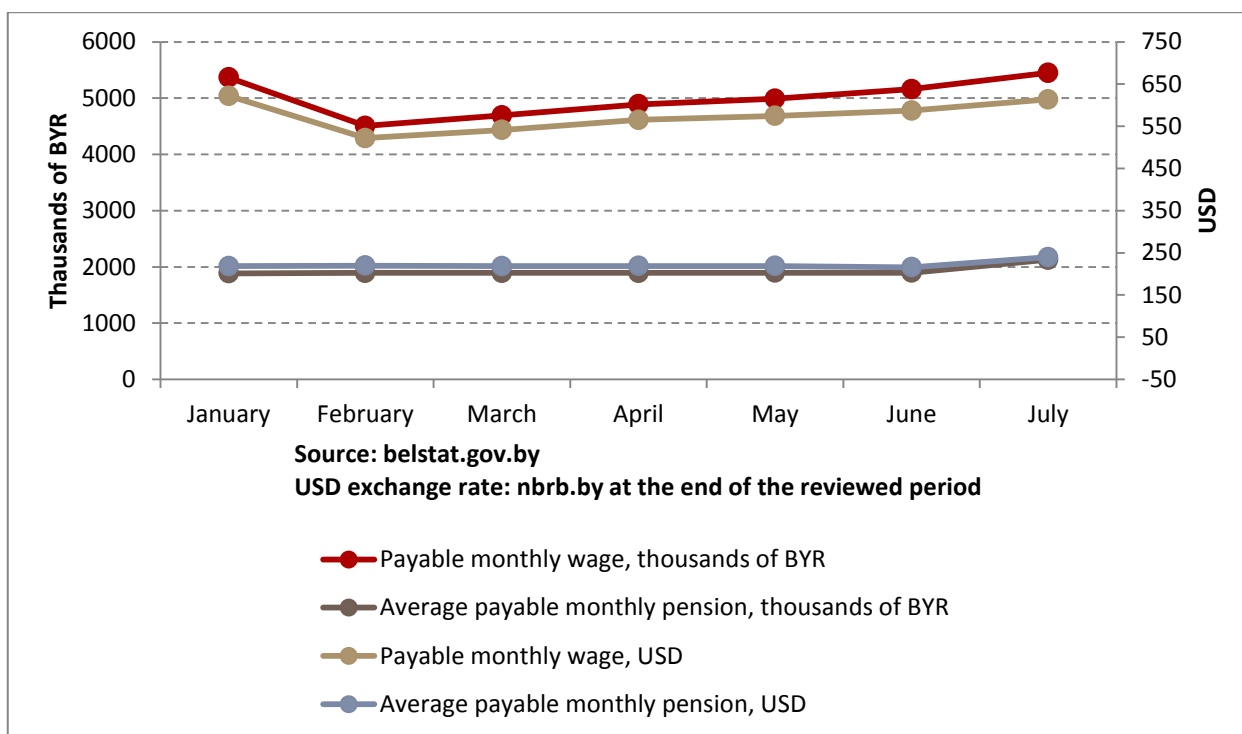
According to **Anatol Machlaj**, general director of OAO Belaruskali, the producer plans to slim down operations because of overproduction and reduce the standard pay rate by a third. The company is still trying to keep to the “lower volumes at higher prices” strategy instead of introducing an opposite sales pattern. In January-July, Belaruskali’s potash output amounted to 4.9 million tons. Machlaj’s announcements raise questions as to the feasibility of the company’s original plan to boost production to 12.9 million tons in 2013.

IV. Entrepreneurship

The cassation board of the Supreme Economic Court of Belarus upheld the previous decision on the suit filed by the Russian minority shareholders of OAO Sukno. The suit had originally been filed by the shareholders seeking to invalidate the additional issue of OAO Sukno shares, the move that diluted the combined share of the minority holders to 19.7% from 34.9%. The ruling will be further challenged in the EurAsEC court.

Society

The increase in the minimum subsistence budget brought about higher pensions; wages were growing as well. In the meantime, the anticipated hikes in prices and tariffs capable of influencing the inflation rate were postponed until September. In August, it is common for the public and state authorities alike to focus on the results of the university admission campaign, the commencement of the academic year and problems of the education system. The admission campaign revealed the inefficiency of the organization of the tertiary education system and lack of consistency with the domestic labor market requirements. The arrangements currently adopted in respect of Belarusian educators suggest that the administration has plans to further slash state spending on education, despite P. Prakapovič's assurances that the government is planning to boost its injections in education.



Many of the state-run and private universities failed to enroll as many students as they were originally supposed to. The number of students admitted in state-financed divisions dropped by 9.7% compared with the year 2012, whereas admissions to fee-based courses plummeted by 36.4%. This will primarily affect the financials of Belarusian universities, as many of them will fail to meet profit targets. Chairman of the upper house of parliament, the Council of the Republic, **Anatol Rubinaŭ**, voiced his recommendations to revise the admission rules at a conference that addressed the education system. However, the measures proposed will not be enough to effectively tackle the chief problem and eliminate the main cause of the short enrollment, namely, the failure of the education system to meet the requirements of the labor market. The feeble competition among prospective students and lower-than-projected enrollment of future pedagogues is attributed to the low profile of the teaching profession and low incomes of Belarusian educators. Meanwhile, the decision to raise the number of points that those taking the centralized test require to enroll in a university further aggravates the situation with the professions that are in the least demand. This illustrates the low effectiveness of management techniques in the education system.

When addressing the challenge of encouraging graduates of pedagogical universities to pursue teaching careers and shortages of pre-school facilities for children, Prime Minister **Michail Miasnikovič** notes the importance of engaging region and district administrations to resolve these problems. However, there is no consistent comprehensive program for the system of education, which postpones the resolution of these issues, while many of the questions raised become purely rhetorical.

Following A. Lukashenka's statement that teachers need to work more in order to make more money, it was decided to increase the standard working time for school teachers and other categories of pedagogical staff to 20 hours from 18 hours. This measure comes in package with a 25% increase in the pay rate (Resolution No. 689 of the Council of Ministers of August 6, 2013). Since there is still a good chance for administrations of educational establishments to manipulate compensations (specifically, the amount of bonuses), despite the planned boosts in budget spending on education, the decision to push wages in the education sector appears to be a formality.

Another move to streamline the personnel of educational establishments is the adoption of standard staff sizes for universities by Resolution No. 43 of July 10, 2013 "On standard staffs and numbers of some categories of employees of higher educational establishments", which regulates the number of executive and support personnel in tertiary educational establishments, as well as numbers of lecturers for universities depending on branches of study. The document is in line with the general strategy of the government towards cutting budget expenditures. The educators left out of work will have to do without social support, which is only available to civil servants made redundant. Furthermore, the quality and liquidity of the human capital of those involved in the education sector is lower, hence higher risks of unemployment and reduction in living standards once a Belarusian educator is made redundant.

The other important matter that topped last month's social agenda was social security and family. The government is on its way to work out a policy on non-workers. Previously, the administration considered imposing a tax on able-bodied non-workers; however, a fresh idea is to make them pay for health services and utility fees in full (currently the state offers subsidized rates). The new initiative is discussed as part of the campaign to cut social spending. Against this backdrop, **P. Prakapovič's** statement about an increase in the share of budget expenditures on the social sector looks rather contradictory.

Deputy Labor Minister **Aliaksandr Rumak** said that a new concept for the National Demographic Security Program would be worked out in 2014 and kicked off starting 2015. It was not reported how the new program would be different from the previous one. Specialists believe that the maternity capital project, which was analyzed when the previous program was implemented (2011-2015), can be launched beginning with 2016, which raises doubts about the feasibility of the initiative. The list of social security measures that can be adopted in the near future includes the regulatory framework for the suspension of the activity of entrepreneurs, craftsmen, lawyers and notaries, which will enable them to enjoy 100% child care allowance. However, this bill is just a measure to fine tune previous legislation.

Along with the declared intention to increase the wage rate for education workers, the government voiced its plans to introduce a higher first grade wage rate this September. However, government officials have not specified how much the wage rate will be increased, saying that the rise will depend on the state budget capabilities (meaning it will hardly be more than 4-5%). With that, Belarus saw a scheduled increase in electricity fees and heard plans to raise fuel rates. These moves are capable of spurring consumer inflation in September, which will set off the positive effects of the increased minimum subsistence budget in August and wage rates in September 2013.

Culture

August is traditionally the time of holidays and leaves for creative workers; therefore, the month turned out to be quite uneventful. Nevertheless, those few events that took place in August showed yet again that the culture policy of the state remains inconsistent and discrepant. The cultural field remains overly ideologized; cultural projects are divided into those official and unofficial; nevertheless, the “black lists” of unwanted performers must have been suspended. Following a lengthy forced intermission, the previously banned band Krambambula gave an official concert in Belarus. August also saw a few privately-organized festivals. Minsk played host to the XV International Congress of Slavists, a representative international event that enabled the authorities to step up their “soft Belarusianization” rhetoric.

The popular band Krambambula managed to give an official concert in the Dudutki Folk Crafts Museum on August 24-25 after a three-year pause. The ban on the band’s performances in Belarus was associated with the so-called informal “black lists” of musicians.

Also in August, Belarus hosted festivals and celebrations organized by private entities, including the arts and crafts festival “Vialikaje Polie”, international ethnic music festival “Volnaje Pavietra”, musical festival “Mlyn” and some more. At the same time, the British musician Ken Hensley, formerly a keyboard player for Uriah Heep, said that his performance at the first rock awards ceremony of TNT club in Minsk’s Dreamland amusement park on August 16 had been cancelled by the Belarusian authorities. The organizers of the concert said that Hensley and his band would not be able to perform in Minsk, because the original venue of that musical event had been changed, and the new venue did not have sufficient equipment for the foreign band.

On August 24, the police prevented the Burning Summer Open Air festival in Vilejka District, Minsk Region. The festival that brought together metal-hardcore, punk and punk-hardcore bands attracted many young people from Belarus and Russia. The participants reported that a hundred young people were arrested and taken to the police station; they were let go soon. According to an official police report, law enforcers prevented an unsanctioned mass event and detained seven persons who were intoxicated. The organizers of the event never provided their comments.

Minsk hosted the XV International Congress of Slavists from August 20 to 27. Attending the congress were more than 600 scientists from 35 countries; the congress featured roundtable conferences, panel discussions and an exhibition of literature on Slavonic studies. The congress enjoyed broad media coverage; the opening and closing ceremonies were attended by high-ranking officials, who spoke Belarusian. At the same time, the campaign to Russify the Minsk metro continued: new announcements of the rules of using metro only sound in Russian; no Belarusian-language announcements have been provided.

Although Belarusian theaters and bands toured a lot less this summer compared with previous periods, the news that the play “The Queen of Spades” by the Hrodna Regional Puppet Theater won the Grand Prix of the international theater festival Vasara 2013 came as a pleasant surprise. Another important cultural event was the “Days of Belarusian Culture” held in Israel on August 12-15.