Impact of Targeted Sanctions on Belarus

Conference Paper · June 2012

1 author:

Julia Korosteleva
University College London

EUROPEAN PARLIAMENT

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES

POLICY DEPARTMENT

IMPACT OF TARGETED SANCTIONS ON BELARUS

AFET

EN

2012

EUROPEAN PARLIAMENT

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES OF THE UNION

DIRECTORATE B

POLICY DEPARTMENT

STUDY

IMPACT OF TARGETED SANCTIONS ON BELARUS

Abstract

The present study analyses the potential impact of the EU targeted sanctions against Belarus imposed in the aftermath of the presidential elections of 19 December 2010, following the Belarusian authorities' crackdown on the political opposition. It reveals that a broader sanction approach to Belarus, implying targeting key state-owned enterprises with high export potential (chemical and petrochemical industry) and contribution to the economy, or imposition of restrictions on capital flows, may potentially cause higher economic damage for the economy as a whole, affecting vulnerable populations in the first instance, but be less efficient in facilitating a regime change. This may lead to further political and economic isolation of Belarus in the international arena and to the intensification of economic ties with Russia. EU sanctions are more likely to have the desired impact in Belarus if they target representatives of Belarusian the business elite actively supporting the regime. These businessmen have a strong lobbying power and their influence could be strengthened as a consequence of adverse effect of sanctions on their welfare status. Sanctions are likely to force them to negotiate their interests in the government and may thus lead the government to make some political concessions.

EXPO/B/AFET/FWC/2009-01/Lot1/36 May/ 2012

PE 433.697 EN

This study was requested by the European Parliament's Committee on Foreign Affairs following a proposal by the Policy Department, DG EXPO.

AUTHOR:

Dr Julia Korosteleva, Lecturer in Business Economics, Affiliate Tutor, School of Slavonic and East European Studies, University College London

ADMINISTRATOR RESPONSIBLE:

Julien Crampes
Directorate-General for External Policies of the Union
Policy Department
WIB 06 M 075
rue Wiertz 60
B-1047 Brussels

Editorial Assistant: Elina Stergatou

LINGUISTIC VERSIONS

Original: EN

ABOUT THE EDITOR

Editorial closing date: 8 May 2012.

Printed in Belgium.

ISBN: 978-92-823-3733-2
DOI: 10.2861/79520

The Information Note is available on the Internet at
http://www.europarl.europa.eu/activities/committees/studies.do?language=EN.

If you are unable to download the information you require, please request a paper copy
by e-mail : poldep-expo@europarl.europa.eu.

DISCLAIMER

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Following the crackdown on the political opposition in the aftermath of the presidential elections of 19 December 2010, on 31 January 2011 the European Union imposed travel bans on certain individuals responsible for the repression of opposition and civil society in Belarus. Along with travel restrictions in the course of 2011-early 2012 the European Union also introduced embargo on exports of arms to Belarus and a ban on materials that could be used for internal repression, and imposed asset freezing in relation to a number of individuals including key business figures affiliated with the regime and structures controlled by them.

The issue of economic sanctions effectiveness as a tool to facilitate political change has raised controversial debates in the international community. Some experts argue that trade and financial restrictions, especially when implemented on a broader basis, are an effective policy lever to block funds flowing to/from rogue regimes. Others believe that while economic sanctions have limited power on exerting pressure on leadership of a sanctioned country, they tend to have a significant adverse impact on a targeted country's population resulting in rising unemployment, welfare losses and social impoverishment.

Sanction policy success may differ depending on the political institutional context in a targeted country. The underlying argument is that broad-based sanctions may prove to be less productive in authoritarian states with authoritarian leaders being more able to capture sanctioned rents and to allocate rent-seeking opportunities to their 'supporters'. Furthermore, if opposition is too weak and fragmented, more comprehensive sanctions may generate a 'rally-around-the-flag' effect in a targeted country, strengthening the ruling regime further.

The present study reveals that a broader sanction approach to Belarus, implying targeting key state-owned enterprises with high export potential (chemical and petrochemical industry) and contribution to the Belarusian economy or imposition of restrictions on capital flows, may potentially cause higher economic damage for the economy as a whole The latter would affect vulnerable populations in the first instance, but be less efficient in facilitating a regime change, and even more, possibly contributing to strengthening of the ruling regime. This may lead to further political and economic isolation of Belarus in the international relations arena and to the intensification of economic ties with Russia and integration processes in the CIS region.

EU sanctions are likely to have the desired impact on policymaking in Belarus if they target representatives of Belarusian business elite, actively supporting the regime, who have a strong lobbying power and whose political effectiveness could be enhanced as a consequence of adverse effect of sanctions on their welfare status, forcing them to negotiate their interests in the government and possibly persuading the government to make some political concessions. Such policy has proven to succeed given recent release of two political prisoners.

Key recommendations include the following:

- For symbolic purposes a policy of travel sanctions should be continued with the view of expanding, if necessary, a list of individuals responsible for the oppression of the political opposition and civic activists in Belarus.
- Arms embargo, a traditional sanction instrument exercised frequently by the international community, also more likely to have a symbolic power given that Belarus is not in a state of war and has no intention to build up its military potential.
- Sanctions targeting key business elite supporting the ruling regime should be adopted as a key pillar in the EU sanctions strategy towards Belarus. Despite some evidence of partial success of

such policy it would be too pre-emptive to remove sanctions imposed against Vladimir Peftiev, Yuri Chyzh and Anatoly Ternavsky and entities associated with these three key pro-regime business figures, given other political prisoners are still remaining in jail.

- There is also a need to continue strengthening the EU engagement with the Belarusian people and civil society providing financial support to non-governmental organisations. That is the case especially in part of their activities aimed at increasing awareness of general public of a true meaning of the EU sanction policy in relation to Belarus. This could help people understand that the EU's sanction policy aims to minimise the negative effects of sanctions on the population while targeting individuals responsible for violation of human rights and entities sponsoring the regime.
- One of the keys to success of targeted sanctions is a strong commitment of EU Member States to impose sanctions targeting business elite that may imply for some Member States forgiving strategic business and investment opportunities.

1. INTRODUCTION

Belarus is often cited as the last dictatorship in Europe. Political oppression in Belarus started in 1995 when Lukashenko's attempts to extend his presidential powers brought him into conflict with the National Parliament and the Constitutional Court. A referendum in November 1996 allowed the amendment of the Constitution to extend the presidential term and replace the Parliament with a wholly subordinated National Assembly, beginning to establish an increasingly authoritarian regime in the country (White and Korosteleva-Polglase). Since then the Belarusian authorities engaged in a pattern of continuous violation of human rights and civic liberties.

The situation deteriorated seriously in the aftermath of the presidential election on 19 December 2010 which resulted in a crackdown on the political opposition and violent suppression of the peaceful protests of Belarusian citizens by the police special forces, numerous arrests, dismissals from work and expulsion of young protestors from higher education institutions. On 31 January 2011 the European Union reacted to these events imposing travel bans on certain individuals responsible for the repression of the opposition and civil society in Belarus. Later the EU introduced an embargo on exports of arms to Belarus and a ban on materials that could be used for internal repression, and asset freezing in relation to a number of individuals including key business figures affiliated with the regime and entities controlled by them.

Although economic sanctions, implemented by one or more international actors against a target country, are traditionally seen as relatively efficient tools to facilitate change in political regime, a number of Belarusian experts have debated their usefulness to generate any positive outcome in Belarus. More specifically, the Office for Democratic Belarus, a non-governmental organisation functioning in Brussels in opposition to the Belarusian authorities, expressed the opinion that current restrictive measures are inefficient and lead to further isolation of Belarus.

This study discusses the issue of targeted sanctions against Belarus evaluating potential efficiency of different approaches to implement sanctions, and submits some recommendations for future policy. The next section introduces the theoretical framework within which the analysis proceeds. It is followed by the overview of the EU current sanction policy towards Belarus. The methodology of the study is discussed after that, followed by the overview of the country's economic background and presentation of an account of key economic players. It continues with the discussion of trade patterns, trade structure and financial investment in Belarus. The final section evaluates the potential impact of targeted economic sanctions on various economic agents in Belarus and provides some conclusions and recommendations.

2. THEORETICAL FRAMEWORK

Economic sanctions have been a preferred policy tool for the international community to ensure the protection of human rights and compliance with international law in the post-Cold War period (Haas, 1997; Cortright and Lopez, 2002; Drezner, 2011).

The issue of economic sanctions effectiveness as a tool to facilitate political change has raised controversial debates in the scholarly and policy communities. In their seminal work Hufbauer *et al.* find that sanctions are successful around 34 per cent of the time they are implemented. This closely matches Cortright and Lopez's estimation of the rate of effectiveness (36%), assessed on the basis of the fourteen episodes of United Nations sanctions imposed in the 1990s, suggesting only partial effectiveness of sanctions[1].

Some experts argue that comprehensive trade and financial restrictions, i.e. implemented on a broader basis, are an effective policy lever to block funds flowing to/from rogue regimes. As documented by empirical literature, sanctions are more likely to be effective when the economic damage to the target country is high. The greater the share of trade affected by imposition of sanctions, the more significant is the deterioration in a targeted economy's terms of trade[2], as it proves more costly for a target country to find alternative markets or sources of imports.

Other experts believe that while economic sanctions have limited power on exerting pressure on leadership of a sanctioned country, they tend to have a significant adverse impact on a targeted country's population resulting in rising unemployment, welfare restrictions and social impoverishment[3]. Thus, general trade sanctions, designed to limit exports and imports of a target country, are likely to worsen terms of trade, leading to trade diversion and costly substitution of imports with further likely adverse consequences for the business community and population of a sanctioned country. Similarly, comprehensive financial sanctions, sought to reduce capital flows to/from a sanctioned country, in particular through reducing government loans and aid assistance, or imposing restrictions on export credit and investment, may further curtail the demand for external funding by the local business community due to a rise in the cost of external finance attributed to higher premiums demanded by alternative creditors in the situation of credit squeeze.

The failure of comprehensive sanctions to generate change in the behaviour of the government at an acceptable cost has been particularly noteworthy in the case of Iraq (1990-2003) with a near total trade embargo and comprehensive financial restrictions resulting in a humanitarian disaster (Hoskins, 1997; Mueller and Mueller, 1999; Alnasrawi, 2001; Cortright and Lopez, 2002; Drezner, 2011).

An attempt to minimise the negative effect of sanctions on civilian populations has led to a shift from a 'broad' or 'comprehensive' sanction approach to a 'targeted' and 'selective' one where sanctions are directed towards specific decision-making elites and entities responsible for the objectionable behaviour (Cortright and Lopez, 2002; Kreutz, 2005). This approach is termed a 'smart sanction policy' as it allows for focused coercive pressure on those responsible for objectionable behaviour while minimising unintended economic and social consequences for civil populations (Cortright and Lopez, 2002).

[1] For overview of this literature see Kaempfer and Lowenberg, 1999, and Drezner, 2011.

[2] Terms of trade is defined as the value of a country's exports relative to that of its imports. Deterioration in terms of trade means increase in the price of imports relative to the price of exports.

[3] For overview of this literature see Kaempfer and Lowenberg, 1999, and Drezner.

The dominating majority of contemporary research on sanctions has been undertaken in the context of authoritarian regimes given that nearly 80 per cent of sanctions in the past three decades were imposed on nondemocratic states (Allen, 2008). Generally, scholars agree on the idea that authoritarian countries are more resistant to economic coercion than democratic states (Allen, 2005, 2008; Lektzian and Souva, 2001; Drezner, 2011), and a differentiated approach to sanctions should be used to secure the desired outcome (Lektzian and Souva, 2001). While broad sanctions will be more productive in the case of democratic states, they are less likely to yield positive outcomes in nondemocratic regimes (ibid.). Broad-based sanctions may lead to the development of black market transactions where rents can be derived by arbitraging between world prices and the terms of trade prevailing in the target country. The ruling elite in authoritarian states may be better positioned to capture sanctioned rents and to allocate rent-seeking opportunities to their supporters given that the government may impose stronger control over distribution of goods (Haas; Drezner).

Furthermore, public choice theory advocated by Kaempfer and Lowenberg (1999) suggests that broad sanctions, which are likely to generate greater economic effects, may undermine the political effectiveness of opposition groups in the target country and strengthen the ruling regime. The latter is likely to use this opportunity to engage public condemnation of unwelcome foreign intervention, picturing restrictive measures as a likely factor which may adversely affect a country's future economic growth prospects, employment opportunities and social welfare provisions altogether being responsible for the impoverishment of the general population. This may appeal to the patriotic feelings of the vast majority of population generating a likely 'rally-around-the-flag' effect, triggering public protests against sanctions, which can only strengthen the regime further.

Lektzian and Souva argue that sanctions primarily targeting key elites are more likely to deliver the desired outcome in authoritarian countries, as they would 'hamper the ability of leaders to offer crucial supporters rent-seeking opportunities' (Drezner). Employing a political economy model Kaempfer and Lowenberg (1988; 1992; 1999) argue that international sanctions can only have the desired impact on policymaking in a target country if exists within that country exists a reasonably well organised interest group whose political effectiveness potentially could be enhanced as a consequence of sanctions. The influence of a domestic interest group is determined by its ability to organise its members for collective actions (ibid). Traditionally, such a role has been assumed by opposition groups, if these groups are strong enough to mobilise their forces in the background of a declining political effectiveness of the groups supporting the regime. The members of the latter may become discouraged by the substantial costs imposed on them by sanctions, and the threat of their escalation in the future if the leadership does not comply with the demands of a sanctioning country (ibid.). However, if an opposition group is relatively weak, fragmented and unable to organise its members for collective action, broad sanctions may only further strengthen the regime through helping to rally public opinion around the government, as discussed above.

Alternatively, if sanctions target interests of a specific pro-regime group, strong enough to lobby its interests at the level of the political leadership, they may succeed in generating a positive outcome. Generally, it is assumed that in an authoritarian regime the members of the business elite will automatically support the government. In authoritarian states political leaders have 'an incentive to create private and excludable goods for supporters' (Drezner, 2011, p. 100). As much as key business elite gains from close affiliation with state leadership by having preferential treatment, the ruling political elite benefits too through securing a continuous flow of financial resources enriching some political leaders individually and benefiting various state-related activities. Thus sanctions which impose substantial costs on the members of the business elite group, closely affiliated with the regime, may lead them to persuade politicians to make some concessions to address the demands of a sanctioning country.

Based on this discussion further analysis of sanctions and their potential effect on various parties proceeds in the context of 'smart sanctions' framework, although extended, if necessary, to sanctions debates in general to reach more informative conclusion regarding potential effectiveness of targeted sanctions on Belarus.

3. THE EU TARGETED SANCTION POLICY: AN OVERVIEW

3.1 The EU guidelines for implementing sanctions

The European Union implements sanctions or restrictive measures within the framework of the Common Foreign and Security Policy (CFSP) to achieve a specific objective as set out in the Treaty on European Union which is in application to Belarus seeking a change in policy. This is in part to improve the human rights situation and fundamental liberties and, in particular calling on the authorities for the immediate release and rehabilitation of all political prisoners.

Traditionally, EU economic sanctions have primarily included arms embargoes, trade or/and financial restrictions imposed on a target country and restrictions on admission (visa or travel bans). They can be imposed on an autonomous EU basis or applying binding Resolutions of the Security Council of the United Nations[4].

In an attempt to minimise the unintended negative effect of sanctions on civilian populations in line with the general trend of the international community emphasising the importance of humanitarian concerns in sanctions decision making (Cortright and Lopez), in the last decade the European Union has adopted a 'smart sanctions' approach towards targeted regimes directed to specific individuals or entities responsible for incursions (Kreutz). The EU has applied a 'smart sanctions' approach to Belarus too. More specifically, targeted sanctions have included restrictions on admission and freezing of funds of targeted persons and affiliated entities, and prohibiting transactions with the latter. The following section provides more details on targeted sanctions imposed in Belarus up until now.

3.2 An up-to-date overview of the EU measures against Belarus

EU sanctions against Belarus have been introduced in different stages starting from 1996 when the amendment of the Constitution triggered massive demonstrations brutally suppressed by the police. The EU reacted by suspending technical assistance programmes and freezing the ratification of the Partnership and Co-operation Agreement. This was followed by the imposition of visa bans on members of the Belarusian government in July 1998 in the wake of a diplomatic scandal resulting in the eviction of EU diplomats from the Drozdy diplomatic compound.

Sanctions were temporarily lifted in February 1999 following the agreement reached concerning diplomatic residences and the establishment of an Advisory Monitoring Group (AMG) in Minsk. However, they were re-imposed after the Belarusian government refused to extend the visas of the AMG members. New travel bans were imposed on the individuals responsible for the repression of demonstrations following the fraudulent parliamentary elections and the referendum in autumn 2004. The blacklist was consequently expanded following the 2006 presidential elections to include

[4] European Union. Sanctions or restrictive measures, European External Action Service, available from http://eeas.europa.eu/cfsp/sanctions/index_en.htm. Accessed 22 March 2012.

individuals responsible for the violation of international electoral standards and for the oppression of the opposition. Asset freeze was later applied to the targeted individuals.

Travel bans on almost all targeted individuals (with a few exceptions) were temporarily suspended in 2008 following some fragmentary liberalisation measures taken by the Belarusian leadership and as a result of the EU intention to promote dialogue with the Belarusian authorities under these circumstances (Portela 2011). The EU-Belarus rapprochement was facilitated by the deterioration of the Belarus-Russia relationship and the worsening of the Belarusian economic situation (ibid.). However, the events of the 19 December 2010 abruptly changed everything.

Following the crackdown on the political opposition in the aftermath of the presidential elections of 19 December 2010, on 31 January 2011 the EU imposed travel bans on certain individuals responsible for the repression of opposition and civil society in Belarus[5]. The blacklist of targeted individuals has been extended throughout 2011 and the beginning of 2012 with the current number of individuals subjected to travel ban exceeding 200 people.

The European Council also imposed embargo on exports of arms to Belarus and a ban on materials that could be used for internal repression, and imposed an asset freezing ban on 20 June 2011[6] on three entities, namely 'Beltechexport' (weapons exporter), 'Sport-Pari (operator of the Republican Lottery company) and Private Unitary enterprise BT Telecommunications, controlled by Vladimir Peftiev, Chairman of the Board of Director of 'Beltechexport', closely associated with President Lukashenko and his family, and a key sponsor of the Lukashenko regime. On 23 March 2012[7] the list of individuals subjected to travel ban has been extended by another 12 people, including two leading businessmen Yuri Chyzh, Chairman of the Board of Directors of 'Triple' Holding, and Anatoly Ternavsky, Director General of Univest Holding. Furthermore, an asset freezing ban was imposed on 29 entities associated with all three businessmen, including Vladimir Peftiev, listed in section 5.2.2.

4. METHODOLOGY

Within the context of smart sanctions policy framework - generally a strategic design of targeted sanctions - involves two critical steps: (1) identification of the decision-making elite responsible for the objectionable policy; and (2) and identification of assets and resources which are valuable to them with a view to restrict access of such individuals to these assets and resources (Cortright and Lopez 2002). This imposes costs on political leaders, motivating them to reconsider their objectionable policy (ibid).

As discussed in section 2.3 numerous representatives of the decision-making elite responsible for the repression of opposition and civil society in Belarus in the aftermath of the 2010 presidential election have been largely identified by the EU in the course of 2011-12, with the EU imposing travel bans against them and freezing assets of key representatives of the political elite. Since 20 June 2011 the EU sanction policy has been extended to include key figures of the business elite claimed to be closely associated with the ruling regime. While initially, as of 20 June 2011, sanctions were introduced only against Vladimir Peftiev, seen as a key sponsor of the Lukashenko regime, and three main entities affiliated with him (mentioned above), by the time a first draft of this study was completed (23 March 2012) this list was extended to include also Yuri Chyzh and Anatoly Ternavski, the other two key businessmen closely associated with the ruling political elite.

[5] Council Regulation (EU) No 84/2011 of 31 January 2011, OJ L28, 2.2.2011, p. 17.

[6] Council Regulation (EU) No558/2011 of 20 June 2011, OJ L161, 21.6.2011, p.1.

[7] Council Implementing Regulation (EU) No265/2012 of 23 March 2012, OJ L87, 24.3.2012, p.37.

To identify key members of the Belarusian business elite actively supporting the Lukashenko regime, Internet-based portal entitled Ezhednevny zhurnal [The Daily Journal] was used in this study as a primary source of information[8]. Since 2007 it has annually published rankings of the most successful and influential businesspeople in Belarus. This is the only available source of information which has the most comprehensive coverage of the Belarusian contemporary business elite. It gives key bibliographical details for each businessman, listing key people with whom they are affiliated, and, finally, providing detailed information on entities they are involved in.

To gather such a database Ezhednevny zhurnal employs a multi-stage methodology to overcome some data limitation given the lack of transparency of most of these businesses; underdeveloped capital markets which traditionally serve as a key source of information for listed companies in developed market economies; and a dominating role of the state in nearly all sectors of the economy. At the first stage of data collection a number of highly informed Belarusian experts (around 50-60 people representing government officials, businessmen and analysts) are interviewed on strictly anonymous basis to identify key representatives of the business elite. Businessmen are assessed along two criteria - business success, measured by the size of owned capital (key business assets), and the business influence, evaluated on the ability of a businessman to lobby their interests and efficiently solve various obstacles preventing accumulation of capital. Simultaneously, private businesses - in key segments of the economy - are ranked on the basis of their market share, where market capitalisation is assessed on financial data in close cooperation with an investment company, one of the Ezhednevny zhurnal's partners in this project (not disclosed for confidentiality reasons). This is a very in-depth analysis and envisages composition of up to 80 sub-rankings. At the final stage both datasets are merged together with a finalised version containing information on up to 1000-1110 businesspeople. Ezhednevny zhurnal publishes information only on 200 key people with market capitalisation not being disclosed to the public for various reasons.

Bibliographical details of businessmen and information on key people with whom they are closely affiliated allow to establish whether these key businesspeople have links with the ruling regime. Furthermore, since one of the criteria in business ranking assessment relates to these businesses' lobbying potential, ranking also proves useful for judging about their influence in the economy and relationship with the ruling elite. Where possible the discussion of businessmen's profiles was supplemented by additional sources.

This study also identifies key state-owned businesses representing different sectors of the economy. Such enterprises can also be potentially considered as subjects to imposition of targeted trade embargoes and financial restrictions. The penultimate section of this study elaborates more on the rationale for implementing such targeted sanctions considering humanitarian costs behind them. Unless the names of managing directors of key-state owned players appears on the list of the most influential business people published by Ezhednevny zhurnal such individuals are not discussed among the key representatives of the Belarusian business elite. Information on the economic structure and composition of each sector by state-owned enterprises has been primarily obtained from the National Statistical Committee of Belarus and the websites of companies in question as well as paying attention under which umbrella they operate.

Various statistical datasets have been employed in this study to identify key trade flows by sector of the economy and country of origin of a foreign trade partner, and main financial investment, including the National Statistical Committee of Belarus, the World Bank World Development Indicators (WB WDI), International Monetary Fund (IMF) statistics, and the European Bank for Reconstruction and Development (EBRD) Transition Indicators. While some international experts question the reliability of Belarusian national statistics, all international organisations (World Bank, EBRD, and IMF) use the National Statistical Committee data as the basis, and discrepancies in

---

[8] The Rankings: the 200 most successful and influential businesspeople of Belarus, Ezhednevny Zhurnal, available from http://www.ej.by/rating/business2011.

statistical data have proven to be negligible[9]. Furthermore, such detailed data as trade structure by key trading partners and main commodities are only available from the National Statistical Committee.

Collecting information on non-Belarusian companies involved in foreign trade with Belarus (reported in Annex 2 and partly discussed in section 5.3.2) has proven most difficult given the lack of consistent data. In particular, there were some difficulties in trying to identify non-Belarusian downstream suppliers of petrochemical and chemical products. This information was partly collected through press-releases of the businesses in question. LinkedIn was also used in the attempt to identify BelOil company's trading partners. It cites some information from the personal profile of Valery Kazak, BelOil's ex-employee, whose responsibilities, among others, included managing relationship with BelOil downstream suppliers. This source of information is also formally quoted by the European Metalworkers' Federation[10].

Non-Belarusian companies listed in Annex 2 were identified through two key sources: (1) Kompass, which is a comprehensive Business-to-Business database including international and domestic companies listed worldwide[11]. Additional information on such companies was collected through their companies' websites; (2) Belarusian export portal which gives information on a large number of current and prospective foreign trading partners for Belarusian enterprises[12]. This information is provided based on self-registration of foreign companies on this portal. Where not explicitly stated whether foreign companies are currently trading with Belarus, information was checked additionally via a telephone conversation and e-mail correspondence with a representative of a specific foreign company. This additional check allowed for only about 10 out of approximately 150 enterprises, information on which was placed on Belarusian export portal, to be included in the list reported in Annex 2.

5. BELARUS: ECONOMIC BACKGROUND

5.1 Overview of the Belarusian economy

After nearly two decades of transition - from a planned to a market economy - Belarus has gained a reputation of the least reformed transition economy in Europe with a private sector share accounting for only 30 per cent of GDP compared to 65 per cent in neighbouring Russia or 60 per cent in Ukraine. Throughout the 1990s, the Belarusian economy was heavily controlled and regulated by the state. This was implemented through a high degree of state ownership, a golden share rule, profit margin and price controls, state redistribution of financial resources to 'priority' sectors of the economy, setting of production targets for industry and centrally-set wage targets (Korosteleva and Lawson). Although, to a significant extent these Soviet anachronisms have been eliminated throughout the 2000s, state intervention in the economy still remains widespread, including preferential funding to state-owned enterprises, some price controls and wage-setting.

From 1997 until 2009, Belarus demonstrated high rates of growth, averaging 7.5 per cent in the ten years up to 2008. As many other CIS countries, Belarus has been severely affected by the global economic crisis when it spread from developed to emerging economies in the second half of 2008.

[9] More specifically, World Bank and IMF experts expressed some concerns over reliability of GDP data, but concluded that 'statistical problems are not sufficient to radically change the reported trend of real GDP' (World Bank, 2002, p.1). Similarly, this was confirmed by the results of a statistical exercise performed by the author of the present study to check the reliability of Belarusian GDP data. Such results are available from the author upon request. The author has also compared different alternative sources for some foreign trade statistical data for Belarus, and has failed to find any significant discrepancies.

[10] See http://www.emf-fem.org/Areas-of-work/Solidarity/Belarus/Netherlands-a-key-player-in-Belorussian-trade.

[11] See http://directory.kompass.com/us/Belarus/Minsk/dir.php.

[12] Belarusian export Internet portal, available from http://export.by.

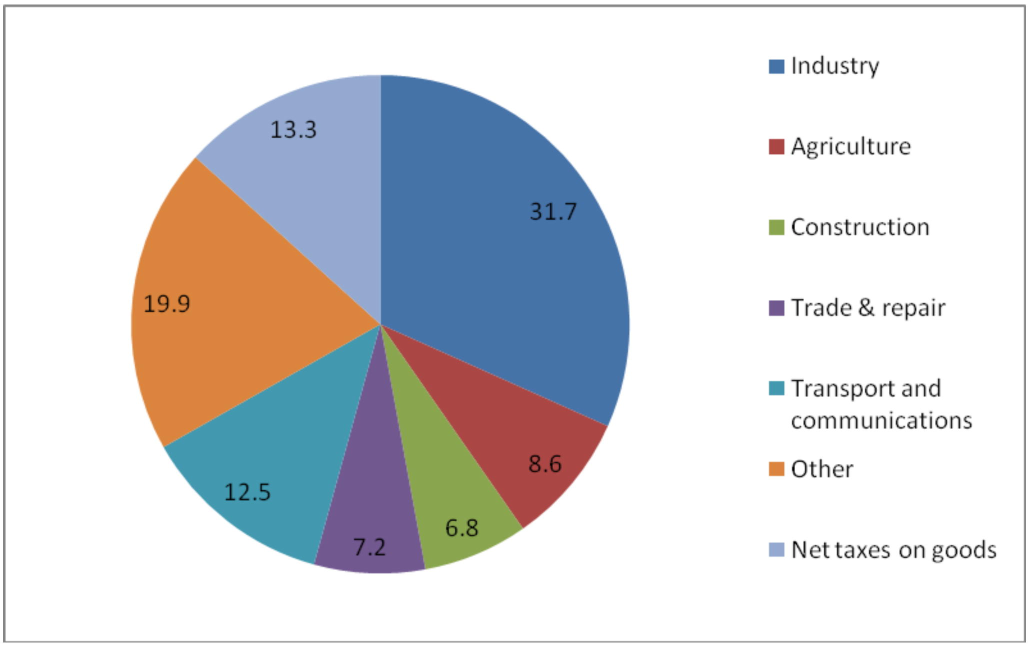
Economic growth, as measured by GDP pc fell from 10 per cent in 2008 to stagnation in 2009, but recovered in 2010, reaching 6 per cent. In the course of the crisis, external shocks exposed its vulnerability. Deterioration in terms of trade in the course of 2007-08 significantly widened current account deficit (see section 2.3) with the authorities finding it difficult to address this problem given constrained on external liquidity. As a result the economic situation in Belarus has deteriorated over the years 2008-2011 with Belarusian economy having suffered from a severe currency crisis in the first half of 2011.

5.2 Belarusian economic structure and key business players

5.2.1 Belarus' economic structure and main state-owned enterprises representing the key branches of the economy.

After the transition years and the deindustrialisation process swamping the region, Belarus remains predominantly an industrialised economy with industry accounting for nearly 32 per cent of GDP in 2011 (Figure 1). The country has inherited a well-developed industrial base which has been a key factor in the economic performance throughout the years of transition. However, a growing obsolescence of capital stock and high energy intensity may further jeopardise its performance.

Figure 1: Gross Domestic Product by type of economic activity, in percentage.



Source: National Statistical Committee of the Republic of Belarus, Statistical yearbook, 2011.

Belarusian industry, dominated by large-scale vertically integrated enterprises, remains the largest sector of the economy in terms of employment generation and contribution to GDP. The higher the degree of vertical integration, the more discretion large businesses have over exercising their monopoly power. New entrant firms have restricted access to the market with a supplier or distribution network being largely controlled by a few incumbents.

The flagmen of the Belarusian economy are machine-building and metal processing industry which emerges as the key sub-sector accounting for 22 per cent of the output in 2010, followed by food processing industry (18 per cent), fuel industry (17.6 per cent), and chemical and petrochemical industry (13 per cent) (Table 1). Below, I discuss leading state-owned enterprises representing each of these key industries.

Table 1: Composition of industrial output, in percentage, 2000-2010

	2000	2005	2007	2008	2009	2010
Total	100	100	100	100	100	100
Electric power	7.1	6.2	6.3	5.5	6.8	7.1
Fuel Industry	16.2	21.7	20.4	21.3	19.4	17.6
Chemical & petrochemical industry	12.5	11.3	11.6	13.4	12.1	13.1
Machine building and metal processing	20.5	22.4	24.5	23.2	21.5	22
Wood processing and paper	5	4.8	4.7	4.4	4.1	4.2
Building materials	3.4	4.2	4.6	5.1	5.5	5.4
Light Industry	8.4	4.7	4.4	4.1	3.6	3.9
Food processing	17.3	16.2	15.3	14.6	17.9	17.9
Other	9.6	8.5	8.2	8.4	9.1	8.8

Source: National Statistical Committee of the Republic of Belarus, Statistical yearbook, 2011.

The machine building and metal processing industry is broadly divided into the following main sub-sectors: (1) machine-tool manufacture, (2) car production, (3) agriculture machinery manufacturing and (4) construction and road building machinery. It includes the following leading enterprises: (1) machine-tool manufacture – Gomelskoye Stankostroenoye Production Association [PA Gomel machine-tool manufacturing]; (2) car production - OJSC Minsky Avtomobilny Zavod [Minsk Automobile Plant] (MAZ), the leading Belarusian automotive manufacturer and one of the largest Belarus's exporters with the Commonwealth of Independent States (CIS) being its key market; Belorusky Avtomobilny Zavod [Belarusian Automobile Plant] (BELAZ), a heavy machinery manufacturer (e.g. mining dump trucks) with its production also being mainly oriented towards the CIS market (see section 2.3.2 for further discussion); Minsky Motorny Zavod [Minsk Motor Plant]; (3) agriculture machinery production - Production Association Gomselmash, a manufacturer of agricultural technique for cultivating and harvesting of crops (e.g. grain, potato and sugar-beet harvesting combines), Minsky Traktorny Zavod [Minsk Tractor Plant] (MTZ); (4) construction and road building machinery – OJSC Amkodor.

The food processing industry is represented by the Belgospischeprom state concern [Belarusian state concern of the food industry], it is one of the largest exporters of dairy and meat-processed products to the CIS market (for further discussion see section 2.3.2). Under its umbrella it gathers about 48 companies representing different sub-sectors of the food industry and the food processing industry, including: (1) sugar production – Gorodeya Sugar Refinery, Zhabinka Sugar Refinery, Skidel and Slutsk sugar refineries; (2) the confectionary industry – Kommunarka, Spartak and Krasny Pischevik just to name the few; (3) the fat-and-oil sector – Minsk Margarine, one of the key representatives of this sector; (4) spirits - Minsk Kristall; (5) the tobacco industry – Grodno Tobacco factory.

The fuel industry is represented by Belneftekhim, a state concern for oil and chemical production, BelEnergo and Beltopgas state concerns, and Open Joint-Stock Company (OJSC) Beltransgaz for fuel and electric energy production and transportation. The aforementioned three concerns and OJSC Beltransgaz form an integral part of the fuel-energetic complex of Belarus accounting for 18 per cent of GDP in 2010. Jointly, they secure 10-15 per cent of Belarus's needs in energy resources (oil, natural gas and peat).

The Belneftekhim concern also represents the chemical and petrochemical industry, embracing more than 50 companies in oil production, refining, potash and nitrogenous fertiliser production, and supply of chemical products. More specifically, it consists of the following leading companies: Production Association Belarusneft, an oil production enterprise; OJSC Naftan and Mozyr, two oil processing plants; OJSC Grodno Azot, specialising in the production of nitrogenous fertiliser and liquefied ammonia; OJSC Krion, an air separation enterprise, specialising in separation of oxygen, nitrogen, argon in liquid and gaseous state; JSC Belaruskali, the world leading potash mining and processing enterprise; and a number of enterprises specialising in the production of chemical products such as OJSC Belshina, OJSC Grodno Khimvolokno, OJSC Lakokraska, OJSC Polotsk Steklovolokno, OJSC Mogilev Khimvolokno, OJSC Borisov plastic products plant[13].

Out of all the organisations the Belneftekhim state concern, OJSC Naftan, JSC Belaruskali, OJSC Belshina and OJSC Grodno Khimvolokno emerge as the leading contributors to Belarusian export earnings with OJSC Naftan alone accounting for about 40 per cent of foreign currency receipts from Belarus' export activities[14]. To promote Belarusian exports in chemical and petrochemical industries two trading companies were formed, namely the Belarusian Oil Company (BelOil) - responsible for promoting exports of oil and oil products, and JSC Belarusian Potash Company - a joint venture of Belaruskali and Russian OJSC Uralkali, specialising in supply of potash fertilisers to foreign markets (for further discussion see section 5.3.2).

Finally, one more key economic player should be mentioned, representing the metal industry, shown under the category of 'Other' in Table 1 – Belarusian Metallurgichesky Zavod [The Belarusian Steel Works] (BMZ) located in Zhlobin, which specialises in steel melting, rolling, steel cord and wire production and pipe rolling. It exports its products to about 71 countries worldwide, including the EU region. In 2009, it expanded its geographical coverage, expanding its exports for the first time to Afghanistan, Ghana, Iran, Iraq, Israel, Morocco, Nigeria, Philippines, Sudan and Senegal[15].

5.2.2 The Belarusian Business Elite

Along with the key state-owned players discussed above, some Belarusian large businesses - private or state-controlled - play an important role in the Belarusian economy and funding of the Belarusian regime formally via tax payments and informally via payoffs to the affiliated officials or financing of state-related activities.

The discussion of key Belarusian businesspeople with some links to the ruling regime, largely draws on the ranking of the 200 most successful and influential Belarusian businessmen in 2011, published by Ezhednevny zhurnal[16], and supplemented, where possible, by additional sources.

1. ***Vladimir Peftiev***, Chairman of Closed Joint-Stock company (CJSC) Beltechexport. In the ranking table he holds position No. 1. Among his assets are 'Beltechexport' (foreign trade in defence products), and its subsidiaries in the United Arab Emirates and India – 'Spetspriborservice', 'Technosoyuzpribor' and Electrophizicheskaya laboratory [Electrophysical laboratory][17], JSC 'Minsk' (the operator of external supplies of special equipment, the investment agent of

[13] Belarusian Oil Trade House, available from http://www.bntd.by/info/adresa/. Accessed 21 March 2012.

[14] Denis Lavnikevich, US strip Belarus of foreign currency earnings. Gazeta.ru, 12 August 2011, available from http://www.gazeta.ru/business/2011/08/12/3731773.shtml. Accessed 21 March 2012.

[15] Richard Levine (2011) The Mineral Industry of Belarus, *The 2009 Minerals Yearbook: Belarus - 2009 [Advance Release]*, available from http://minerals.usgs.gov/minerals/pubs/country/2009/myb3-2009-bo.pdf. Accessed 20 March 2012.

[16] The Rankings: the 200 most successful and influential businesspeople of Belarus, Ezhednevny Zhurnal, available from http://www.ej.by/rating/business2011.

[17] Source: http://www.ephl.by/index.php/MILEX_2011.

Government of the Republic of Belarus), and other affiliated businesses including PUE BT Telecommunications (formerly-asset management company JV MDC Ltd. (Velcom). It now specialises in investment and innovation activity, real estate and construction, financial leasing; in October 2009, as a result of restructuring of its management included PUE 'Sen-Ko' and PUE 'BT Invest')[18]; Delovaya svyaz [Business Network] (investment in high technology); Sport-pari (the Republican lottery operator); Malinovschiznenskij distillery 'Akvadiv' (production of alcoholic beverages and soft drinks in Molodechno).

Vladimir Peftiev is claimed to have close links with Alexander Lukashenko (President of Belarus) and his two sons, Viktor Lukashenko and Dmitry Lukashenko, as well as Viktor Sheiman (Assistant to the President for Special Commissions) and Vladimir Naumov (former Minister of Interior Affairs). Dmitry Lukashenko is one of Vladimir Peftiev's business partners in SportPari. Liliya Lukashenko, Viktor Lukashenko's wife, is Head of representation of one of the businesses affiliated with Vladimir Peftiev[19]. He is a chair of the Belarusian Tennis Federation and a member of the National Olympic Committee. Vladimir Peftiev has been awarded Cavalier Order Medal of Honor.

Vladimir Peftiev was the first representative of the business elite on whom the European Council imposed travel ban and asset freezing[20]. Initially, only three entities, namely 'Beltechexport', Sport-Pari and Private Unitary enterprise BT Telecommunications, controlled by Vladimir Peftiev fell under the scope of EU sanctions. On 23 March 2012, this list was extended to include other entities listed above with the exception of Electrophizicheskaya laboratory [Electrophysical laboratory] which does not appear on the 'black mail' list for some reasons.

2. ***Yuri Chizh***, Chairman of the Board of Directors of **LLC 'Triple' Holding**. In the Ezhednevnik ranking table he occupies position No. 2. His assets include Triple Holding Companies, specialising in oil import, processing and exporting ('TripleEnergo', '**NeftekhimTrading'**, 'Neonafta', 'Belneftegas'); development of a network of petrol stations; subsidiaries in Lithuania and Latvia (e.g. biofuel production plant 'Mamas D' in Daugavpils, Latvia); investment in residential and commercial property throughout Belarus; provision of construction services and distribution of building materials ('Magnus Group', '**TripleTechno**', **JSC Berezovski kombinat silikatnyh izdelii**; '**TripleDecor**', '**Qvartsmelprom**'); hotel chain management ('Elit Estate') and construction of a 5-star hotel 'Kempinski in Minsk jointly with its Slovenian partner the 'Rico' group; food and clothing retailing businesses ('**Altersolution**', '**ProstorMarket**', 'ProstorTrade', 'TripleStyle'); car retail business ('TripleAuto', a Audi'dealer); production of soft drinks and meat products (**'Aquatriple'** and '**Triple-Veles'**); sport and sport resort industry **(Dinamo-Minsk football club**; 'Variant' ice rink; sky resort **'Logoisk'**; restaurant and club chain (**'Rakauski Brovar'**, 'Syabry', 'Zolotoi Grebeshok', 'U Frantsyska', 'Bukhara', 'Overtime' etc.); provision of transport services; pharmaceutical production **('TriplePharm'**, 'Tadeum'); customs services (**'AskorgoTerminal'**); metal trading ('**TripleMetalTrade'**).

Yuri Chizh is claimed to have close links with Alexander Lukashenko and Dmitry Lukashenko (Head of Presidential Sport Club of which Triple Group is one of the key sponsors)[21]. He is a member of the National Olympic Committee. He is also a member of Belarus' Council for

---

[18] Source: http://www.bakutoday.net/lukashenka-fled-the-courtier-oligarch.html

[19] The Rankings: the 200 most successful and influential businesspeople of Belarus, Ezhednevny Zhurnal, available from http://www.ej.by/rating/business2011/peftiev.html. See also Council Regulation (EU) No558/2011 of 20 June 2011, OJ L161, 21.6.2011, p.1.

[20] Council Regulation (EU) No558/2011 of 20 June 2011, OJ L161, 21.6.2011, p.1.

[21] The Rankings: the 200 most successful and influential businesspeople of Belarus, Ezhednevny Zhurnal, available from http://www.ej.by/rating/business2011/chiz.html.

Entrepreneurial Development under the auspices of the President of the Republic of Belarus. He retains his two sporting positions being: Chair of the Board of the Dynamo Minsk football club and Chair of the Belarusian Federation of wrestling. These facts as well as his involvement in oil business which is heavily controlled by state authorities provides some support for his close links to the regime.

Yuri Chyzh and associated businesses have been added to the list of targeted individuals and entities on 23 March 2012. A list of entities controlled by Yuri Chizh (subject to EU sanctions) is extensive but not complete. The entities included on the sanction list are highlighted in black and underlined (see above).

There was an earlier attempt to add Yuri Chyzh to the 'sanction list' but it failed due to strong opposition from Slovenia. This raised an issue of efficiency of targeted sanctions once key interests of specific Member States came into play. The Slovenian group of companies - 'Riko' (see Annex 2) has won the tender for building a multifunctional complex with a five star Kempinski Hotel in the historical centre of Minsk, together with the 'Triple' holding, subordinate to Yuri Chyzh. This project was of a strategic importance to Slovenia; its budget was estimated to exceed 100 million Euros[22].

3. ***Aleksandr Moshensky***, Director General of JV Santa Impex Brest Ltd. (food distribution, transport services, networks of restaurant). In the ranking table his position is No. 3. His retail business 'Santa' embraces 'Moskva', 'Brestservice', 'Prodtovary' in Brest, and 'Produkty' in Pinsk. Other assets include 'Savushkin Produkt' (dairy products manufacture with businesses located in Brest, Pinsk, Kamenets and Stolin); 'Santa Kholod' (cold storage facilities), 'Santa Invest' (property investment and investment in non-related activities, e.g. Belarusian sewing factory 'Nadzeya'), and 'United Diary Company' which will serve as a leading company for formation of a holding in diary industry.

   Aleksandr Moshensky is claimed to have close links with Aleksander Lukashenko. He acted as Lukashenko's electioneering agent in the 2010 presidential election. He is a member of Belarus' Council for Entrepreneurial Development under the auspices of the President of the Republic of Belarus. Aleksandr Moshensky is also a member of the working group on creation of favourable investment image of the Republic of Belarus under the Consultative Council for foreign investment under the auspices of the Council of Ministers of Belarus and a member of the Belarusian Public Council of State Customs Committee. He is awarded the Labor Merit Medal.

4. ***Aleksandr Shakutin,*** Chairman of the Board of Directors JSC 'Amkodor', the largest manufacturer of construction and road building machinery in the CIS and Eastern Europe region. The holding includes the plants 'Udarnik' 'Dormash', 'DormashMet'; manufacturing and services companies 'Amkodor-Unicab', 'Amkodor-Unimode', 'Amkodor-Pinsk' 'Amkodor-Mozha', 'Amkodor-Lit' (Lithuania), 'Amkodor-Spetservice', 'Amkodor-Shklov', 'Amkodor-Torg', 'Amkodor-Bryansk' (Russia), 'Amkodor-Derzhinsk', 'Amkodor-Logoisk', 'Amkodor-Belvar', and distribution network and services companies in India, Iran and Kazakhstan.

   His asset portfolio also includes 'Spamash Group', which is a managing company, distributing construction and road-building machinery and machinery of pulp and paper and agriculture industry, parts in Belarus and Russia; independent dealers 'Slavprodukt', 'Amkodor-Spamash', 'Amkodor-Bel', 'Amkodor-Sibir', 'Amkodor-Krasnoyarsk'; financial and consulting services ('Espas'); manufacturing of containers and equipment for cleaning drain pipes ('Belekotekhstroi'), and investment company and distributor of metal-processing machinery in Belarus 'PMI Group'.

[22] http://euroradio.fm/en/report/radoslaw-sikorski-sad-day-european-union-100868

In the ranking table Shakutin's position is No. 5. He is a member of the Council of the Republic of the National Assembly of the Republic of Belarus from 2008 onwards, a member of the Presidium of the Republican Public Association 'Belaya Rus', a member of the Senior Council of the Republican Headquarters of student squadrons of the Central Committee of the Belarusian Party of Youth Union. Based on Lukashenko's Decree 'Amkodor' acquires three plants 'Belvar' (Minsky Priborostroitel'nyi Zavod), 'Agromash' (Dzerzhinsk), and 'Epos' (Logoisk) at a symbolic price but with the commitment to invest in the development of these plants[23].

5. ***Anatoli Ternavskij,*** Chairman General of the 'Univest' Group in the CIS and member of the Board of the Directors 'Grand Invest Bank'. In the ranking table his position is No. 12. His assets include '**Univest-M**' (oil trading) oil storing capacity in the Gomel region, property investment (hotel 'SlavinaSport' in Zhlobin); business centres and housing complex 'Kaskad'; retail property investment '**UnivestStroiInvest'** (housing complex 'Nottingham' in Minsk District); '**UnisOil**' (oil trading); manufacturing of building materials (Smolevichsky Plant ZhBI); restaurants and public canteens ('Belaya Roza' & network of pizzerias 'Limoncello'); GrandInvestBank (Moscow).
Anatoly Ternavsky sponsors Presidential sport club and is claimed to have links with Dmitry Lukashenko (Head of Presidential sport club). Anna Lukashenko, Dmitry Lukashenko's wife, is Deputy Director General of 'Univest-M'[24].
Anatoly Ternavsky and associated business entities have been added to the list of targeted individuals and entities on 23 March 2012. A list of entities controlled by Anatoly Ternavsky (subject to EU sanctions), which is not complete. The entities included on the sanction list are highlighted in black and underlined (see above).

6. ***Pavel Topuzidis,*** Chairman of the Board of Directors 'Tabak-Invest' Ltd. In the ranking table his position is No. 24. His assets include 'Tabak-invest' (tobacco factory), retail network 'Korona', distribution of private helicopters and VIP-aviation services (Robinson Club).
Pavel Topuzidis was a member of one of the election committees of Frunzensky District, Minsk, during the 2010 presidential election. He is claimed to have links with Sergei Tkachev (President Aleksander Lukashenko's aide)[25].

7. **Anatoly Kapsky,** Chairman of the Board of Directors of Football Club 'BATE', Director General of BATE' Ltd, a managing company of 'Avtokomponenty' Holding. The holding is an umbrella for 13 state-owned enterprises: BATE, 'Belcard' (Hrodno), Borisov Plant 'Avtogidrousilitel', 'Borisovsky zavod agregatov', 'Vitebsky zavod electroizmeritelnykh priborov', 'Zavod Gidrvlicherskogo mashinostroeniya' (Kobrin), 'Prema' (Gorki), 'Radiovolna' (Hrodno), 'Rudensk', 'Schuchinskiy zavod 'Avtoprovod', 'Ekran' (Borisov), 'Radiotekhnika' (Oshmyany), 'Zhodnisky opytno-eksperimentalny mechanical plant 'Remiz'. In the ranking table his position is No. 34.
Anatoly Kapsky was a member of the initiative group which put forward Aleksandr Lukashenko as a presidential candidate for the 2010 election; he is an ex-member of Executive Committee of the Association 'Belarusian Football Federation'. He is said to be directly associated with Aleksandr Lukashenko[26].

---

[23] The Rankings: the 200 most successful and influential businesspeople of Belarus, Ezhednevny Zhurnal, available from http://www.ej.by/rating/business2011/shakutin.html.

[24] The Rankings: the 200 most successful and influential businesspeople of Belarus, Ezhednevny Zhurnal, available from http://www.ej.by/rating/business2011/ternavsky.html.

[25] The Rankings: the 200 most successful and influential businesspeople of Belarus, Ezhednevny Zhurnal, available from http://www.ej.by/rating/business2011/topuzidis.html.

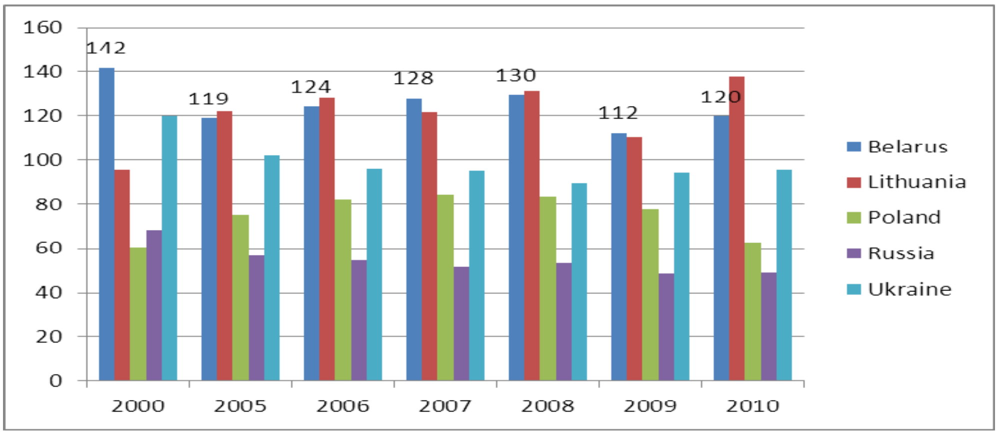
[26] The Rankings: the 200 most successful and influential businesspeople of Belarus, Ezhednevny Zhurnal, available from http://www.ej.by/rating/business2011/kapsky.html

5.3 The state of Belarus' foreign trade: general trends, direction of flows and commodity structure.

5.3.1 General trends in trade

As a small open economy Belarus is highly dependent on foreign trade. Despite some decline in trade openness in 2005, Belarus still has one of the highest levels of trade openness among its neighbours (Figure 2).

Figure 2: Trade openness as a per cent of GDP

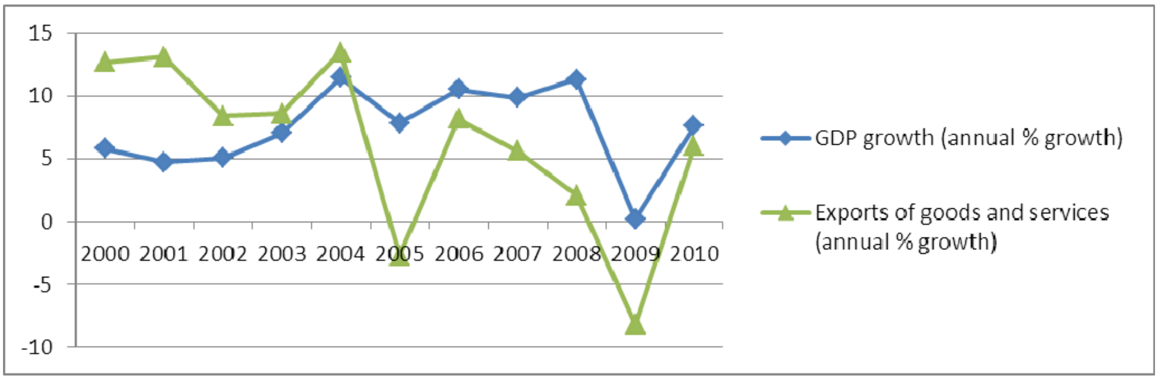


Source: World Bank (2011): World Development Indicators (Edition: September 2011). ESDS International, University of Manchester. DOI: http://dx.doi.org/10.5257/wb/wdi/2011-09. Note: Trade openness is defined as the sum of exports and imports of goods and services measured as a share of gross domestic product.

Until 2004, the external environment favoured Belarusian export and economic growth. In particular during this period Belarus benefited from the growth in oil prices - through the expansion of oil processing exports to the EU, and through accelerated growth and demand in Russia, Belarus' main trading partners. However, export fell significantly in 2005 with a brief period of recovery in 2006 and a subsequent decline at the outset of the global financial crisis (Figure 3).

A reduction in export in 2005 was largely driven by the declining share of Belarusian exports in machinery and transport equipment to the Russian market. While producers of tractors and refrigerators had a dominant position in the Russian global exports of machinery goods in 2001, accounting for approximately 75 per cent of the total number of exported units, their share fell drastically to just about 35 per cent in 2005 (World Bank, 2010) with further steady decline in the subsequent years. The erosion of Belarus share in the Russian market was largely attributed to the switch to the Value Adding Tax (VAT) destination principle in bilateral trade with Russia and to the declining competitiveness of the Belarusian machinery and equipment products with Belarus losing its share in the Russian market to Chinese manufacturers (ibid.).

Figure 3: Real GDP and export growth, in percentage, 2000-2010.

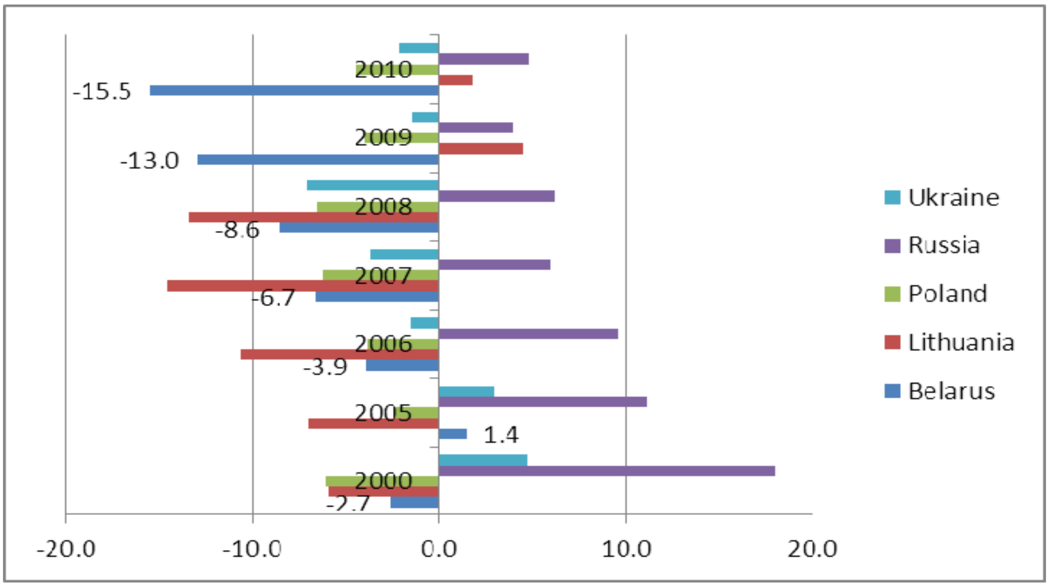


Source: World Bank (2011): World Development Indicators (Edition: September 2011). ESDS International, University of Manchester. DOI: http://dx.doi.org/10.5257/wb/wdi/2011-09.

The situation surrounding the decline in export was further aggravated in 2007 by the worsening of terms of Belarusian trade vis-à-vis Russia. More specifically, the Russian authorities initiated a policy of gradual adjustment of the price of gas supplied to Belarus to a market-based relationship, starting with a doubling of the gas supply price in 2007. The increase in gas import prices had an adverse impact on the profitability of enterprises affected by rising energy costs and the relatively high energy intensity of Belarusian industries. It also undermined the competitiveness of export-oriented enterprises specialising in production of transport, equipment and mechanical devices and electric goods, with further implications for widening the trade deficit (Figure 4). In 2007-2009, the introduction of a special duty on crude oil exports to Belarus - as the result of the attempt of the authorities of both countries to settle the long-lasting disputes between the two countries regarding sharing revenues from oil export duties in relation to the rest of the world - contributed to the increase in trade deficit further[27]. Competitiveness is an important determinant of economic growth in a small open economy such as Belarus. Real wages were rapidly increasing over most of the period of 2000-2010. While a rise in real wages fuelled domestic consumption, it further eroded Belarus' competitiveness and widened trade deficit given that growth in real wages was not matched by higher labour productivity. However, the unprecedented devaluation of the Belarusian rouble by 60 per cent in the light of escalation of the currency crisis in May 2011 led to the increase in Belarus' competitiveness, reducing current account deficit from 15 per cent in 2010 to 10.6 per cent in 2011.

[27] The terms of crude oil supply have improved recently with Belarus signing in December 2010 the agreements on establishment of Common Economic Area with Kazakhstan and Russia. In accordance with these agreements Belarus will benefit from lower oil import prices as a result of elimination of any trade restrictions between partners, including oil export duties imposed on Belarus by Russia. However, Belarus will be obliged to transfer any export duties obtained from exporting refined oil products (produced using duty-free oil from Russia) (Korosteleva, J.).

Figure 4: Current account deficit in Belarus compared to the neighbouring economies, in percentage of GDP



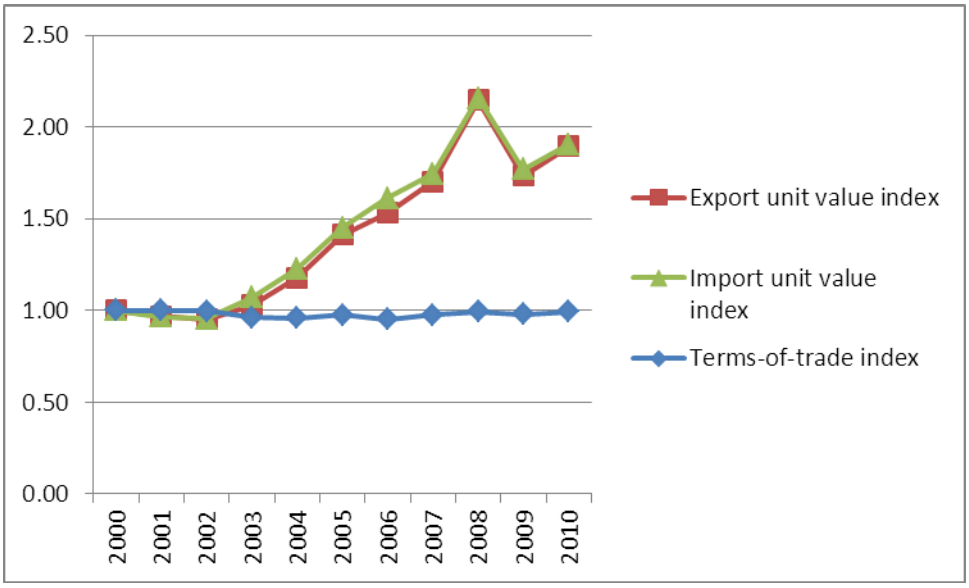
Source: World Bank (2011): World Development Indicators (Edition: September 2011). ESDS International, University of Manchester. DOI: http://dx.doi.org/10.5257/wb/wdi/2011-09.

While Belarus had a trade deficit with its CIS counterparts it had surplus with non-CIS countries, primarily EU countries which are the major recipients of Belarus's commodity products. This includes oil products and potash fertilisers. However, the surplus was reduced in 2009 and turned into deficit in 2010 with the decline in commodity prices on world markets as a result of the crisis. Furthermore, Belarus' revenues from oil export duties were negatively affected with Russia introducing a duty on crude oil supply.

Despite some deterioration in the terms of trade (TOT) in energy products TOT remained fairly stable over the last decade with Belarus experiencing only marginal fluctuations in ratio of export unit index to import unit index (around 3 per cent) over 2005-2007 with a price increase in energy imports being largely offset by oil product price increase (Figure 5)[28].

[28] For definition of trade-of-terms and what deterioration in the terms of trade means see section 2 of this study.

Figure 5: Unit value and trade-of-terms indices, all goods, 2000=1

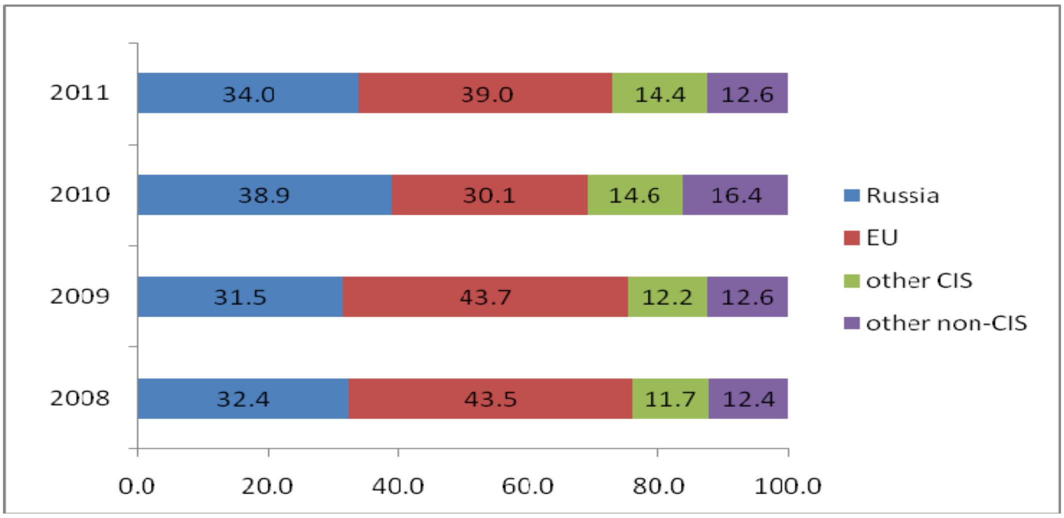


Source: Author's calculations on World Bank (2011): World Development Indicators (Edition: September 2011). ESDS International, University of Manchester. DOI: http://dx.doi.org/10.5257/wb/wdi/2011-09. Note: Trade-of-terms index is obtained as a ratio of export unit value index to import unit value index.

5.3.2 Structure of Belarus' merchandise trade by trading partners and main commodities

The main directions of Belarus' merchandise exports are Russia and the European Union which jointly accounted for 73 per cent of total exports in 2011 (Figure 6). Russia dominates Belarusian exports in motor vehicles, tractors and trucks, and dairy products, while the EU economies predominantly import oil products and potash fertilisers from Belarus. This export structure composition has some implications for designing targeted sanctions as discussed in more detail in section 6.

Figure 6: Merchandise export by main trading partners, % of total

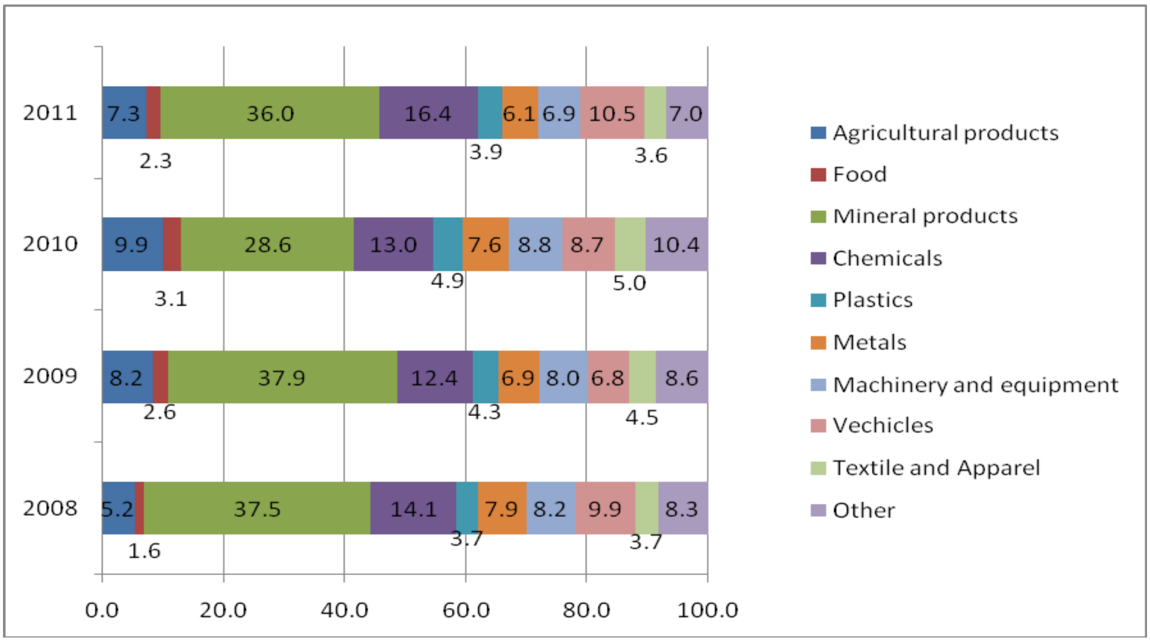


Source: National Statistical Committee of the Republic of Belarus, 2011 Belarus Foreign Trade Statistics Yearbook. The figures for 2011 were obtained from the National Statistical Committee of the Republic of Belarus, 2012 Belarus Foreign Trade Statistics Yearbook (provisional estimates).

Russia's share in Belarusian exports reduced from 38.9 per cent in 2010 to 34 per cent in 2011 following Russia exercising some implicit trade protectionism policy in relation to key export supplies to Russia. For example, Russia's public procurement policy in relation to supply of tractors and trucks imposes some constraints on Belarusian exports of this group of commodities given that the share of tractors and trucks purchased within the state procurement scheme in Russia is relatively high. Furthermoreonly Russian businesses can take part in this scheme. The reduction in Russia's share in Belarusian exports vis-à-vis an increase in the share of the EU market in 2011 suggests only a marginal increase in geographical diversification given that the share of EU countries in export of goods without crude oil, oil products and potash fertilisers has only increased by 2.7 per cent. The structure of these other exports is primarily comprised of three key commodities: lubricants, latent solvent and semi-finished products of non-alloy steel (Annex 1).

Overall, the structure of the Belarusian export is dominated by mineral products (crude oil and oil products), chemicals (primarily potash fertilisers), and vehicles (motor vehicles and machinery and equipment, and metals) (Figure 7).

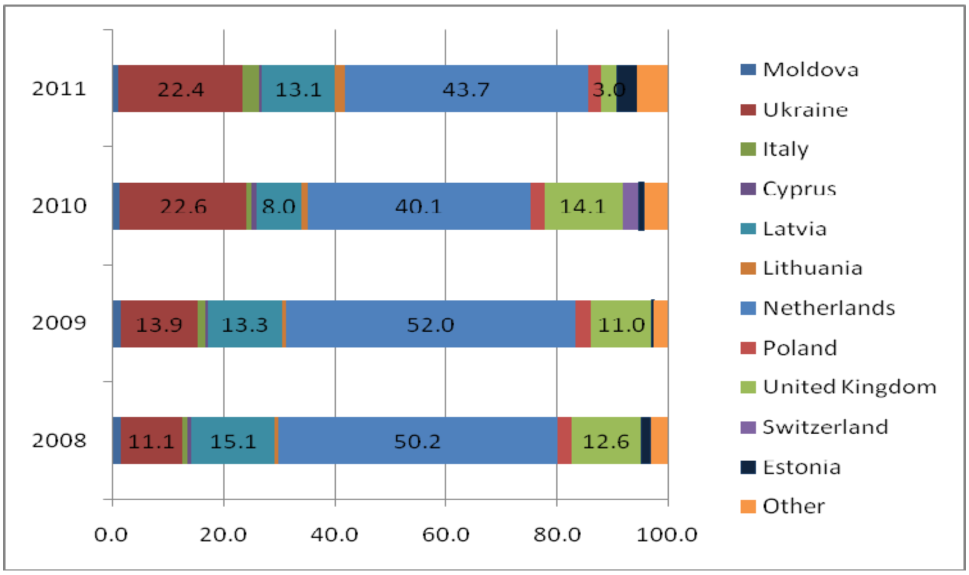
Figure 7: Commodity structure of exports, % total



Source: National Statistical Committee of the Republic of Belarus, 2011 Belarus Foreign Trade Statistics Yearbook. The figures for 2011 were obtained from the National Statistical Committee of the Republic of Belarus, 2012 Belarus Foreign Trade Statistics Yearbook (provisional estimates).

Belarus imports about 20 million tons of crude oil from Russia of which 30 per cent are consumed domestically and the rest of it are exported to the EU. In 2011 Belarus increased its exports of crude oil and oil products to the EU region. Crude oil is exported to Germany and Lithuania which jointly account for 8.02 per cent of the total of Belarus' exports to EU countries. Figure 8 gives the breakdown of export share in oil products by key trading partners. The Netherlands clearly dominates country recipients of oil products with its share being as high as 47 per cent on average over the period of 2008-2011 which account for 35 per cent of Belarus' total export to the EU region. In the CIS region a large proportion of oil products were exported to Ukraine (22.4 per cent of total oil products' exports). Over the past few years, Belarus has geographically diversified its exports of oil products having started trading with Afghanistan and Nigeria, although both still account for a mere 1.1 and 0.45 per cent of the total of Belarus oil products exports respectively.

Figure 8: Export of oil refinery products by countries, % total



Source: National Statistical Committee of the Republic of Belarus, 2011 Belarus Foreign Trade Statistics Yearbook. The figures for 2011 were obtained from the National Statistical Committee of the Republic of Belarus, 2012 Belarus Foreign Trade Statistics Yearbook (provisional estimates).

After Russia, the Netherlands is the second largest trading partner accounting for 15 per cent of Belarus's total exports in 2011, out of which exports of oil products amount to nearly 90 per cent (Table 1). Oil exports to the EU are promoted via the Belarusian Oil Company's (BelOil) three suppliers[29], two of which - **Transfigura and VITOL** – are Switzerland/Netherlands -based private oil trading companies. Transfigura is the world's third largest oil trader. It has been allegedly involved in a number of worldwide scandals including the UN 'oil for food' programme scandal[30], illegal export of toxic waste to the Ivory Coast[31], chemical explosion in Norway[32] and South Sudan oil row[33].

BelOil's other identified downstream supplier is **LITASCO,** Lukoil's international oil trading and supply company. BelOil also promotes oil supplies to the European market via its UK-based subsidiary – BNK (UK) Limited, which was opened in London in November 2008. In 2009, it exported 74,000 tonnes of oil products. Among its clients is **TOTAL**, a France-based global oil company[34]. BelOil company intends to open subsidiaries in Poland and Ukraine to promote Belarus' oil products to European and CIS markets. At the moment, there is some evidence that Belarus also exports oil to European countries via a trading company registered in Poland - **BNH- Oil Polska** (see Annex 2).

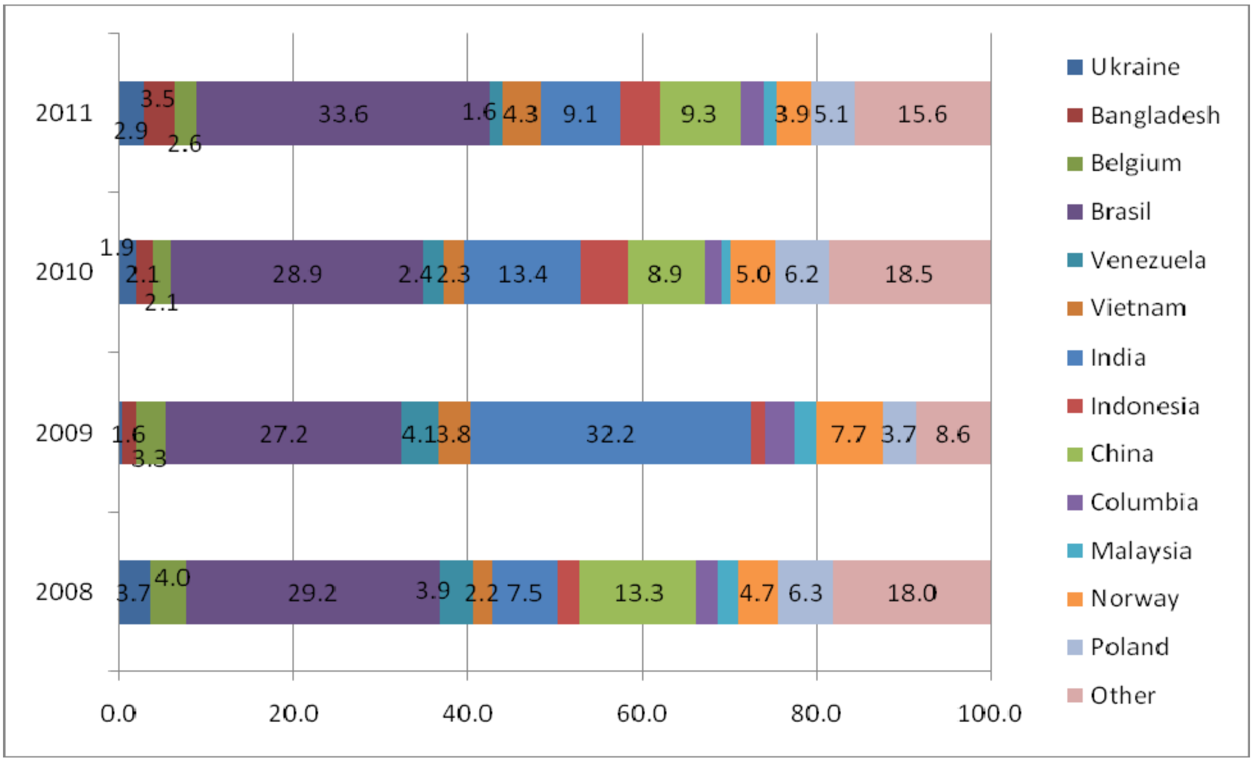
A different pattern of geographical specialisation emerges in exports of the second largest group of commodities - potash fertilisers. BRIC economies take a lead in this commodity with Brazil being the largest recipient of potash fertilisers (34 per cent of total exports of this commodity) followed by China

---

[29] http://www.linkedin.com/in/kazakvalery. Accessed 18 March 2012.
[30] Carola Hoyos, 'Big oil groups implicated in oil-for-food scandal'. Financial Times, 28 October 2005, available from http://www.ft.com/cms/s/1f250dd4-47de-11da-a949-00000e2511c8.html. Accessed 20 March 2012.
[31] Rob Evans, 'Trafigura fined €1m for exporting toxic waste to Africa'. The Guardian, 23 July 2010, available from http://www.guardian.co.uk/world/2010/jul/23/trafigura-dutch-fine-waste-export. Accessed 20 March 2012.
[32] 'A small pawn in the game'. NRK, 24 June 2008, available from http://nrk.no/programmer/tv/brennpunkt/1.6104888. Accessed 20 March 2012.
[33] Rupert Neate, 'Trafigura in South Sudan oil row', available from http://www.guardian.co.uk/world/2012/feb/08/trafigura-in-south-sudan-oil-row. The Guardian, 8 February 2012.
[34] Marta Astreiko, 'Oil Route to Europe'. Economy of Belarus Magazine, available from http://belarus-economy.by/econom_eng.nsf/all/D9A04D384747A8CE422576430053358F/$File/4.pdf. Accessed 20 March 2012.

and India (9.3 and 9.1 per cent respectively). Belgium, Poland and Norway are the main countries of destination for potash fertilisers in the European market. Jointly they account for about 12 per cent of total exports of this group of products. Hungary, Lithuania and the Czech Republic are other Belarus' trading partners in supplies of potash fertilisers. Other non-EU country-importers of this commodity include Ivory Coast, Sri Lanka, Ecuador, South Africa, and Mexico which jointly accounted for 16 per cent of total exports of potash fertilisers in 2011.

Figure 9: Export of potash fertilisers by countries, % total



Source: National Statistical Committee of the Republic of Belarus, 2011 Belarus Foreign Trade Statistics Yearbook. The figures for 2011 were obtained from the National Statistical Committee of the Republic of Belarus, 2012 Belarus Foreign Trade Statistics Yearbook (provisional estimates).

Belarus' export of potash fertilisers is promoted via Joint Stock Company 'Belarusian Potash Company' (JSC BPC). The Norwegian chemical company **YARA**, which is a leading supplier of mineral fertilisers to the European market[35], **Zuari Industries Ltd** – Indian supplier of mineral products[36], and **Sinochem** and **CNAMPGC**[37] – Chinese largest importers of chemical products have been identified as downstream suppliers of exports of JSC 'Belarusian Potash Company'. **BNH- Oil Polska**, identified earlier as a downstream supplier of Belarusian petrochemical products, is also involved in supply of chemical products.

---

[35] JSC 'Belarusian Potash Company', December 2010, available from http://www.belpc.by/presscenter/news/42.html?page=6. Accessed 18 March 2012.

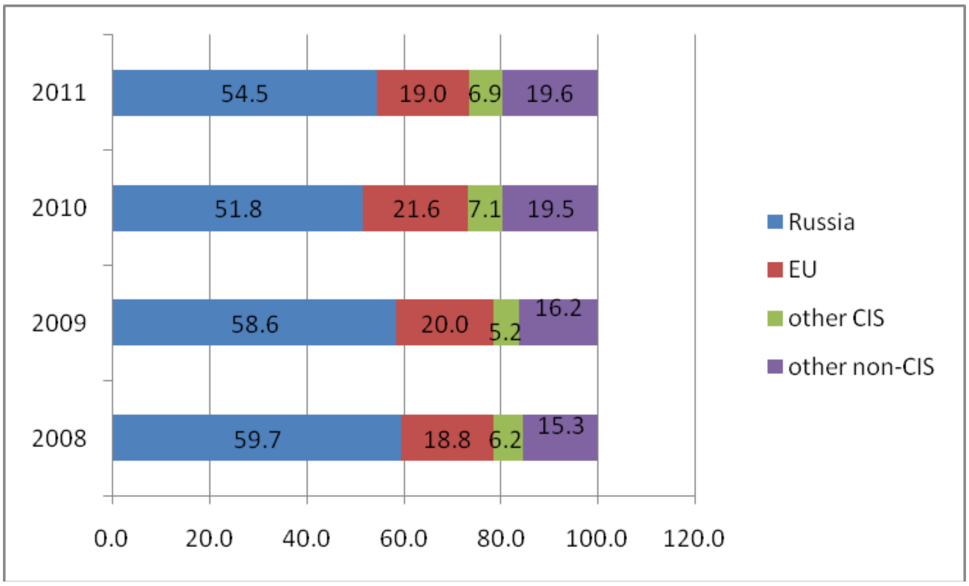
[36] JSC 'Belarusian Potash Company', August 2011, available from http://www.belpc.by/presscenter/news/86.html?page=3. Accessed 18 March 2012.

[37] JSC 'Belarusian Potash Company', June 2011, available from http://www.belpc.by/presscenter/news/77.html?page=4 Accessed 18 March 2012.

Tractors and motor vehicles constitute another two key export commodities for Belarus with Russia accounting for 50 and 70 per cent of total exports of these goods respectively, whereas the EU's share in these exports is relatively small - 14 and 2 per cent respectively in 2011.

Russia and the EU economies also dominate import supplies with Russia alone accounting for more than 50 per cent of total imports (Figure 10).

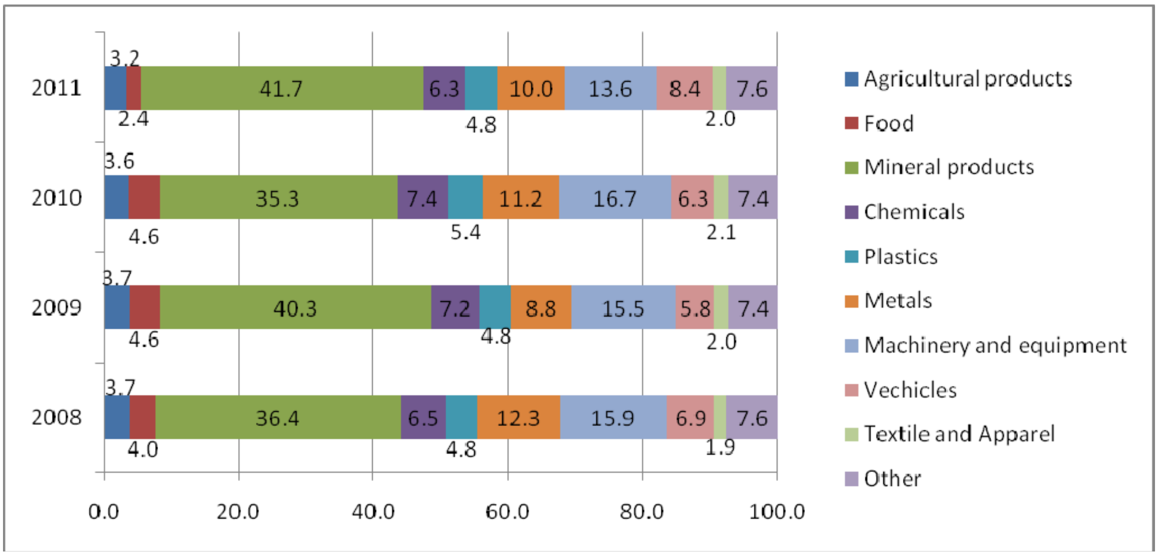
Figure 10: Merchandise import by main trading partners, % of total



Source: National Statistical Committee of the Republic of Belarus, 2011 Belarus Foreign Trade Statistics Yearbook. The figures for 2011 were obtained from the National Statistical Committee of the Republic of Belarus, 2012 Belarus Foreign Trade Statistics Yearbook (provisional estimates).

The commodity structure of imports is consistently dominated by mineral products in particular crude petroleum and natural gas (Figure 11). Their share has increased in the period of 2008-09 as a result of a substantial increase in natural gas prices. It declined further in 2009-2010 at the outset of the crisis following the reduction in industrial production and consequently natural gas consumption over the period. Furthermore, a decrease in the share of hydrocarbons in 2010 was further driven by the decline in world crude oil prices.

Figure 11: Commodity structure of imports, % total



Source: National Statistical Committee of the Republic of Belarus, 2011 Belarus Foreign Trade Statistics Yearbook. The figures for 2011 were obtained from the National Statistical Committee of the Republic of Belarus, 2012 Belarus Foreign Trade Statistics Yearbook (provisional estimates).

Crude petroleum and natural gas until recently were solely supplied by Russia. Within the past two years, Belarus has managed to secure crude oil supply from alternative sources, including Venezuela with its supplies accounting for 17 and 12 per cent of total imports of crude oil in 2010 and 2011 respectively and Azerbaijan accounting for 9 per cent of total imports in 2011. Belarus intends to diversify supply of energy resources further with the possibility of securing supply from Turkmenistan and Kazakhstan, although its diversification opportunities remain fairly limited by the Russia's monopoly on transit of crude oil and natural gas.

Among the EU economies, the key suppliers to the Belarusian market are Germany (5.6 per cent of total imports), Poland (2.8 per cent), Italy (2.1 per cent) and France (0.9 per cent). The key commodities supplied to Belarus by these countries are motor cars, parts & accessories of motor vehicles (Germany), compression- ignition internal combustion piston engines (Germany), pork meat (Germany and Poland), medicaments for retail sale (Poland and France), machines & mechanical appliances having individual functions & their parts (Italy); dish washing machines and packing machinery (Italy) (Annex 1). Annex 2 reports a list of non-Belarusian companies (mainly of EU-origin) involved in foreign trade with Belarus.

5.4 An overview of current and expected financial investments

Persistent trade deficit has been primarily financed via overseas government borrowings, liabilities of the banking sector and non-financial organisations, and foreign direct investment (Table 2). Until the 2008 crisis outbreak, Belarus largely tended to rely on loans from Russia to finance its current account deficit, which was relatively moderate until 2007. That is given the external environment favouring Belarus' foreign trade in the first half of the 2000s and preferable energy trade terms with Russia, as discussed earlier. Russia has remained Belarus's main creditor as shown in Annex 3[38]. Among EU Member States, loans are primarily raised from Germany, and to a significantly lesser extent from Netherlands and Austria (see Annex 3). Belarus could ever hardly raise sizeable funding from international banks or international capital markets on favourable terms.

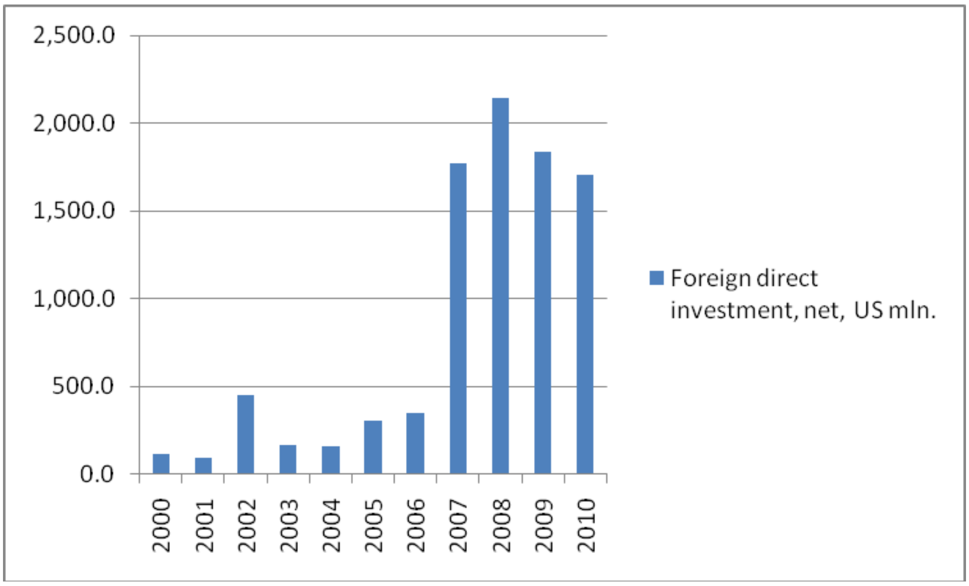
Belarus' poor record of property rights protection, slow progress in privatisation, existing quotas for foreign capital participation and an unfavourable business environment explained the low level of FDI which is considered as another potential and preferable source of financing current account deficit. The situation with FDI has improved in the wake of the crisis with the authorities making some progress in privatisation. However, despite the authorities' active measures to attract FDI into the economy, including holding an investment forum in London in November 2008 and abolishing the institution of the 'golden share rule' the same year, an increase in FDI was fairly marginal over 2008-2010 (about 4 per cent of GDP) and FDI decreased in absolute terms in 2010 compared to 2008 (Figure 12). In 2011 70%[39]

[38] Annex 3 provides information on Belarusian banks' foreign debt obligations (by country) only. The overall banks' foreign debt obligations in 2011 constituted 18% of Belarus's total foreign debt obligations with the rest being matched by governmental foreign debt obligations and obligations of the other sectors, including primarily non-financial organisations. Unfortunately, no information on foreign debt obligations of the Belarusian government and monetary authorities or Belarusian non-financial organisations (by country) is available.

[39] This figure largely reflects Russia's purchase of the remaining 50 per cent in Beltransgaz that made Gazprom the full owner of the Belarusian gas transportation company.

of total FDI was attracted from Russia. Among EU Member States key foreign direct investors originate from UK, Cyprus, Germany, Italy [40].

Figure 12: Foreign Direct Investment, net, US mln.



Source: EBRD Transition Report, various issues

With the decline in FDI at the outset of the crisis, external borrowing has become the main source of financing the current account deficit. As a result external debt has surged from 18 in 2006 to 52 per cent of GDP in 2010, although it still remains below the threshold level of 60 per cent and it is much smaller than that of other CIS countries (Ukraine is at 90 per cent and Kazakhstan at 102 per cent). However, the external debt as proportion of international reserves by far exceeds the threshold level of 250 per cent, making the Belarusian economy highly susceptible to a shock from external financing. Furthermore, its current structure with a prevalence of short-term debt raises further concerns about its sustainability, exposing Belarus to rollover risk (Table 2).

Table 2: Belarus: Financing Requirements, 2010-2016 (bln. of US dollars)

	2010	2011	2012	2013	2014	2015	2016
		Proj.					
Financing needs	-13.2	-15.3	-13.4	-14.1	-14.9	-17	-17
Current Account Balance	-8.5	-8.4	-6.5	-6.9	-7.1	-7.7	-8.2
Amortisation of debt securities	0	0	-0.2	0	0	-1	0
Amortisation of medium- & long-term debt	-1	-1.5	-1.8	-2.4	-3	-3.5	-4
Amortisation of short-term debt	-3.6	-5.3	-4.9	-4.8	-4.8	-4.8	-4.8

[40] This information was obtained from the Balance of Payments of the Republic Belarus for 2011 published by the National Bank of the Republic of Belarus, available from http://www.nbrb.by/statistics/BalPay/Comment/2011.pdf). Unfortunately, no more detailed information on these countries' shares is provided.

Financing sources	12.6	7.7	8.3	8.7	10	11.4	11.2
FDI (net)	1.3	1.8	2	2.4	2.6	2.8	3.2
Portfolio investment flows	1.2	0.8	0.2	0	0	1	0
Trade credits (net)	1.1	0.3	0.4	0.4	0.4	0.4	0.4
Medium & long-term debt financing	2.8	2.5	3.9	4.7	5.2	4.4	4.8
Short-term financing	5.3	4.9	4.8	4.8	4.8	4.8	4.8
Other	-0.5	-2.3	-0.5	0.8	1.5	0.1	0
Targeted increase in reserves	0.8	-1.5	-3	-3.5	-3	-2	-2
Exceptional financing	0	1.2	0.9	0.9	0	0	0
Residual financing gap	0	6.3	4.7	6.2	6.3	5.6	5.8

Source: IMF (2011) The Republic of Belarus: First Post-Program Monitoring Discussions, IMF Country Report 11/277, September 2011.

6. TARGETED SANCTIONS AGAINST BELARUS: EVALUATION OF POTENTIAL IMPACT AND RECOMMENDATIONS

6.1 Evaluating the potential impact of further targeted sanctions on different actors of the Belarusian economy.

Section 2 of the study discussed the pros and cons of implementing comprehensive (broad-based) and targeted sanctions from the theoretical perspective emphasising that sanction policy success may differ depending on the political institutional context in a targeted country. The underlying argument is that broad-based sanctions may prove to be less productive in authoritarian states with authoritarian leaders being more able to capture sanctioned rents and to allocate rent-seeking opportunities to their 'supporters'. Furthermore, if opposition is too weak and fragmented, more comprehensive sanctions may generate a 'rally-around-the-flag' effect in a targeted country, strengthening the ruling regime further.

A broad-based sanction approach in application to Belarus is equivalent to imposing comprehensive restrictions on public and private capital flows, and/or trade embargo on exports of crude oil, oil products and potash fertilisers - Belarus's main trade commodities to the EU.

Given that chemical and petrochemical industry is a key contributor to the Belarusian GDP and employment, and taking into account prevailing state ownership in the Belarusian economy this may potentially have severe adverse effects on the economy as a whole, particularly badly affecting population through increased unemployment, reduction in household income for displaced workers and curtailing in social programs, whereas, as discussed in section 2 of this study, the effectiveness of broader sanctions as to be able to generate a political change is ambiguous.

Furthermore, given that the EU is not Belarus' only trading partner and alternative sources of demand and supply in external markets exist, trade flows can be diverted to other countries, for example, Russia, Belarus's main trading partner Without Russia's 'cooperation', trade embargo and financial restrictions may only have a limited impact. The possibility of Russia's voluntary cooperation in the matter of sanctions against Belarus can be ruled out, but any cooling-off in the Belarus-Russia relationship could work to the benefit of the EU. In general, as past experience shows any '[Belarusian] rapture with the

West normally occurs in concurrence with the country's rapprochement with the East, and *vice versa'* (Korosteleva 2012). Portela points to the critical role of Russia in the impact of EU sanctions in the period preceding the 2010 presidential election: 'When Russian energy support subsided, there is nobody else for Belarus to turn to than the EU' (Portela, 2011, p.499).

Despite the possibility for trade diversion, the economic damage on the target economy may still be significant given higher transactions costs, associated with a need to search for new customers or to negotiate an increase in trade flows with existing ones, and with a worsening of the terms-of-trade as a result of Belarus loosing significant portion of its export market of oil products in the European market. Belarus' exporting firms may be forced to accept lower prices from new or existing customers to recoup their trade losses.

In addition, any trade or financial restrictions imposed on the flagmen of the Belarusian industry such as OJSC Naftan, OJSC Mozyr, JSC Belaruskali, OJSC Belshina and OJSC Grodno Khimvolokno and trading companies associated with them (BelOil and Belarusian Potash Company) will make them less attractive opportunities for foreign investors, reducing a number of potential bidders. Currently, JSC Belaruskali, a state-owned potash fertiliser, has two potential interested investors – India and Russia. OJSC Naftan and OJSC Mozyr also look as lucrative assets for many investors, and Russia has long been awaiting a moment of getting hands on them. As a result, lack of interest among the investors may lead to these lucrative Belarusian assets being sold at lower prices with the high probability of Russia remaining the only possible interested party. The overall deterioration in the economic situation that can be expected in the case the EU targets Belarusian leading enterprises may also trigger a rushed privatisation of other Belarusian strategic entities in the machinery industry (e.g. MAZ and BELAZ) and metal industry (BMZ) with the possibility for Russia to get them at a bargaining price.

Russia has already been actively penetrating the Belarusian market, fully acquiring BelTransGaz, a gas transit company; increasing control in the Belarusian banking sector with 7 out of 32 Belarusian banks now controlled by Russian banks (BPS-Bank, former Mezhtogbank, Belgazprombank, VTB-Belarus, Bank Moscow-Minsk, BelRosBank and Belvnesheconombank); increasing their presence in insurance industry ('TASK', Belvneshstrakh', Belingosstrakh and Brolli and Alvena); acquiring mass media assets ('Belgazeta', 'Komsomolskaya Pravda', 'Argumenty i fakty' and Interfax-Zapad – some of the leading Belarusian newspapers, and satellite TV and Internet operator 'Kosmos-TV'); and having significant shares in Belarusian leading leasing companies, construction, gambling and entertaining industry, restaurant business, mobile retail and the milk industry[41].

Thus, any deterioration in the-terms-of-trade and consequently worsening of the economic situation in Belarus may facilitate Russia's penetration into the Belarusian markets allowing acquisition of some lucrative Belarusian assets at a bargain price. Belarus' growing credit indebtedness vis-à-vis Russia is only likely to accelerate this process further, as evidenced by the terms of syndicated loan of USD 1 billion, issued to Belarus by Sberbank and Eurasian bank with JSC Belaruskali's assets being placed as collateral. Additionally, the loan is secured by government guarantees and 51 per cent- stake in OJSC 'Naftan'[42]. Failure of the Belarusian authorities to repay this loan or restructure debt may lead to these lucrative assets being seized by Russia.

Finally, imposition of sanctions with a stronger economic effect, as in this instance, trade and financial restrictions imposed on the flagmen of the Belarusian economy, may generate some sanction rents, as

[41] George Plaschinsky (2011) 'The Road to Russia is paved with good intentions', BelarusDigest, 20 December 2011, available from http://belarusdigest.com/story/road-russia-paved-good-intentions-7009. Accessed 21 March 2012.

[42] Evgeny Preigerman (2012) 'Znacheniye Evraziiskoi integratsii dlya Belarusi' [The meaning of the Eurasian Integration for Belarus], Belarusian Institute for Strategic Studies, BB #02/2012RU, 22 January 2012.

discussed earlier, with the authorities and businesses affiliated with them being better positioned to capture such rents. Trade sanctions can potentially be circumvented via trade diversion through third countries or by exporting/importing to/from a sanctioning economy via a third country which is in the instance of Belarus is likely to be Russia. In the case of the latter, rules of origin requiring the declaration of county of origin of a product, limit the room for manoeuvring. Although they can be overcome too through changing them to the origin of a third country prior goods being exported further to a sanctioning country. In Russia, with a high level of corruption and weak rule of law, the possibility of trade diversion should not be neglected[43].

Import embargoes and ban on transactions of European companies involved in exports to Belarus may be less efficient given that the European Union in total accounts only for 20 per cent of Belarusian total imports with Germany, the largest EU supplier to Belarus, accounting for only five per cent of total imports and other countries having even smaller shares. Furthermore, such restrictive measures will only benefit domestic producers and smugglers. So will the support of an import-substitution policy that the government has been promoting recently. In addition, the costs of import embargoes in relation to agricultural products, food, and automobiles which appear to be among key commodities imported from the EU may be partly offset through importing such commodities via Russia with Belarus benefiting from the provisions of Single Economic Space between Russia, Kazakhstan and Belarus.

To summarise the above discussion on the effect of broader sanctions, the more damaging the sanction, the stronger the control can be imposed on foreign trade which may distort economic activity toward domestic trade with larger rents accruing to smugglers and sanction busters and imposing social costs on population.

Similarly, financial measures such as withholding of state aid and loans and imposing restrictions on trade financing, seen as broad-based sanctions, are likely to have significant effect on the financing of Belarusian firms, the cost of imports, and trade in general, and generate unintended humanitarian costs that may be equivalent to those caused by more comprehensive trade sanctions. Belarusian importers are already penalised by Belarus being ranked as a high risk country by the majority of worldwide leading export-insurance companies that raises the cost of export insurance for foreign exporters to Belarus with further implications for the cost of goods imported to this country.

In addition, given the scarcity of domestic resources and high dependence on external financing to fund trade deficit and to serve external debt, any restrictions imposed on capital flows may significantly deteriorate economic situation and make Belarus more dependent on Russian financing.

Respectively, to minimise unintended economic and social costs, the EU should consider introducing financial restrictive measures that would impose targeted pressure on decision-making elites and its supporters. This will also allow to minimise the rally-around-the-flag effect, given that targeted sanctions make it more difficult for the ruling elite in the targeted country to blame external actors for the failing of the regime (Cortright and Lopez).

As discussed in section 2, economic sanctions are more likely to have the desired impact on policymaking in a target country if they are directed to a specific interest group whose political effectiveness potentially could be enhanced as a consequence of sanctions. In Belarus, the opposition is fairly weak and fragmented. However, such role may be assumed by pro-regime business elite discussed in section 5.2.3. Targeting wealthy businessmen and their business assets will impose higher transaction costs on them and will affect various value-adding activities of their supply chain reducing

[43] My assumption is strengthened by some informal discussion of this problem with a few executives of large Belarusian companies, an accountant and customs officer.

efficiency of their business operation and affecting its profitability and at the same time benefiting their rivals. Belarusian oligarchs fear their Russian counterparts who no doubt would use this window of opportunity to seize some lucrative business assets. The welfare distribution effect caused by sanctions targeting key business interests may trigger members of the Belarusian business elite to lobby their interests in the government that treats these businesses not only as main contributors to the budget and a source of financing of various types of state-related activities but also as a crucial source for private-rent extraction. The Belarusian ruling elite may be more willing to accommodate the EU demands when EU sanctions threaten to cut a source for their private gain and potentially geopardise the economy with further implications for the regime stability (see also Portela). Thus, although against their will the Belarusian business elite subject to sanctions may appear a potential power to trigger a political change in the country.

6.2 Conclusions and Recommendations

Following the political oppression of the opposition and civic activists in the aftermath of the fraudulent presidential election in December 2010, the European Union imposed a set of sanctions spanning from travel bans on a number of individuals responsible for the objectionable behaviour, to arms embargo and asset freeze imposed on leading Belarusian businessmen with close ties with the ruling elite, and entities controlled by these individuals. Along with asset freeze, any transactions with these individuals and involving their businesses are prohibited.

Based on the analysis of Belarusian key economic players, foreign trade and financial flows composition, set within the framework of political economy literature and the broad versus targeted sanctions debates, the following conclusions can be drawn:

1. Scholarly work on sanctions suggests that broad-based sanctions may prove to be less productive in authoritarian regimes with political leaders in non-democratic states being more able to capture sanctioned rents and to allocate rent-seeking opportunities to their 'supporters', and to generate a 'rally-around-the-flag' effect, strengthening the ruling regime further.
2. A broader sanction approach, if exercised towards Belarus will signify imposition of trade sanctions targeting key state-owned enterprises with significant export potential and contribution to Gross Domestic Product and employment, namely enterprises in chemical and petrochemical industries, and/or financial measures such as withholding of state aid, loans to government and public enterprises, and imposing restrictions on trade financing. Such sanctions are likely to cause higher economic damage for the economy as a whole, affecting vulnerable populations in the first instance, but be less efficient in obtaining the desirable outcome, and possibly contributing further to strengthening of the ruling regime. This may lead to further political and economic isolation of Belarus in the international relations arena and to the intensification of economic ties with Russia and integration processes in the CIS region.
3. Broader-based import embargoes are likely to benefit domestic producers and smugglers. Furthermore, they may be less efficient, as their cost may be partly offset through importing such commodities via Russia with Belarus to benefit from the provisions of the Single Economic Space between Russia, Kazakhstan and Belarus, and Russia's membership of the WTO.
4. EU sanctions may only have the desired impact on policymaking in Belarus if they target certain individuals who have a strong lobbying power and whose political effectiveness could be enhanced as a consequence of adverse effect of sanctions on their welfare status, forcing them to negotiate their interests in the government and possibly persuading the government to make some political concessions. As shown by the recent positive political developments in Belarus, in particular the release of Andrei Sannikov, one of the key 2010 presidential candidates representing the opposition, and his close political ally, Dmitry Bandarenka. Sanctions targeting

Belarusian key business elite seem to work at least in part of achieving some partial compliance with the EU demands.

5. Sanctions targeting individuals directly responsible for the oppression of opposition in Belarus and key business elite representatives who provide financial support to the ruling regime, through travel bans, asset freeze and ban on transactions involving pro-regime business entities, will be in line with a smart sanction approach exercised by international community with the primary intention to avoid adverse humanitarian impacts.

Respectively, the following recommendations can be made regarding the EU policy to implement further targeted sanctions in relation to Belarus.

1. Although the majority of academic research on sanctions show that travel sanctions have limited economic effect, for symbolic purposes a policy of travel sanctions should be continued. A list of individuals responsible for the oppression of the political opposition and civic activists in Belarus should be expanded further if new evidence on such individuals' involvement emerges.
2. Arms embargo, a traditional sanction instrument exercised frequently by the international community, is also more likely to have a symbolic power given that Belarus is not in a state of war and has no intention to build up its military potential. Generally, as evidence show with the exception of Iraq, arms embargo has proven to be the least effective of UN sanctions tools (Cortright and Lopez; Drezner).
3. Sanctions targeting key business elite representatives, identified in section 5.3.2, should be adopted as a key pillar in the EU sanctions strategy towards Belarus. The recent release of two opposition leaders proves that they are efficient tool of economic coercion on Belarus. Despite some evidence of partial success of such policy it would be too pre-emptive to remove sanctions imposed against Vladimir Peftiev, Yuri Chyzh and Anatoly Ternavsky and entities associated with these three key pro-regime business figures, given other political prisoners still remain in jail. In case of deterioration of political situation in Belarus a 'black list' of key business people can be extended to include others discussed in section 5.2.2.
4. There is also a need to continue strengthening the EU commitment with the Belarusian people and civil society by providing financial support to non-governmental organisations. Especially in part of their activities aimed at increasing awareness of the general public of good intention of the EU sanction policy in relation to Belarus which aims at minimising the negative effect of sanctions on the population and to target only individuals responsible for violation of human rights and civic liberties in Belarus, and entities associated with key business interests and sponsoring of the regime.
5. One of the keys to success of targeted sanctions is a strong commitment of EU Member States to impose sanctions targeting business elite that may imply for some Member States forgetting strategic investment opportunities.

Bibliography

Allen, Susan, 'Political Institutions and Constrained Response to Economic Sanctions', *Foreign Policy Analysis,* 4, 2008, pp. 255-274.

Allen, Susan, 'The Determinants of Economic Sanctions Success and Failure', *International Interactions,* 31(2), 2005, pp.117-138.

Alnasrawi, A., 'Iraq: Economic Sanctions and Consequences, 1990-2000', *Third World Quarterly,* 22(2), 2001, pp. 205-218.

Cortright, David and George, Lopez, 'Introduction: Assessing Smart Sanctions: Lessons from the 1990s', In: Cortright, D. and G. Lopez (Eds.), Targeting Economic Sanctions, pp. 1-22. Rowman & Littlefield Publishers, Inc.: Plymouth, UK, 2002.

Dresner, Daniel, 'Sanctions Sometimes Smart: Targeted Sanctions in Theory and Practice', *International Studies Review,* 13, 2011, pp. 96-108.

EBRD Transition Reports, various issues.

Haass, Richard, 'Sanctioning Madness', *Foreign Affairs,* 76(6), 1997, pp. 74-85.

Hoskins, Eric, 'Humanitarian Impacts of Sanctions and War in Iraq', In Weiss T. and D. Cortright, G. Lopez, and L. Minear (Eds.), Political Gain and Civilian Pain. Rowman & Littlefield: New York, 1997.

Hufbauer, Garry, Jeffrey Schott, and Kimberley, Elliott, *Economic Sanctions Reconsidered,* 2nd ed., Washington: Institute for International Economics, 1990.

IMF, 'The Republic of Belarus: First Post-Program Monitoring Discussions', IMF Country Report 11/277, September 2011.

Kaempfer, William and Anton, Lowenberg, 'The Theory of International Economic Sanction: A Public Choice Approach', *American Economic Review*, 78, 1988, pp.786-793.

Kaempfer, William and Anton, Lowenberg, 'Unilateral Versus Multilateral International Sanctions: A Public Choice Perspective', *International Studies Quarterly*, 43(1), 1999, pp. 37-58.

Kaempfer, William and Anton, Lowenberg, *International Economic Sanctions: A Public Choice Perspective*, Boulder, CO: Westview Press, 1992.

Korosteleva, E., 'The European Union and its Eastern Neighbours: towards a more ambitious partnership?', Routledge, 2012.

Korosteleva, J. and C. Lawson, 'The Belarusian Case of Transition: Whither Financial Repression?', *Post-Communist Economies,* 22(1), 2010.

Korosteleva, J., 'The Implications of the Global Recession for the Belarusian Economy: Revealing Cracks in the Economic Model', *Journal of Communist Studies and Transition Politics,* 2011.

Kreutz, Joakim, 'Hard Measures by Soft Power? Sanctions Policy of the European Union', Bonn International Centre for Conversion, discussion paper No. 45, 2005.

Lektzian, David and Mark, Souva, 'An Institutional Theory of Sanctions Onset and Success', *The Journal of Conflict Resolutions*, 51(6), 2007, pp. 848-871.

Mueller, John and Karl, Mueller, 'Sanctions of Mass Destruction', *Foreign Affairs,* 78(3), 1999, pp. 43-52.

National Statistical Committee of the Republic of Belarus, 'Belarus Foreign Trade Statistics Yearbook', 2011.

National Statistical Committee of the Republic of Belarus, 'Belarus Foreign Trade Statistics Yearbook' (provisional estimates), 2012.

Portela, C., 'The European and Belarus: Sanctions and Partnership?', *Comparative European Politics,* 9(4/5), 2011, pp. 486-505.

White, S. L., and E. A. Korosteleva-Polglase, 'The Parliamentary Election and Referendum in Belarus, October 2004', *Electoral Studies*, 25, March 2006, pp. 155-60.

World Bank, 'Belarus: Trade Performance and Competitiveness', Belarus Economic Policy Notes: Note No.2, Report No. 54371-BY, 2010.

World Bank, 'Memorandum of the President of the International Bank for Reconstruction and Development and of the International Finance Corporation to the Executive Directors on a Country Assistance Strategy for Belarus', 23401-BY, Washington, DC: World Bank, 2002.

World Bank, 'World Development Indicators', edition: September 2011. ESDS International, University of Manchester. DOI: http://dx.doi.org/10.5257/wb/wdi/2011-09.

Annex 1: Trade structure by key trading partners and main commodities

R	Country	2008		2009		2010		2011		Main export/import goods, mln. $, 2011
		mln. $	%	mln. $	%	mln. $	%	mln. $	%	
EXPORT										
1	Russia	10551.9	32.4	6718.5	31.5	9816.1	38.9	13685	34	Motor vehicles for the transportation of goods (1015.6); tractors & trucks (871.7); motor vehicles (631.4); cheese & curd (595.5); milk & cream concentrated or in powder (399.3).
2	Netherlands	5408.2	16.6	3698	17.4	2773.3	11	6157.9	15.3	Oil products (5477); latent solvent (405.2); lubricants (187.5).
3	Ukraine	2777.9	8.53	1691.5	7.94	2562.3	10.2	4157.1	10.3	Oil products (2812.3); tractors and trucks (139.3); potash fertilisers (95.9); tyres (73.1); refrigerators (62).
4	Latvia	2141	6.57	1655.8	7.8	930.6	3.69	3150.8	7.8	Oil products (1640.5); latent solvent (1110.2); semi-finished products of non-alloy steel (152.1).
5	Germany	812.0	2.49	987.4	4.6	461.0	1.83	2556.2	4.5	Crude oil (1286.3); medical instruments and appliances (39.3); wood sawn or chipped lengthwise (34.4); nitrogenous fertilisers (32.5)
6	Brazil	1073.7	3.30	444.8	2.1	705.5	2.80	1224.1	3	Potash fertilisers (1124); nitrogenous fertilisers (86.0)
7	Poland	1798.4	5.52	823.2	3.86	886.3	3.51	1123.2	2.8	Oil products (283.8); liquefied gas (161.8); potash fertilisers (170.2); wood in the rough (103.2).
8	Lithuania	619.2	1.9	362.3	1.7	450.9	1.79	859.3	2.1	Oil products (247.1); lubricants (55); mixed fertilisers (34.2).
9	China	613.4	1.88	174.0	.82	474.0	1.88	637.1	1.6	Potash fertilisers (312.1); heterocyclic compounds with nitrogen hetero-atoms (178.4).
10	Kazakhstan	365.2	1.1	313.4	1.5	463.5	1.84	631.2	1.6	Milk and cream concentrated or in powder (66.3); tyres (54.1); tractors and trucks (50.7); sugar (45).
IMPORT										
1	Russia	23507.4	59.7	16726.3	58.5	18058.2	51.8	24922.6	54.5	Crude oil (7444.3); natural gas (5308.7); oil products (3389.4); ferrous waste & scrap (570.8); compression-ignition internal combustion

										piston engines (236.3).
2	Germany	2791.7	7.1	2211.1	7.7	2388.1	6.8	2556.2	5.6	Motor cars (180.0); parts & accessories of motor vehicles (63.5); compression- ignition internal combustion piston engines (62.5); pork meat (56); machinery for earth, minerals or ores (52)
3	China	1414.8	3.6	1080.1	3.8	1683.4	4.8	2193.7	4.8	Communication apparatus & parts (138.1); automatic data processing machines (100); parts of footwear (70); parts & accessories for motor cars & vehicles (45); machinery & appliances for lifting & material handling (42.6); centrifuges, filtering machinery & apparatus for liquids or gases (36.4).
4	Ukraine	2115.1	9.0	1290.0	4.5	1877.6	5.4	2034.7	4.4	Electric energy (160.8); residuals resulting from the extraction of other vegetable oils (115.3); flat-rolled products of non-alloy steel (126)
5	Poland	1154.9	2.9	786.6	2.8	1077.4	3.1	1289.2	2.8	Pork meat (126.1); apples, pears & quinces (43.5); insulated wire/cable (27.3); medicaments for retail sale (22.8); electric accumulators (20.7).
6	Venezuela	.147	.00	.016	.00	1152.3	3.3	1129.8	2.5	Crude oil (1126.8)
7	Italy	871.9	2.2	709.0	2.5	771.3	2.2	967.8	2.1	Machines & mechanical appliances having individual functions & parts (56.8); dish washing machines; machinery for filling or closing containers; packing machinery (29); appliances for pipes (27); wallpaper (24.6); machinery for thermal treatment of materials (23.7)
8	Azerbaijan	6.2	.00	4.3	.00	6.0	.00	825.8	1.8	Crude oil (825.8)
9	US	484.1	1.2	429.8	1.5	438.8	1.3	556.6	1.2	Motor vehicles (91.4); compression-ignition internal combustion piston engines (83.9); vaccines, antisera, blood (21.8); instruments & appliances used in medical sciences (20.9).
10	France	560.9	1.4	393.0	1.4	384.5	1.1	430.2	0.9	Medicaments (34.8); insecticides & herbicides (30); reaction initiators, reaction accelerators and catalytic preparations (17.7).

Source: National Statistical Committee of the Republic of Belarus, 2011 Belarus Foreign Trade Statistics Yearbook. The figures for 2011 were obtained from the National Statistical Committee of the Republic of Belarus, 2012 Belarus Foreign Trade Statistics Yearbook (provisional estimates). R stands for raking; the ranking is based on the 2011 data.

Annex 2: A list of non-Belarusian companies (primarily of EU origin) involved in foreign trade with Belarus

Company name	Main activity	Country affiliation	Source
EGGER	Manufacturing and supply of wood-based materials, including construction materials and furniture components Company web-site: http://www.egger.com	Austria	EGGER Foreign Ltd. in Belarus Tel.: +375 17 2878377 E-mail: info-by@egger.com
Guala Closures Bulgaria	Supply of plastic product packaging	Bulgaria	Export support internet portal http://export.by The company currently exports its product to Belarus – information confirmed with a contact person via phone conversation Tel.: +359 431 68050 E-mail: n.ilieva@gualaclosures.bg
EuroTop Invest a.s.	Distribution of Belarusian and Russian petrochemical products	Czech Republic	Export support internet portal http://export.by Tel.: +420 221 094 128 E-mail: eurotopinvest@eurotopinvest.com
VPS	Construction and sale of timber frame houses	Czech Republic	Export support internet portal http://export.by Not active trading yet. The company has just started working with Belarusian

			suppliers of timber frame houses and related products – information confirmed with a contact person via phone conversation Tel.: +420 777 726 124 E-mail: vpspol@seznam.cz
GRUNDFOS Holding	Pump manufacturing and supply	Denmark	GRUNDFOS Ltd Representative Office in Belarus (http://www.grundfos.by) Tel.: +375 17 2863972 E-mail: minsk@grundfos.by
JS Novo Nordisk AS	Supply of diabetes products Company web-site: http://www.novonordisk.com/	Denmark	JS Novo Nordisk AS Representative office in Belarus Tel.: +375 17 2102948
PAROC Group Oy	Production & supply of mineral fibre products and insulating materials Company web-site: http://www.paroc.com	Finland	PAROC Representative Office in Belarus (http://www.paroc.by) Tel.: +375 17 298 32 15 E-mail: info.minsk@paroc.com
ROBY	Supply of timber frame products to Western Europe Company web-site: www.roby-fr.com	France	Export support internet portal http://export.by As far as trade with Belarus is concerned the company imports wood from Belarus - information confirmed with a contact person via phone conversation Tel.: +33248739783

			E-mail: marina@roby-fr.com
Sanofi Groupe S.A.	Manufacturing and supply of pharmaceutical products Company web-site: http://www.sanofi.com	France	Sanofi Groupe S.A. Representation in Belarus Tel:+375 17 2033311
Schneider Electric Industries S.A.S.	Production and supply of electrical equipment Company web-site: http://www.schneider-electric.com	France	Schneider Electric Industries Representative Office in Belarus Tel.: +375 17 2276034
AEN Engineering GmbH & Co. KG	Supply of equipment to produce vinegar out of spirits, wine and fruit products; equipment to produce oil by cold pressure welding) out of walnut, sunflower etc.; equipment to produce biodiesel; new and used equipment for sugar, meat, milk, and bread/confectionary industry and their spare parts. Company web-site: http://aen-engineering.ucoz.com/	Germany	Export support internet portal http://export.by At this stage the company primarily exports spare parts for equipment for food industry to Belarus – information confirmed with a contact person via phone conversation Tel.: +49 2771 23976 E-mail: info@aen-engineering.de
BASF	Manufacturing and supply of chemical products Company web-site:http://www.basf.com	Germany	BASF Representative office in Belarus (http://www.basf.by) Tel.: +375 17 2022471

			E-mail: basf-belarus@basf.com
BIONORICA SE	Supply of medical equipment and pharmaceutical products Company web-site: http://english.bionorica.de/	Germany	BIONORICA SE Representative Office (http://www.bionorica.ru) Tel.: +375 17 2114008 E-mail: office@bionorica.by
HYDAC	Supply of products in hydraulics, electronic control technology, solenoid technology and control sensors as well as fluid sensors/condition monitoring and fluid control products Company web-site: http://www.hydac.com/de-en/company.html	Germany	HYDAC Representative office in Belarus (http://www.hydac.com.by) Tel.:+375 17 2090132 E-mail: info@hydac.com.by
KWS SAAT AG	Supply of agricultural products and seeds Company web-site: http://www.kws.de	Germany	KWS Representative office in Belarus (http://www.kws.de/aw/KWS/belarus/~gjw/_1050_1042_1057_1074_1041_1/) Tel.: +375 17 203 52 14 E-mail: office@kws.by
REHAU AG	Manufacturing and supply of polymer-based products Company web-site: www.rehau.com	Germany	Export support internet portal http://export.by The company exports polymer furniture components to Belarus via its representative office in Belarus – information confirmed with a contact person via phone conversation Tel.: +375 17 245 02 09

			E-mail: andrej.osinskij@rehau.com
Robert Bosch AG	Production and supply of automotive components and household appliances	Germany	BOSCH Representative office in Belarus (bosch@by.bosch.com) Tel.: +375 17 3286861 E-mail:bosch@by.bosch.com
Schmidt Kommunalfahrzeuge GmbH	Supply of new and used municipal vehicles	Germany	Export support internet portal http://export.by The company exports new and used municipal vehicles to Belarus - information confirmed via phone conversation Tel.: + 493669531022 E-mail: sergey@schmidt-kommunal.de
Schueco International KG	Supply of aluminium, PVC-U and glass constructions systems for homes Company web-site: http://www.schueco.com/web/uk	Germany	Schueco Representative office in Belarus (http://www.schueco.by) Tel.:+375 17 2985872 E-mail: office@schueco.by
Seba Dynatronic Mess- und Ortungstechnik GmbH	Electricity supply, communications and pipe networks Company web-site: www.sebakmtuk.com	Germany	Seba Dynatronic Representative Office in Belarus Tel.: +375 17 2908512 E-mail: sebakmt@tut.by

SIEMENS	Manufacturing and supply of household appliances, lighting, medical equipment Company web-site: http://www.siemens.com	Germany	Siemens Ltd. Representative Office in Belarus (http://www.siemens.by) Tel.:+375 17 2173484 E-mail: minsk-office.cd@siemens.by
Stotz Agro-Service GmbH & Co. KG	Supply of agricultural machinery and equipment and their spare parts	Germany	Stotz Agro-Service GmbH & Co. KG Representative Office in Belarus (see http://www.stotz-online.com/doc/stotz-agro-service.php) Tel.: +375 17 5057524 E-mail: stotz@inbox.ru
WILO SE	Manufacturing and supply of pumps and pumping systems for heating, ventilation and air-conditioning technology, water supply, and sewage disposal and wastewater treatment.	Germany	WILO SE Representative Office in Belarus (http://www.wilo.by) Tel.: +375 17 2285529 E-mail: wilo@wilo.by
Sealine Ventures LLP	Supply of liquefied natural gas, nitrogenous and potash fertilisers	Great Britain	Export support internet portal http://export.by Promotion of Belarusian nitrogenous and potash fertilisers in EU countries - information confirmed by a contact person in Belarus via phone conversation Tel.: +375291683183 E-mail: sealine.ventures.llp@gmail.com
KOIMPEX	Supply of wood-processing equipment	Italy	Representative office of Koimpex SRL

	Company web-site: http://www.koimpex.it		Tel.: +375173124250 E-mail: koimpex@telecom.by
JSC Bermeta	OTTO goods by post, mail-order service, OTTO mail-order catalogue in Belarus	Lithuania	JSC Bermeta Representative Office in Belarus Tel.: +375 17 2110044
GMF-GOUDA	Manufacturing and supply of drying, solidifying, peeling and thermal equipment for the food, chemical and environmental industries Company web-site: http://www.gmfgouda.com	Netherlands	Export support internet portal http://export.by The company only exports its equipment to Belarus - information confirmed with a contact person via telephone call Tel.: +49 2102 100 486 13 E-mail: info@gmfgouda.nl
PHILIPS	Manufacturing and supply of consumer electronics, domestic appliances, lighting, medical equipment and technology. Company web-site: http://www.philips.com	Netherlands	Philips-Belorussia Foreign Enterprise in Belarus Tel.: +375 17 2501198 E-mail: belarus@philips.com
BNH- Oil Polska	Distribution of chemical and petrochemical industry goods in EU countries Company web-site: http://www.bnhoil.pl/eng/	Poland	Export support internet portal http://export.by BNH-Oil Polska is a downstream supplier of Belarusian chemical and petrochemical products to EU countries (Poland, Czech Republic, Germany, Slovenia, Italy, Holland).

			Tel.: +48 22 661 5228 E-mail.: kozlov@belneftekhim.pl
RICO Group	A group of companies with diverse range of activities which include energy-efficient building construction among other	Slovenia	'RIKO industrijski, gradbeni, inzeniring in leasing d.o.o' represents RICO Group's interests in Belarus. It carries out large-scale energy efficient turnkey construction projects in Belarus. Riko has been commissioned to construct a multifunctional complex with a five star Kempinski Hotel in the historical centre of Minsk, Belarus (see http://www.rikogroup.com/en/). Tel.: +375 17 2101007 E-mail: ziriko@telecom.by
KF Eurotrade AB	Supply of bearings, seals, lubrication and lubrication systems, maintenance products, mechatronics products, and power transmission products Company web-site: http://www.skf.com	Sweden	SKF Eurotrade AB Representative Office in Belarus (http://www.skf.com/portal/skf_by/home?lang=ru) Tel.:+375 17 2570425 E-mail: skf.minsk@skf.com
ABB Group	Supply of power and automation technologies Company web-site: http://www.abb.com/	Switzerland (Swedish-Swiss multinational corporation headquartered in Switzerland)	ABB Representative office in Belarus (http://www.abb.by/) Tel.: +375 17 2024041 E-mail: abb.belarus@by.abb.com
ALCATEL-LUCENT TRADE	Telecommunications	Switzerland	Representative office of Alcatel-Lucent AG in Belarus (http://www.alcatel-lucent.by)

INTERNATIONAL AG			Tel.: +37517 2098097
JS TetraPack Service S.A.	Supply of food packaging (dairy, beverages, cheese, ice-cream and prepared food) Company web-site: http://www.tetrapak.com	Switzerland	TetraPack Representative office in Belarus Tel.: (017) 2110039
Syrgenta AG	Chemical production and sale (supply of seeds and pesticides)	Switzerland	Representative office of Syrgenta AG in Belarus (http://www.syngenta.by) Tel.: +37517 2281422
Atlant-M International Automobile Holding	Supply of cars of leading automobile brands Company web-site: http://www.atlant-m.ua/eng/departments_cis.php	Ukraine	Official dealers of Volkswagen AG company in Belarus Minsk: **'Atlant-M Fartsoygkhandel'** General Volkswagen importer in Belarus **Tel.:** 375(17) 2-599-174 **Web:** www.vw.by **'Atlant-M Sukharevo'** **Tel.:** 375(17) 206-0-206 **Web:** www.atlant-m.by **'Atlant-M na Mashinostroiteley'** **Tel.:** 375(17) 2-400-400

			Web: www.atlantmotors.by **'Atlant-M Zapad' in Brest** Official Volkswagen dealer **Tel.:** 375(0162) 42-42-42 **Web:** www.volkswagen-brest.by

Annex 3: Belarusian banks' foreign debt obligations by country, mln.US dollars as at 1 January 2012

Countries	Foreign debt obligations	Securities	Loans	Deposits	Other obligations
Total	6077.4	85.3	5246.6	695.1	50.4
Austria	331.9	0.0	330.5	1.4	0.0
China	28.6	0.0	20.4	8.3	0.0
Cyprus	98.6		83.5	13.4	1.6
Czech Republic	95.6	0.0	91.8	0.4	3.5
Denmark	29.7	0.0	29.6	0.1	0.0
France	33.5	0.0	32.4	1.0	0.0
Germany	1164.1	0.0	1151.8	8.2	4.0
Iran	259.6	0.0	246.7	12.9	0.0
Italy	146.1	0.0	136.3	9.7	0.1
Kazakhstan	46.6	0.0	45.1	1.5	0.0
Latvia	106.2	44.6	4.8	54.9	0.0
Lebanon	28.6	0.0	25	3.6	0.0
Libya	12.2	0.0	0.0	12.2	0.0
Lithuania	5.4	0.0	0.0	5.3	0.1
Luxemburg	47.8	0.0	47.7	0.1	0.0
Netherlands	331.2	0.0	330.6	0.6	0.0
Poland	121.8	23.7	91.2	6.6	0.3
Russia	2776.5	12.3	2256.9	485.3	22
Slovakia	20.3	0.0	18.3	2.0	0.0

Slovenia	8.2	0.0	7.9	0.3	0.0
Spain	4.9	0.0	0.0	4.9	0.0
Sweden	3.4	0.0	3.0	0.3	0.1
Switzerland	116.1	0.0	114.0	2.1	0.0
Taiwan	12.0	0.0	12.0	0.0	0.0
Ukraine	5.7	0.1	0.0	0.1	0.0
United Kingdom	94.9	4.7	87.8	2.5	0.0
US	20.7	0.0	3.0	1.7	16.1
International organisations	36.9	0.0	35.0	1.8	0.0
Other countries	90.6	0.0	41.4	48.6	0.6

Source: Balance of Payments of the Republic of Belarus for 2011, available from http://www.nbrb.by/statistics/BalPay/Comment/2011.pdf

EUROPEAN PARLIAMENT

BB-32-12-176-EN-N

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES

POLICY DEPARTMENT

Role

Policy departments are research units that provide specialised advice to committees, inter-parliamentary delegations and other parliamentary bodies.

Policy Areas

- Foreign Affairs
  - Human Rights
  - Security and Defence
- Development
- International Trade

Documents

Visit the European Parliament website: **http://www.europarl.europa.eu/studies**

PHOTO CREDIT: iStock International Inc.

ISBN 978-92-823-3733-2
DOI 10.2861/79520

ISBN 978-92-823-3733-2

Publications Office