

## **No other choice but co-operation The background of Lithuania's and Latvia's relations with Belarus**

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For years now Belarus has been a key economic partner for Lithuania and Latvia. These two Baltic states have well-developed port infrastructure and thus provide what are the geographically closest and also the cheapest exit to international outlets for Belarusia's petrochemical and chemical industries, both of which are export-oriented. As a result, the transit of Belarusian goods is one of the major sources of income for the state budgets of the two countries. This economic interdependence has affected the stance Riga and Vilnius take on Minsk at the EU forum. When in February and March 2012 the Council of the European Union was resolving the issue of imposing economic sanction on selected Belarusian companies which backed Alyaksandr Lukashenka's regime, this triggered a discussion on what the point of such measures is and on possible economic losses in Lithuania and Latvia. As a result of firm resistance from Latvia (which was backed by Slovenia), the Council removed those companies which were most strongly engaged in co-operation with Latvian partners from the list of those to be covered with economic sanctions. Lithuania, which is more critical of the political situation in Belarus, did not express its official opposition to the sanctions. Despite some differences in the policies adopted by Riga and Vilnius, it turned out that Minsk could count on strong support from local business groups in both of these countries, as these groups fear impediments in this highly profitable co-operation and also retaliation from the Belarusian government.

The existing economic bonds mean that neither Vilnius nor Riga have any other choice but to co-operate with Belarus. They must therefore adopt a carefully balanced policy towards Minsk. At the same time, being EU member states, they do not officially deny that a problem exists with the violation of human rights by Alyaksandr Lukashenka's regime. It is for this reason that the governments of Latvia and Lithuania will be interested in maintaining the status quo in relations with Minsk. On the other hand, Belarus in a way also has no other choice but to use the ports in Lithuania and Latvia, and this will prevent it from excessively escalating tension in relations with these two countries.

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### **The Lithuanian double-track policy**

Lithuania has adopted a double-track policy with regard to Belarus; it maintains and develops economic co-operation and at the same time criticises the policy of Alyaksandr Lukashenka's regime and actively supports the

Belarusian opposition and social activists and independent media in Belarus. This stance is partly an effect of Lithuania being in the immediate neighbourhood with Belarus, whose industry to a major extent helps keep the business of the Lithuanian railways and the Klaipeda sea port running smoothly. According to available

data, approximately one third of the cargo handled at this port are products originating from Belarus (at present, these are primarily potassium fertilisers). Furthermore, Belarusian shipments account for as much as 40% in the structure of goods transported by Lithuanian railways<sup>1</sup>. This co-operation is much more important for Lithuania than trade with Belarus<sup>2</sup>, since it allows the transport and logistics industry, whose share in GDP reaches almost 10%<sup>3</sup>, to flourish. Belarus is also a transit country for goods dispatched from Ukrainian ports, including by special 'Viking' freight trains.

Given this situation, the Lithuanian government has been making efforts not to escalate tension in relations with Belarus to ensure that this does not affect adversely the profitable economic co-operation in the field of transit. At the same time, when the Belarusian regime resumed brutal repressions against the opposition in December 2010 (after the presidential election in Belarus), the active policy of the Lithuanian president, Dalia Grybauskaitė, had to be discontinued. Grybauskaitė had initiated political dialogue with the regime from 2009 to bring Minsk closer to the EU and create a favourable climate for economic contacts. Currently, political relations between Lithuania and Belarus are much more limited, and Lithuania is issuing critical statements on violations of human rights and the principles of democracy in Belarus. Thus Lithuania also supports the critical stance

<sup>1</sup> For more details, see the interview with the ambassador of the Republic of Belarus in Lithuania, Uladzimir Drazhyn, <http://www.baltic-course.com/rus/opinion/?doc=59690>

<sup>2</sup> Belarus, as with the entire CIS area, is of minor significance for Lithuanian exports: in 2011 only approx. 13% of Lithuania's exports went to post-Soviet countries, most of which were directed to Russia. In turn, Lithuania had a share of approx. 2% in Belarusian exports in 2011, which ensured it eighth position on the list of trade partners. The total trade volume between the two countries reached almost US\$1.2 billion, where exports from Belarus prevailed significantly.

<sup>3</sup> According to calculations from the Lithuanian Confederation of Industrialists.

taken regarding Alyaksandr Lukashenka's policy and – like other EU member states – insists that all political prisoners should be released. Furthermore, Vilnius (along with Warsaw) has become a key location for the operation of numerous Belarusian NGOs (these had been forced to leave Belarus) and also for the operation of agencies of Western foundations which support Belarusian civil society which are for this reason unable to take direct action in Belarus. It appears that the main goal for Vilnius now is to preserve the status quo in relations with Bela-

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rus, i.e. to maintain the present level of economic co-operation on the one hand, and to keep in force the presently applicable sanctions on the other. The Lithuanian government is of the opinion that if it were to take action to soften the stance the EU is taking towards Minsk, Vilnius would risk incurring high political costs at the EU forum. On the other hand, lobbying for imposing stricter sanctions on the regime could bring major economic losses. It also seems that Lithuania would be critical of any possible proposals for the expansion of the economic sanctions.

## The economic priority in Latvia's policy

Latvia depends even more heavily than Lithuania on the transport of Belarusian goods or those transported via Belarus. The transport and logistics sector accounts for approxima-

tely 13%<sup>4</sup> of Latvia's GDP (slightly more than in Lithuania), and goods coming from or through Belarus<sup>5</sup> account for over 50% of the total freight value. Thus Latvia, which has been severely affected by the economic crisis and has no well-developed industry, *de facto* may not allow a situation where economic relations with Belarus would be seriously restricted. Furthermore, trade with Belarus plays a greater role in Latvian-Belarusian relations than is the case with Lithuania<sup>6</sup>. At the same time, Latvia, unlike Lithuania, has never been engaged in such an active policy aimed at making Belarus involved in co-operation with the EU and adopting democratic standards. Furthermore, unlike Vilnius, Riga is not a place where the Belarusian

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third sector and political opposition operate. As a consequence, Latvia's policy towards Belarus is dominated by the economic factor and this would dictate great caution be taken when making decisions concerning visa sanctions or, even more so, economic sanctions. On the other hand, the Latvian government notices

<sup>4</sup> Report on development of the economy of Latvia, <http://www.em.gov.lv/em/2nd/?cat=30353>, p. 26.

<sup>5</sup> This concerns the transit of both goods manufactured in Belarus (approximately 35% of total freight) and those transported from other countries, including primarily Russia and Ukraine.

<sup>6</sup> Latvia has been among the most important trade partners of Belarus for years. According to data for 2011, it was ranked fourth, with a 7.6% share in Belarusian exports. Exports from Belarus form the greatest part of the trade volume (approximately US\$3 billion), similar to what is the case with trade with Lithuania. It can be assumed that part of the goods are subsequently re-exported.

the problem of the violation of human rights and democratic standards in Belarus, and does not take a separate stance than that taken by the EU as a whole, which sees a possible suspension of sanctions and dialogue with the regime as being dependent on the release of political prisoners.

## **Belarus and its lobbyists in Latvia and Lithuania**

Minsk is aware of the significance of the transit of goods from Belarus for Latvia and Lithuania, and has been trying to capitalise on this in relations with these two Baltic countries. Such actions have been taken in two areas. Firstly, Minsk has used the natural competition between Lithuania and Latvia for their share in the transport of goods from Belarus, thus causing a reduction in freight tariffs, to its own benefit. Secondly, it has been attempting to convince the governments of Latvia and Lithuania to take action at the EU forum to protect Belarusian interests. This type of activity was especially evident in spring 2012, when EU member states were considering imposing economic sanctions on selected Belarusian companies which form the financial base of the Belarusian regime. Minsk (according to unofficial information) was putting pressure behind the scenes on businessmen from the EU, including from Latvia and Lithuania, who had invested their capital in Belarus and were in a way dependent on the good will of the Belarusian government<sup>7</sup>. This pressure resulted in intensified lobbying activity from business circles from some EU member states. The lobbyists were attempting to

<sup>7</sup> According to this information, the most significant investors from EU member states were invited to the Belarusian Presidential Administration in March 2012. They were required to start lobbying for a less strict decision concerning sanctions. Otherwise they could expect 'complications' in running their business in Belarus.

convince decision makers both in Brussels and in the capital cities of some EU member states to refrain from imposing stricter sanctions on Minsk. The lobbying was the most intensive and the best-organised in Lithuania and Latvia. This was because economic co-operation with Belarus is very important for local business elites. In Lithuania, the Confederation of Industrialists<sup>8</sup> at that time was (and still is) the key centre of lobbying for a lenient policy towards Belarus. Its members include one of the few large Lithuanian investors in Belarus, Sigita Paulauskas<sup>9</sup>, and businesses controlled by Achema corporation, which is owned by the family and associates of the Lithuanian oligarch Bronislovas Lubys, who died a year ago. The business circles which form this organisation have been making their best endeavours to influence Vilnius's policy on Minsk or at least to cause the Lithuanian government to block a further expansion of sanctions. The lobbying was conducted with the use of media controlled by Achema, i.e. the *Lietuvos Zinios* daily newspaper and Baltijos TV station, and also by ordering and paying for publications in the popular newspaper *Respublika*. Furthermore, the Confederation of Industrialists was attempting to attract the attention of the media by publishing sensational assessments of losses which could be incurred if economic co-operation with Belarus were discontinued. According to their estimates, the losses would reach approximately 6 billion litas (over US\$ 2 billion), i.e. around 6% of the country's GDP. However, these figures were inflated with the intention of sparking public debate in Lithuania and thus putting pressure on the government.

<sup>8</sup> Lietuvos Pramonininku Konfederacija, [www.lpk.lt](http://www.lpk.lt)

<sup>9</sup> He owns a large hardboard factory in Mogilev Oblast, which was built with support from the Swedish corporation IKEA. IKEA is the key recipient of the factory's output. This is one of the largest Lithuanian investments in the Republic of Belarus. Other significant projects include a construction supermarket built near Minsk by Augustinas Rakauskas (in co-operation with Finland's Kesko group) and the logistics centre in Rakaw, Minsk Oblast, built by a firm owned by the Lithuanian entrepreneur Nikolaj Kolesnik.

The impact of Latvian lobbyists on maintaining correct relations with Belarus for the sake of economic co-operation with Belarus is currently significantly stronger than in Lithuania. The main centres of lobbying and support for Minsk are two major economic associations: the Society for the Promotion of Economic Relations between Latvia and Belarus<sup>10</sup> chaired by Alfreds Capanis and the Latvian-Belarusian

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Business Co-operation Council, which is co-chaired by Dmitry Ditchkovsky (the owner of Milavitsa) as a representative of Belarus, and by Aivars Locmelis (Felix Holding) representing Latvia. Another influential businessman, who preceded Locmelis as the chairman of the business council, namely Vasilij Melniks (Eiroholdings), must be mentioned in this context. Everything seems to indicate that he is at present the key lobbyist for a pragmatic approach to Belarus. Vasilij Melniks holds shares in the Freeport of Riga, which along with Ventspils, is a key port for loading and dispatching Belarusian petroleum products. He also is the head of numerous economic associations in Latvia and has a well-developed network of contacts and acquaintances in the Latvian elite. Owing to this, he has developed a very strong position in Latvia over the past decade or so. The Latvian Confederation of Employers has also made strenuous efforts to prevent the imposition of stricter sanctions on Belarus. Its chairperson, Liga Mengelone, has argued that sanctions imposed on Latvia's Belarusian economic partners could result in a loss of approximately 480 mil-

<sup>10</sup> Latvijas – Baltkrievijas ekonomisko sakaru veicināšanas biedrība, [www.latbel.lv](http://www.latbel.lv)

lion euros<sup>11</sup>. An even more pessimistic scenario was presented by the chairman of the Society for the Promotion of Economic Relations between Latvia and Belarus. He calculated that the maximum cost of the restrictions in economic co-operation with Belarus could reach as much as 1 billion euros. As in Lithuania, it is suspected that these figures were inflated and aimed primarily at provoking a discussion in the media, mobilising public opinion, and thus putting pressure on the Latvian government.

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One aspect which is different to the situation in Lithuania is the presence of Belarusian capital in Latvia as an important instrument in the lobbying for Belarusian interests<sup>12</sup>. In Daugavpils, the capital city of the frontier region Latgale, two very successful production companies are in operation, Mamas D. (biofuel production) and Alus D. (brewery), in which the majority stake is controlled by Yuri Chizh, who is a well-known Belarusian entrepreneur<sup>13</sup>. Owing

to his investments, Chizh has great influence in the region and is respected by local elites as one of the key employers. In addition to Chizh, who is well-known, another Belarusian company, Oil Logistic, which is directed by Andrey Markushev, is active in Latvia. This firm has for many years handled the transportation of Belarusian goods to Latvian ports and transit from Belarus via Latvia to Estonia under contracts signed with Latvian railways. The founders and shareholders of this company are large state-controlled Belarusian petrochemical corporations: Belneftekhim, Belkali, NAFTAN factory and the exploration and production company Belarusneft.

While assessing the potential of Belarusian lobbying in these countries, it is important to pay attention to the role played by Belarusian embassies. In both Lithuania and Latvia they are headed by experienced ambassadors<sup>14</sup> who have held their posts for six years already. Owing to this, each of them has a well-developed network of contacts with local business and political elites. This offers them great opportunities for lobbying for solutions favourable to Belarus. Furthermore, both of these diplomats have held top positions in the Belarusian state apparatus, which essentially strengthens their position as representatives of the Belarusian government.

## Blackmail from Minsk

In addition to behind-the-scenes lobbying, the Belarusian government has regularly threatened the governments of Latvia and Lithuania publicly that, should EU sanctions become stricter, it will redirect the transit of Belarusian goods to Russia. On 9 November 2012, President Alyaksandr Lukashenka announced that he and

<sup>11</sup> <http://news.tut.by/economics/279168.html>

<sup>12</sup> In the case of Lithuania only two examples where there is a major presence of Belarusian capital can be mentioned: the glass factory in Klaipeda and the factory in western Lithuania, which manufactures 'pellet', a type of heating fuel. In addition to these, a number of Lithuanian-Belarusian joint ventures operate in Lithuania. They mostly deal with the distribution of products of Belarusian industry, for example, Transchema (petroleum products).

<sup>13</sup> One of the four Belarusian businessmen who have been banned from entering the EU on suspicion of financially backing Alyaksandr Lukashenka's regime. The Latvian media informed in December 2012 that Chizh had transferred or sold (no precise information regarding which has been available) his shares in Mamas D. The new owners are two Belarusian citizens who are working for one of the companies which belong to Triple corporation, which is controlled by Chizh. Thus this is most likely merely an attempt to avoid EU sanctions.

<sup>14</sup> Uladzimir Drazhyn, a former deputy prime minister of the Republic of Belarus, is the ambassador to Lithuania. In turn, the Belarusian embassy in Latvia is directed by Alyaksandr Gerasimenko, former deputy minister of foreign affairs of the Republic of Belarus.

the Russian president, Vladimir Putin, had decided to redirect a significant part of cargoes from ports in the Baltic states to Russian ports in Leningrad Oblast, i.e. primarily to the port in Ust-Luga, which is now being enlarged, and the Saint Petersburg port. This signifies that the Belarusian government is attempting to force Latvia and Lithuania to offer even more favourable transport conditions, and probably also to convince them to take action to alleviate the sanctions. Furthermore, it also seems that the stakes in this game could be consent for the Belarusian side to lease or build its own reloading terminals in Klaipeda (Lithuania) and/or Ventspils (Latvia); Minsk has been seeking for this for a long time, seeing this as an opportunity to significantly reduce costs.

However, according to available expert calculations, a total or near total redirection of transport to Russian ports would be unrewarding<sup>15</sup>. Firstly, Latvia's Ventspils and Lithuania's Klaipeda are located much closer to the Belarusian manufacturers, which has a great impact on the transport costs. From this point of view, it could be reasonable to no longer use the services offered by the Estonian Muuga port<sup>16</sup>. However, this port has a marginal share in handling Belarusian exports. Furthermore, another serious impediment is the lack of adequate loading capacity at the Saint Petersburg port (which is seriously overloaded) and at the Ust-Luga port (which is now being developed). Therefore, the volume of transit of Belarusian goods via Lithuania and Latvia is unlikely to fall significantly in the immediate future. Nevertheless, the risk of a gradual decrease in profits from co-operation with Belarus is real; and for this reason,

<sup>15</sup> For more detail see: [http://naviny.by/rubrics/economic/2012/11/21/ic\\_articles\\_113\\_179964/](http://naviny.by/rubrics/economic/2012/11/21/ic_articles_113_179964/)

<sup>16</sup> For comparison: the distance (along the railroad tracks) from the potassium factory in Soligorsk to Klaipeda is 712 km, while to Saint Petersburg it is 998 km. In turn, the length of the railway track from the refinery in Navapolatsk to Estonia's Muuga is 851 km, while the distance to Ust-Luga is only 803 km.

the governments of these two Baltic states will make efforts to offer additional incentives for their Belarusian partners to continue co-operation. The offer made to the Belarusian ambassador in Latvia by the minister of transport and communications, Aivis Ronis, to lease or build Belarusian reloading terminals in Ventspils in November 2012 may be seen as the emergence of this trend. At the same time, it will be in

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Minsk's interest to leave the choice between the Russian ports and the ports in the Baltic states as an open question, so that it may derive the maximum benefit possible from this situation

### **The possibilities of further co-operation**

Latvia and Lithuania are in a way permanently condemned to economic co-operation with Belarus. Thus, regardless of the political option prevailing at a given time, each government in Riga and Vilnius when considering policy will be forced to take into account the maintenance of good economic relations with Minsk.

This does not, however, mean that these countries will make any concessions and thus de facto advocate Belarus's interests at the EU forum. As previous experience has shown, the only result Lithuanian and Latvian lobbyists can achieve is to cause Riga and possibly Vilnius to block support for the imposition of further sanctions on Belarus. What they are unable to do is to cause a change in direction in the foreign policies of their countries that would be more beneficial for the Belarusian regime. For this re-

ason, the governments of Latvia and Lithuania will do their best to continue the present policy so as not to put themselves in conflict within the EU and at the same time not to create additional tension in relations with Belarus.

However, the stances taken by Vilnius and Riga on the situation in Belarus will differ. Lithuania, being a country engaged in supporting the Belarusian third sector, will be more critical of Alyaksandr Lukashenka's regime. Latvia, in turn, will always adopt a more flexi-

ble stance since it is more focused on economic issues.

Meanwhile, for Belarus, the transit of goods via Lithuania and Latvia is such a profitable variant that the Belarusian government will make efforts to maintain good relations with these countries. Minsk, which is strongly interested in co-operation with its Baltic neighbours, will be avoiding confrontation, even should Vilnius or Riga support a decision at the EU forum that will be unfavourable for Belarus.

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