

Belorussian Government to Sell More than 500 State-Owned Enterprises

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Belorussian government is offering state-owned companies and industrial property for sale. The offer marks the beginning of large-scale privatization initiative, first announced in the Presidential Decree No.7 (dated April 14, 2008) and later followed-up by the Ministerial Council's decision No.990 (dated July 14, 2008), which provided the lists of companies intended for sale within the period of three years – from 2008 to 2010. All in all, according to the lists, 519 state-owned enterprises as well as the shares of 147 open joint stock state-owned companies are set to be sold by the Belorussian government. The authorization to privatize effectively ended the ten-year moratorium on state property sales, announced by President Lukashenko in 1998.

According to Belorussian official statements, company sales will be conducted primary by means of auctions and special tender procedures, open to all potential purchasers – be it Belorussian, Russian or foreign business interests. The Government has indicated that terms of sale of state property are to be determined for each particular case. However, the Presidential decree No.7 also contains the provision that allows sale of property by “other means, provided under the laws.” The meaning of the latter provision is not entirely clear. However, it is believed that decree would permit company sales pursuant to separate arrangements with the Belorussian government.

In addition, it is worth noting that ownership transfers are likely to be burdened by certain conditions. For example, new owners may be required to preserve existing workforce, guarantee

social packages to workers, and, in some cases, ensure job creation. Moreover, many of the state companies subject to privatization do not have their property properly recorded. Recordings may take time to complete, which, in turn, may cause delays in property sales.

The lists of enterprises offered for sale (available at <http://www.magisters.com/files/belarus3.pdf> and <http://www.magisters.com/files/belarus4.pdf>) include an array of state-owned industrial properties from all industries, including telecommunication and information, agriculture, machine construction, transport, energy, etc. The government is also set to sell such giants as Minsk Automobile Factory (MAZ) as well as its section of *Druzhba* pipeline, which transports Russian oil to Europe.

The question is: who stands to benefit from the grand privatization scheme. On the one hand, it is certainly the Belorussian government. It has been hit hard by soaring energy prices, and now is looking for cash influx which may help fix the budget deficit and support Belorussian industries, which have grown increasingly incapable of surviving on their own, much less of coping with market competition. Cash will rejuvenate the economy that has not shown much growth in the recent past. According to forecasts, thanks to privatization, in the year 2008 alone, approximately 2,400 previously non-operating industrial facilities will become operational again. By 2010 the number is expected to increase to 10,500.

The privatization may also provide a much needed face lift to the image of Belorussia, commonly perceived by foreign governments and major

international business players as a closed economic system, unfriendly to outsiders. The planned sell off of state property may send a signal that the times have changed and that Belorussia now wants to be considered not as an outcast, but as a genuine partner within the wider international community. The aspiration is evidenced by the fact that the Belorussian government has requested the *United Nations Conference on Trade and Development (UNCTAD)* to evaluate the country's "investment climate". Many experts believe that no matter what the outcome, the *UNCTAD* request has been a good PR move for the country that wants to show to the world that it is parting with the old ways and is ready to become more attractive to outside investors.

Besides the windfall for the Belorussian government, the privatization may certainly benefit prospective buyers of the Belorussian unitary industrial enterprises and purchasers of shares of open joint stock companies. Belorussian sale presents tremendous opportunity for foreign businesses to expand and for investors to reap profits. That is so with one caveat: the buyers must be able to cope with the privatization pace. Assuming that the most valuable assets are going to be sold first, for most businesses the success of participation in the privatization process will essentially depend on their ability to negotiate directly with the Belorussian state authorities. Thus, a number of leading Russian businessmen have had a good head start. Oleg Deripaska of

Russian Machines has been, reportedly, negotiating with the Belorussian authorities regarding the purchase of *MAZ*. Vagit Alekperov of *Lukoil* has shown particular interest in acquiring Belorussian oil and chemical processing enterprises. However, even here certain risks remain. The majority of businessmen express concern that the Belorussian government is likely to stop short of permitting outsiders to gain full control of all industrial properties, and that the sale of state-owned companies will be designed in the manner that will leave Belorussian government in control of the key enterprises.

The aforementioned concerns echo the more general concern that one cannot put too much faith in the opportunities, presented by the government that has maintained a central-command economy and has been consistently accused by western counterparts of reluctance to maintain the rule of law. However, the Belorussian government promises order and transparency. According to official statements, privatization schemes will be closely monitored by the Belorussian state prosecutors' office in order to preempt illegal conduct or irregularities. As for transparency, it will be up to the Belorussian authorities and, indeed, in their best interest, to ensure that the privatization process is fair and open to all.

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