Title: The Republic of Belarus (Sanctions) (EU Exit) (Amendment) Regulations 2021 **IA No:** FCDO2101. **RPC Reference No:** **Lead department:** Foreign, Commonwealth & Development Office **Other departments or agencies:** HM Treasury, Department for International Trade, Department for Business, Energy & Industrial Strategy, Department for Transport, Department for Environment, Farming and Rural Affairs and National Cyber Security Centre	**Impact Assessment (IA)** **Date:** 19/07/2021 **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Secondary legislation **Contact for enquiries:**Sanctions@fcdo.gov.uk

Summary: Intervention and Options

RPC Opinion: GREEN

Cost of Preferred (or more likely) Option (in 2019 prices)			
Total Net Present Social Value	**Business Net Present Value**	**Net cost to business per year**	**Business Impact Target Status**
-£23.7m	-£23.7m	£2.8m	Non-Qualifying provision

What is the problem under consideration? Why is government action or intervention necessary?

1. In Belarus there has recently been an escalation of serious human rights violations. The Belarusian authorities continue to violently oppress civil society, democratic opposition leaders and supporters, independent media and journalists, and to violate democratic principles and the rule of law. This has included:

    i. the forced diversion and landing of the Ryanair flight FR4978 to Minsk on 23 May 2021 by the Belarusian authorities in order to arrest a journalist, Roman Protasevich, and his partner Sofia Sapega;
    ii. the arbitrary detention of over 35,000 people;
    iii. the imprisonment of over 500 people on politically motivated charges;
    iv. the attempted forcible expulsion of the opposition figure Maria Kolesnikova and forced expulsion of other opposition figures;
    v. the arbitrary sentencing of the opposition candidate, Viktor Babiriko, to 14 years' imprisonment;
    vi. the introduction of legislation in May 2021 which suppresses media freedoms and peaceful assembly and has been used as justification to raid the independent organisations Nasha Niva and Tut.by; and
    vii. the many credible reports of physical mistreatment including torture by the penal and security forces in Belarus, noted by the UN High Commissioner for Human Rights in her report to the Human Rights Council in February 2021 and by the OSCE Moscow Mechanism Rapporteur's report.

2. UK sanctions action, in concert with the EU and other allies, aims at encouraging the Government and authorities of Belarus to respect democratic principles and institutions, the separation of powers and the rule of law in Belarus, refrain from actions, policies or activities which repress civil society in Belarus, comply with international human rights law, and respect human rights.

3. UK Government intervention, in the form of trade, financial and transport sanctions, will target key sources of finance and revenue for the Government of Belarus, increasing the pressure on them, and denying them access to items that could be used for internal repression. The private benefit accrued to UK business from trading with Belarus does not factor in the wider societal costs to the Belarusian population. Without intervention, it is likely these businesses would continue to directly or indirectly provide or purchase the targeted goods, services and funding for the Government of Belarus. Failure to impose sectoral sanctions will also undermine the UK's reputation as an upholder of international law, human rights, freedom of expression and democracy.

What are the policy objectives of the action or intervention and the intended effects?

1. Sanctions are an important national security and foreign policy tool. They can be used to put coercive pressure on a country, regime or group to encourage them to cease particular behaviours; constrain their access to resources that enable them to engage in such behaviours; as well as to signal disapproval of a particular course of action.
2. HMG's objectives on democracy and human rights are to champion human rights, good governance and rule of law including by assisting those who uphold or seek to promote them and using the UK's leverage against those who violate and abuse human rights or the rule of law.
3. In this instance, HMG's objectives are to:
    a. encourage the Government of Belarus to refrain from actions, policies or activities that repress civil society in Belarus, and to respect democratic principles and institutions, the separation of powers and the rule of law;
    b. encourage the Government of Belarus to comply with international human rights law and to respect human rights.
4. One of the ways in which we aim to achieve this is by signalling to the Government of Belarus and the international community that the actions of the Government of Belarus are unacceptable. We aim to limit the impact on the Belarusian people, the UK and its partners to the extent possible, and to align closely with partners to achieve maximum impact in line with the policy's objectives, e.g. by helping to prevent substitution.
5. The measures are intended to increase the pressure on the Belarusian government in a number of ways including by increasing its costs (e.g. to obtain insurance) and reducing revenue streams (e.g. by targeting key exporting industries). The measures will restrict the Government of Belarus's access to interception and monitoring technology and will restrict its access to finance and increase the cost of borrowing. In concert with the EU and other allies, these measures will increase the cost of the Government of Belarus' actions and thereby increase pressure for it to change in line with the objectives set out above.

What policy options have been considered? Please justify preferred option (further details in Evidence Base)

The Government has considered three options:

1. Option 0: Do nothing. The baseline against which the alternative policy options are compared is a scenario in which all existing measures are kept in place but no new ones are imposed.
2. Option 1: Limited sectoral response. Impose sectoral measures on Belarus in relation to aviation, potash, interception and monitoring goods and technology, tobacco industry goods and dual-use goods and technology, as well as amending the list of banned internal repression items. Furthermore, removal of exceptions to the existing arms embargo (related to biathlon rifles), a non-legislative regulatory measure, will be included in this assessment.
3. **Option 2 [Preferred option]:** Comprehensive sectoral response, including financial sanctions aimed at funding and financial services for the Government of Belarus, as well as an import prohibition on petroleum products. Impose sectoral measures on Belarus in relation to aviation, potash, petroleum products, interception and monitoring goods and technology, tobacco industry goods, dual-use goods and technology, securities, money-market instruments, loans, insurance, and reinsurance, as well as removing exceptions to the arms embargo.

A comprehensive sectoral response will prevent any UK business trading goods and services of the specified types with Belarus. A number of the targeted sectors are key sources of revenue for the Government of Belarus and the proposed sanctions aim to coerce the authorities into changing their behaviour. In addition, the comprehensive sectoral response will ensure UK businesses are not able to provide funding or certain services which benefit the regime, constraining the regime's activities.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** 11/2021

Is this measure likely to impact on international trade and investment?		Yes			
Are any of these organisations in scope?	**Micro** Yes	**Small** Yes		**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)		**Traded:** 0		**Non-traded:** 0	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: Date: 13.08.21

Summary: Analysis & Evidence

Policy Option 1

Description: Limited Sectoral response

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	**PV Base Year** 2020	**Time Period Years** 10	**Net Benefit (Present Value (PV)) (£m)**		
			Low: -3.6	**High:** -0.2	**Best Estimate:-2.8**

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	0.0	1	0.02	**0.2**
High	0.0		0.4	**3.6**
Best Estimate	0.0		0.3	**2.8**

Description and scale of key monetised costs by 'main affected groups'

The key cost to UK business will be the opportunity cost of future profit they may have made from the export of goods and services that will be subject to restrictions under the new measures. The measures will impact airports and National Air Traffic Services (NATS) in reducing the revenue they may have made from charges to Belarusian airlines. However, the trade and business relations between the UK and Belarus are very limited, so we do not expect these costs to be significant (less than £1m per year).

Other key non-monetised costs by 'main affected groups'

The measures targeting imports of potash fertiliser from Belarus are likely to have an impact on potash supply in the UK, which could affect potash prices for producers and ultimately consumers, which in this case are UK farmers. We have been unable to monetise this impact but we believe the impacts to be small given the very low volumes of Belarusian potash imports to the UK. Furthermore, we assess there to be no significant risk that UK farmers will be unable to source potash following the prohibition.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	0.0	10	0.0	**0.0**
High	0.0		0.0	**0.0**
Best Estimate	0.0		0.0	**0.0**

Description and scale of key monetised benefits by 'main affected groups'

We do not expect there to be many, if any, direct economic benefits to UK business or to wider society. Given the very limited benefits expected, we do not consider it to be proportionate to monetise benefits.

Other key non-monetised benefits by 'main affected groups'

There is a possible benefit to UK potash suppliers who could benefit from a larger market share in the UK following the ban on Belarusian potash imports; however, we expect this to be small given the small volume of Belarusian potash imports to the UK. The main benefit of the measures will be the UK maintaining its reputation as an upholder of international law and democracy.

Key assumptions/sensitivities/risks	**Discount rate**	3.5

For the low scenario, we have assumed sectoral sanctions are in place for three years before being lifted, and used the low-end estimates of costs. For the central and high scenario we have assumed the measures will be in place for up to 10 years and at least 10 years, respectively (10 years being the full appraisal period), and have taken the central and high estimates, respectively. Further assumptions are detailed in the relevant impact analyses for each sector.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**Score for Business Impact Target (qualifying provisions only) £m:**
Costs: 0.3	**Benefits: 0.0**	**Net:** 0.3	1.7

Summary: Analysis & Evidence — Policy Option 2

Description: Comprehensive sectoral response

FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
2019	2020	10	**Low:** -29.8	**High:** -4.2	**Best Estimate: -23.8**

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	0.0	1	0.4	**4.2**
High	0.1		3.5	**29.8**
Best Estimate	0.0		2.8	**23.8**

Description and scale of key monetised costs by 'main affected groups'

The monetised costs are the same as those under option 1 with the additional cost on the insurance, banking and petroleum sector. The cost to these UK businesses will be the opportunity cost of future profit they may have made from the export of goods and services (and the trading of securities) that are now prohibited under the measures. This includes the significant annual £1.8m cost to BNK (UK).

Other key non-monetised costs by 'main affected groups'

The non-monetised costs are the same as those under option 1. There may be some additional costs for the banking, insurance and petroleum sector but we consider these unlikely and negligible.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	0.0	1	0.0	**0.0**
High	0.0		0.0	**0.0**
Best Estimate	0.0		0.0	**0.0**

Description and scale of key monetised benefits by 'main affected groups'

We do not expect there to be many, if any, direct economic benefits to UK business or to wider society. Given the negligible benefits expected, we have not considered it proportionate to monetise benefits.

Other key non-monetised benefits by 'main affected groups'

Non-monetised benefits are the same as those under option 1. We do not expect there to be any other benefits because of the further sanctions on the banking, insurance and petroleum sector.

Key assumptions/sensitivities/risks	**Discount rate (%)**	3.5

For the low scenario, we have assumed sectoral sanctions are in place for three years before being lifted, and used the low-end estimates of costs. For the central and high scenario we have assumed the measures will be in place for up to 10 years and at least 10 years, respectively (10 years being the full appraisal period), and have taken the central and high estimates, respectively. Further assumptions are detailed in the relevant impact analyses for each sector.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			**Score for Business Impact Target (qualifying provisions only) £m:**
Costs: 2.8	**Benefits: 0.0**	**Net: 2.8**	13.8

Evidence Base

Contents

Policy background

Belarus

4. Alexander Lukashenko has ruled over Belarus since 1994. In August 2020, Lukashenko's fraudulent claim to have won Presidential elections was exposed by conclusive evidence of electoral fraud, prompting thousands of Belarusians to take to the streets in peaceful protest. The regime responded by launching the most brutal crackdown in the country's history.
5. Arbitrary and illegitimate actions by the Belarusian security and judicial authorities have resulted in the arrest and detention of over 35,000 people, the persecution of more than 450 independent journalists, the exile of some opposition leaders and the imprisonment of others. Human rights organisations report over 500 political prisoners. There are many credible reports of physical mistreatment including torture inside detention centres. There have been fatalities among opposition supporters.
6. In October 2020, 17 OSCE participating States invoked the Moscow Mechanism to examine alleged human rights violations in Belarus in the run up to and after the Presidential elections. The report, by Professor Wolfgang Benedek, concluded that the elections and its processes were fraudulent and that massive and systematic human rights violations had occurred.
7. In February 2021, the UN High Commissioner for Human Rights (OHCHR) reported to the Human Rights Council that the human rights situation in Belarus was deteriorating and of an "unprecedented dimension" in the country's history. The High Commissioner's report highlighted serious violations in all areas of human rights and fundamental freedoms.
8. In March 2021, the Human Rights Council voted in favour of a resolution to mandate the High Commissioner to investigate accusations of human rights violations and torture, in order to assist with accountability. Over 20 States and the EU Commission are supporting an NGO-led International Accountability Platform on Belarus (IAPB) to collate evidence of violations.
9. On 23 May, the Lukashenko regime forced the diversion of a Ryanair flight, FR4978, to land in Minsk, in order to arrest an independent journalist, Roman Protasevich and his partner, Sofia Sapega. Protasevich was paraded on state television, including an alleged public confession, which was made under duress, and with signs of physical mistreatment.
10. On 24 June, the Belarusian authorities brought into force two laws which are being used to further restrict media freedom and peaceful assembly. Trials of prominent members of the opposition are ongoing with many facing sentences of imprisonment over 10 years.

Sanctions

11. Sanctions are an important foreign policy and national security tool. They can be used to coerce a change in behaviour, to constrain behaviour by limiting access to resources, or to communicate a clear political message. The EU, with the UK as a member, first placed restrictive measures on Belarus in 2004 in response to the disappearance of four well-known persons in Belarus in 1999-2000. This included the ability to apply asset freezes and travel bans to designated persons. In 2011, further sanctions were introduced against those involved in the violation of international electoral standards and international human rights law, as well as an arms embargo and a prohibition on the export of internal repression items. In 2016, the EU decided to lift sanctions against 170 individuals and three companies to reflect improved EU-Belarus relations. In response to the fraudulent elections in August 2020, and the subsequent human rights violations and ongoing repression of civil society and democratic opposition in Belarus, the EU imposed three rounds of sanctions in 2020.
12. On 31 December 2020, the Republic of Belarus (Sanctions) (EU Exit) Regulations 2019 (the UK Belarus sanctions regime) came fully into force. These regulations replaced, with substantially the same effect, relevant existing EU legislation and related UK regulations. Since then the UK, in coordination with the EU, US and other allies, has designated a further 38 individuals and two entities under the UK Belarus sanctions regime.
13. Following the forced diversion of the Ryanair flight, EU Member States reached formal agreement on a package of sectoral sanctions measures on Belarus, which came into force on 25 June 2021. The new prohibitions include restrictions on the import of potash and petroleum products; the export of interception and monitoring equipment, technology or software, goods

used for the production or manufacturing of tobacco products goods and dual-use items; dealing with securities and money-market instruments; and provision of loans, insurance and reinsurance. The acts also remove exceptions to the arms embargo for sporting firearms and add riot control agents to the list of internal repression items which are banned for export, as well as banning payments from (and suspending contracts with) the EIB and obliging Member States to vote against financing to Belarus from multilateral development banks, including in particular the EBRD and IBRD.

Problem under consideration and rationale for intervention

14. There are a range of harms perpetrated by the Government of Belarus that require UK action. As set out in para 20, the status quo is insufficient to achieve HMG's policy objectives.

15. The actions of the Government of Belarus outlined in paragraphs 4 to 10 constitute violations of human rights, the repression of civil society and democratic opposition and actions which undermine democracy, the separation of powers and the rule of law in Belarus.

16. UK action, in concert with the EU and other allies, will contribute to coercing the Government and authorities of Belarus to respect democratic principles and institutions, the separation of powers and the rule of law in Belarus, refrain from actions, policies or activities which repress civil society in Belarus, comply with international human rights law, and respect human rights. Sectoral sanctions measures will target key sources of finance and revenue for the Government of Belarus, increasing the pressure on the Government of Belarus, and will deny them access to items that could be used for internal repression, among others.

17. The private benefits and costs accruing to UK businesses from trade with Belarusian persons do not factor in the wider societal cost to the Belarusian population. As the private benefits to these businesses currently outweigh the private cost, it is unlikely they would stop trading with Belarus and the Government of Belarus if given the choice. Therefore, HMG intervention, in the form of sectoral sanctions, is necessary to remedy this and ensure UK businesses cannot directly or indirectly provide or purchase the targeted goods, services and funding for the Government of Belarus. Given the nature of the issue, there is no appropriate non-governmental or private sector solution to the issue at hand.

18. Failure to impose sanctions would undermine the UK's reputation as an upholder of international law, human rights, freedom of expression and democracy.

Description of options considered

Option 0: Do nothing.

19. The baseline against which the alternative policy options are compared is a scenario in which all existing measures are kept in place but no new measures are imposed.

    a. The UK has already expressed concern through diplomatic and public channels, including in international fora, about serious human rights violations and the repression of civil society and democratic opposition, directed by the Lukashenko regime. This has included engagement specifically on the circumstances surrounding Protasevich's detention.

    b. The existing sanctions measures allow for asset freezes and travel bans to be imposed on designated persons. There is also an arms embargo, with exceptions, and a prohibition on the export of specified goods and technology that could be used for the purposes of internal repression.

    c. On 21 June 2021, the UK designated the Belarusian air traffic control provider, Belaeronavagatsia Republican Unitary Air Navigation Services Enterprise

('Belaeronavagatsia'). This designation prohibits UK airlines from paying fees to Belaeronavagatsia for using Belarusian airspace. Work is underway to develop a General Licence to allow for payments in emergencies. This follows the Transport Secretary instruction to the UK's Civil Aviation Authority to request airlines avoid Belarusian airspace in order to keep passengers safe (a Level 2 NOTAM) on 24 May 2021, the suspension of the operating permits for the UK for state-owned airline Belavia, and legislation to ban overflight of the UK by Belarusian carriers.

d. As of 21 June 2021, the UK has made 108 designations, consisting of 99 individuals and nine entities, under the UK Belarus sanctions regime. Four of the designations were in response to the unresolved disappearances of four well-known persons in Belarus in 1999-2000. The remaining 104 designations were in response to the fraudulent elections in August 2020 and human rights violations and repression of civil society that took place thereafter, including the detention of Roman Protasevich and Sofia Sapega following the forced landing of Ryanair flight FR4978 in May 2021. This includes eight designations that were made under both the UK Belarus sanctions regime and the UK Global Human Rights sanctions regime, including of Alexander Lukashenko and his senior leadership.

20. In this instance, designations and the trade sanctions already in place on military and internal repression goods and technology are insufficient to achieve the policy objective. The existing trade sanctions cover a narrow range of goods, technology and services. It is not possible to cover the wide range of industries that support and fund the Government of Belarus through designations alone for a number of reasons, including because intentional efforts can be made to obfuscate ownership of companies. Additionally, the Belarusian Government has shown no signs of wanting to change their behaviour in response to individual designations or the trade sanctions and has strengthened their repression in many areas. The UK has designated Lukashenko and a number of other regime figures and yet the Belarusian authorities have shown no regret nor been held accountable in Belarus for the events of 23 May 2021 when the Ryanair flight was diverted. This is exemplified by a staged media conference that was held on 14 June 2021, during which the Belarusian Government continued to promote their version of events of 23 May 2021, and paraded a clearly distressed Roman Protasevich in front of the cameras. Therefore, to achieve the policy objective, the measures must be escalated.

Option 1: Limited sectoral response.

21. Impose sectoral measures on Belarus in relation to aviation, potash, interception and monitoring goods and technology, tobacco industry goods and dual-use goods and technology. Furthermore, remove exceptions to the existing arms embargo (related to biathlon rifles), a non-legislative regulatory measure that will be included in this assessment. The scope of the measures is described in para 33 along with the policy objectives.

22. Sanctions measures can apply to designated individuals/entities or to entire countries or sectors of an economy (e.g. a ban on the import of particular items from a country to the UK). The latter are commonly referred to as 'sectoral' sanctions. Putting in place sectoral measures on potash, tobacco industry goods and aviation is likely to have a greater impact than existing UK Belarus sanctions regime measures, given the constraining impact that they will have upon the funding of the Government of Belarus and the significant signalling impact that they create. While designating the security forces and prohibiting the export of internal repression items has not stopped them carrying out repression, including by intercepting and monitoring the telecommunications of the Belarusian population, an additional measure of imposing a prohibition on the export of interception and monitoring equipment and dual-use items will ensure that no UK companies can facilitate the interception and monitoring of telecommunications by the Government of Belarus, or contribute to their military and security activities.

23. The sectoral measures proposed in option 1 would be likely to have some effect, but on their own this would be limited because UK businesses would still be able to trade goods and services in the petroleum sector, a key revenue source for the regime, and UK businesses would still be able to provide funding and financial services to the Government of Belarus, allowing them to continue

borrowing funds to finance its activities. So option 1 will not go far enough to achieve the objectives.

24. Therefore, whilst this is preferred to option 0, option 1 will not achieve the policy objectives set out in para 31.

Option 2 ***[Preferred option]:*** *Comprehensive sectoral response.*

25. Impose more comprehensive sectoral measures on Belarus (including financial sanctions), in relation to aviation, potash, petroleum products, interception and monitoring goods and technology, tobacco industry goods, dual-use goods and technology, securities, money-market instruments, loans, insurance, and reinsurance; as well as removing exceptions to the arms embargo. The scope of the measures is listed in para 33 along with the policy objectives.

26. Having considered the costs and benefits of all options, **the UK Government believes that option 2 is appropriate and intends to make new domestic legislation to impose these sanctions measures**. The existing designations send a strong signal to the Belarusian authorities that the UK will not tolerate those who repress human rights coming to the UK or using UK financial institutions. The existing trade measures also go some way to constrain the ability of the Government of Belarus to repress their population by denying them access to arms and internal repression items.

27. A comprehensive sectoral response will prevent any UK business trading goods and services (including the provision of financial services and purchase of securities) of the specified types with Belarus. The targeted sectors are key sources of revenue for the Government of Belarus and the sanctions measures aim to coerce the authorities into changing their behaviour. In addition, the comprehensive sectoral response will ensure UK businesses are not able to provide funding or financial services to the regime, constraining the regime's activities. Justifications for the specific measures proposed under Option 2 are explained in para 33. These measures are most effective when put in place as a package, creating a cumulative effect of coercing, constraining and signalling. It is therefore reasonable and in line with the purposes of the sanctions regime to proceed with Option 2.

28. Although sectoral measures apply more broadly than designations, this package of sectoral measures is carefully targeted to ensure that the measures have maximum impact on the Government of Belarus while minimising impact on the civilian population. The measures can also be subject to licensing and exceptions to enable otherwise prohibited activities to continue where they are in line with the objectives of UK sanctions on Belarus.

29. This option will protect and advance UK interests by deterring and constraining the undermining of democracy and the rule of law in Belarus, the repression of civil society and the commission of serious human rights violations. Failure to impose sectoral sanctions will also undermine the UK's reputation as an upholder of international law, human rights, freedom of expression and democracy.

Policy objective

30. The FCDO's overall objectives on democracy and human rights are to protect and promote human rights, democracy, good governance and the rule of law, including by assisting those who uphold or seek to promote these principles and using the UK's leverage against those who violate and abuse human rights or the rule of law.

31. The purposes of the Republic of Belarus (Sanctions) (EU Exit) Regulations 2019 are to encourage the Government of Belarus to:

a. respect democratic principles and institutions, the separation of powers and the rule of law in Belarus;
b. refrain from actions, policies or activities which repress civil society in Belarus;
c. properly investigate and institute criminal proceedings against the persons responsible for the disappearances of Yury Zakharanka, Viktar Hanchar, Anatol Krasouski and Dzmitry Zavadski; and
d. comply with international human rights law and to respect human rights, including in particular to:
    i. respect the right to life of persons in Belarus;
    ii. respect the right of persons not to be subjected to torture or cruel, inhuman or degrading treatment or punishment in Belarus, including inhuman and degrading conditions in prisons;
    iii. afford persons in Belarus charged with criminal offences the right to a fair trial;
    iv. respect the right to liberty and security, including refraining from the arbitrary arrest and detention of persons in Belarus;
    v. afford journalists, human rights defenders and other persons in Belarus the right to freedom of expression, association and peaceful assembly;
    vi. secure the human rights of persons in Belarus without discrimination, including on the basis of a person's sex, race, colour, language, religion, political or other opinion, national or social origin, association with a national minority, property, birth or other status.

32. We aim to limit the impact on the people of Belarus, the UK and its partners to the greatest extent possible. We will also align closely with partners to achieve maximum impact on Belarus e.g. by helping to prevent substitution.

33. The measures involved will include the following:

    a. **New powers for the Secretary of State and relevant regulators and bodies to prohibit Belarusian aircraft from overflying or landing in the UK** are likely to reduce the amount of revenue flowing into the Government of Belarus from state-owned air carriers. They will also signal the seriousness of the Ryanair incident, and signal support for Roman Protasevich and others detained by the Government of Belarus. It is appropriate for us to take action to prevent Belarusian air carriers from overflying or landing in the UK in order to put pressure on the Government of Belarus to change their behaviour. By acting in concert with the EU and other allies, greater pressure will be brought to bear on the Government of Belarus, as their air carriers (most notably state-owned Belavia) will not be able to operate a large number of their routes.

    b. **Preventing the provision to or for the benefit of designated persons of technical assistance relating to aircraft.** It is intended that this will be targeted at senior figures in the Lukashenko regime, making it harder to operate such aircraft, therefore complicating travel for Belarusian elites. The aim of this measure is to put coercive pressure on Lukashenko and his senior Ministers to change their behaviour, and signal disapproval of their actions.

    c. **Prohibiting the import, acquisition and supply/delivery of potash and petroleum products from Belarus, and the export, making available and supply/delivery of tobacco industry goods** will reduce the revenue of key Belarusian state-owned enterprises. The latter are the country's top exports and their export is carried out by government-controlled companies – Belneftekhim and its subsidiary Belorusneft. Meanwhile, potash is exported from Belarus by a large state-owned entity, Belaruskali. There are widespread allegations of significant cigarette smuggling from Belarus in to the EU and elsewhere. If such allegations are true, prohibiting the export of such goods will, as a by-product, have the additional impact of helping to disrupt these illicit activities. By acting in concert with the EU, pressure will be brought to bear on the Government of Belarus, as the measures will restrict Belarus's access to income from cigarette manufacturing and sale, and from the export of potash and petroleum products, across the whole of the EU market as well as the UK.

d. **Prohibiting the export, making available and supply/delivery of certain firearms, and interception and monitoring items; the export, making available and supply/delivery of dual-use items for military use; the provision of interception and monitoring services to the Government of Belarus; and associated services** will make it harder for the Government of Belarus to access items that could enable the internal repression of Belarus' population, as well as signalling disapproval of their actions. It will also increase the cost of their military manufacturing processes, leading to a greater opportunity cost from government spending on these items. If the items were produced for export, the increased costs of production may reduce profit accruing to the manufacturer, thus reducing the revenue of the Government of Belarus. By acting in concert with the EU, the impact of this measure will be increased as it will cover exports from (and services provided from entities in) the whole of the EU as well as the UK.

e. **Prohibiting the provision of insurance and reinsurance to the Government of Belarus** will make it harder for the Government of Belarus to access insurance to reduce their risk in undertaking a range of different activities. This will make it more expensive for them to fund their operations, a cost that must be covered by reducing expenditure elsewhere or increased borrowing (at a likely higher rate of interest). This will apply coercive pressure to the Government of Belarus to change their behaviour, and signal disapproval with their actions. By acting in concert with the EU and other allies, greater pressure will be brought to bear on the Government of Belarus, as the measure will apply across all of the EU, as well as the UK.

f. **Prohibiting dealing with securities and money-market instruments issued by the Government of Belarus and state-owned banks, as well as the provision of loans to them,** will reduce the ability of the Government of Belarus and state-owned banks to raise finance (as they did in 2020 by issuing bonds on the London Stock Exchange). It will reduce the ability of the Government of Belarus to raise funds through issuing of sovereign debt and the ability of state-owned banks to raise funds. This will reduce the amount of finance flowing to the Government of Belarus, thus applying coercive pressure to the Government of Belarus to change their behaviour, and signalling disapproval of their actions. By acting in concert with the EU and other allies, greater pressure will be brought to bear on the Government of Belarus, as the measure will apply across all of the EU, as well as the UK.

34. The policy intention is to keep the sanctions on Belarus in place until HMG is assured that the human rights situation in Belarus has improved, or has demonstrated steady and consistent improvement over a sustained period of time. The FCDO will continue to co-ordinate with international partners, including on the future of the regime. As an indicator of an improvement in the position, if this occurs, we would expect to see Belarus working with international fora to strengthen alignment with and implementation of international standards and practices in the fields of rule of law, more efficient and effective democratic governance and human rights.

Description of preferred option implementation plan

Secondary legislation

35. The Government intends to make secondary legislation under the Sanctions and Anti-Money Laundering Act (referred to in this Impact Assessment as "the new regulations"). Orders in Council will be made by the Privy Council to extend these amendments to the Overseas Territories and the Isle of Man. Gibraltar and Bermuda make their own legislative arrangements, as do Jersey and Guernsey.

Licensing and exceptions

36. The new regulations will provide for certain exceptions to the new prohibitions they introduce. The new regulations will also provide for the relevant Secretary of State (depending upon the type of sanctions) to grant licences that permit certain otherwise prohibited activities.

    a. HM Treasury, through its Office of Financial Sanctions Implementation (OFSI), deals with licensing in relation to financial sanctions.

b. The Export Control Joint Unit (ECJU)[1] administers the UK's system of export controls and licensing in relation to trade sanctions. DIT's Import Licensing Branch implements trade sanctions and licensing relating to imports.

37. We do not expect any additional impact on businesses in relation to licensing procedures. The licensing powers would include a power to enable General Licences to be introduced to authorise specific activities.

Enforcement

38. It will be a criminal offence to contravene the new trade, financial and aviation sanctions, as well as to enable or facilitate a contravention of, or to circumvent them. This is in line with what is currently provided in relation to the existing measures.

39. Breaches of sanctions are a serious criminal offence.

    a. A breach of the new financial sanctions will be an offence that is triable either way and carries a maximum sentence on indictment of 7 years' imprisonment or a fine (or both). OFSI is responsible for monitoring compliance with financial sanctions and for assessing suspected breaches. It also has the power to impose monetary penalties for breaches of financial sanctions and to refer cases to law enforcement agencies for investigation and potential prosecution. OFSI works with other parts of government, supervisory bodies and regulators to consider all cases reported to it, sharing relevant information accordingly.

    b. Offences of breaching the new trade sanctions measures will be triable either way and carry a maximum sentence on indictment of 10 years' imprisonment or a fine (or both).

    c. A failure to comply with the new aviation sanctions requirements will be an offence that is triable either way and carries a maximum sentence on indictment of 7 years' imprisonment or a fine (or both). The Department for Transport (DfT) is ultimately responsible for the implementation of transport sanctions, which are enforced through agencies including the Civil Aviation Authority (CAA) and National Air Traffic Services Limited (NATS) and airport operators.

Rationale and evidence to justify the level of analysis used in the IA

40. The UK has a very limited trade relationship with Belarus. Belarus was the UK's 110th largest trading partner in the four quarters to the end of Q4 2020 with total trade in goods and services between the UK and Belarus of £234 million, according to trade data sourced from the latest ONS publication of UK total trade data[2].

41. Trade within the targeted sectors is also very limited (as outlined in the evidence for each measure). Due to the limited exposure of UK business to Belarus, these measures are not expected to have significant impacts on their costs or revenues.

42. As outlined in para 19, the UK has already taken significant action against key individuals and entities within Belarus, including the freezing of UK-held assets. Economic theory suggests such action may have had a "chilling effect" on UK businesses conducting the (previously legitimate) business in Belarus that we seek to prohibit by these measures. Thus, over-compliance with existing measures may reduce the impact of the new regulations.

43. It has not been possible to consult UK businesses on potential impacts due to the sensitive nature of the measures, both commercially and in the interests of UK foreign policy. However, based on the analysis, data and evidence provided by six other government departments or agencies, we believe the impacts will be limited[3]. Given the estimated level of impact, it has not been considered proportionate to fully monetise all impacts, but sensitivity analysis has been carried out for each measure to demonstrate levels of uncertainty.

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[1] ECJU is a joint unit of the FCDO, DIT and Ministry of Defence

[2] DIT Belarus Trade & Investment Factsheet 2021. Most recent as of the time of drafting on the 6th July 2021.

[3] Department for International Trade, Department for Transport, Department for Business, Energy and Industrial Strategy, Department for Environment, Farming and Rural Affairs, Her Majesty's Treasury and the National Cyber Security Centre

Monetised and non-monetised costs and benefits of each option

44. We chose a 10-year appraisal period – the standard period used for regulatory measures – as it provided what we assess to be the most likely cost estimates where we are ensuring we have not under or overestimated impacts to the UK.

45. Given the unpredictability of the Government of Belarus, it is impossible and would be unwise to put a time limit on how long these measures might or should remain in effect. Absent other factors, the measures should remain in effect until the policy objective has been achieved. We have therefore assessed cost estimates under three potential scenarios. These scenarios accurately represent a range of possible outcomes, but do not reflect HMG or FCDO positions on the most likely or the most desirable time horizons for achieving HMG policy objectives. Sanctions are a temporary measure, aimed at driving behavioural change and are then lifted once the intended policy objective has been achieved.

    a. In the low estimate, we have considered the scenario that the measures meet their policy objective in a short-term time horizon, and therefore the measures would be lifted within three years. We assess a realistic best-case time scale for success for this policy objective is 1-3 years. Lifting sanctions measures requires further legislation, and it is likely that firms may continue to over-comply with the regulations, even following sanctions lifting, and therefore we have taken the low-estimate to be at the top end of this range: the measures remaining in place for three years. For this scenario, we have also taken the low-end of each of the cost ranges.

    b. In the central estimate, the scenario assumes the measures will be in place for the full appraisal period (10 years). As precedent, previous EU sectoral sanctions on Belarus were introduced in 2004 and lifted in 2016 (12 years)[4]. This also aligns with the 'default' time horizon for Regulatory Impact Assessments[5]. For this scenario, we have also taken the middle of each of the cost ranges.

    c. In the high estimate, we have considered the scenario that assumes the measures will be in place for the full appraisal period (10 years). For this scenario, we have also taken the high-end of each of the cost ranges.

46. We expect all the associated costs to be direct costs to business and have not identified any indirect costs. There may be wider economic impacts on the UK; however, given the relatively low levels of trade between the UK and Belarus, we do not expect this to be significant.

47. Likewise, we have not monetised any benefits to UK business. We do not expect UK businesses to directly benefit from any of the measures, as in most cases it restricts their abilities to export goods or services to Belarus. The only potential benefit to UK business we have identified is a possible benefit to ICL (a vertically integrated UK potash supplier) but we do not expect this to be significant and so have not monetised this benefit.

48. Assumptions used for the sensitivity analysis are detailed in the following section as part of the impact analysis for each sectoral measure. The analysis we have conducted shows that the NPV is not sensitive to underestimation or overestimation of impacts, while the trade relationship between the UK and Belarus is very limited. The scale of the difference between the two options is due to the inclusion of the comprehensive measures, in particular the impact on BNK (UK), which we believe, is likely an overestimation of the actual costs.

49. The table below summarises the expected cost to UK business over the 10-year appraisal period in nominal prices for each option and under each scenario. The costs under option 2 include all costs under option 1 in addition to the impacts in the Petroleum, Insurance and Banking sector.

[4] European Council. 2021. *EU relations with Belarus.* https://www.consilium.europa.eu/en/policies/eastern-partnership/belarus/

[5] As per Green Book guidelines (para 5.14) a time horizon of 10 years is a suitable working assumption for government interventions.

Under the Better Regulation Framework[6] final figures for Regulatory Impact Assessment's should be presented in 2019 prices and 2020 present value, this is to allow comparison of regulatory measures across the same Parliament and for reporting against the Business Impact Target. **Nominal costs (see below) have been used in the Business Impact Target calculator to present the final figures (see the summary sheet) in 2019 prices and a 2020 Present Value base year.** The equivalent annual net direct costs to business (2019 prices, 2020 PV) for option 1 and option 2, are £0.3m and £2.8m respectively.

Total costs by sector over relevant appraisal period: Nominal prices ***(as noted in para 45. we expect measures to only be in place for 3 years under the low scenario)***				
Option	**Low**	**Central**	**High**	**Average Annual Cost (Central Estimate)**
Option 0	Costs are not expected to change in the baseline scenario			
Option 1	*Limited Sectoral Response*			
Agricultural Sector	Not Monetised			
Aviation Sector	£223,000	£993,000	£1.24m	**£99,000**
Tobacco Sector	£0	£2.57m	£3.2m	**£257,000**
Firearms Sector	£0	£35,000	£43,800	**£3,500**
Information and Communication Technology Sector	Not Monetised			
Total	£223,000	£3.6m	£4.5m	**£360,000**
Option 2	*Comprehensive Sectoral Response (this will also include all costs under option 1, plus the additional costs below)*			
Petroleum Sector	£4.1m	£18m	£22.5m	**£1.8m**
Insurance Sector	£0	£390,000	£488,000	**£39,000**

[6] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/916918/better-regulation-guidance.pdf

Banking Sector	£450,000	£8.3m	£10.3m	**£830,000**
Total	£4.7m	£30.2m	£37.8m	**£3.02m**

Option 1: Limited Sectoral Response

Agricultural sector

50. Prohibition on the import, acquisition, supply and delivery of potash originating or consigned from Belarus. Potash is a soil nutrient used as an input into fertilisers.
51. This prohibition will have minimal impact on the agricultural in the UK. In 2020, the UK imported £697 million of fertilizers of all types from the world; but only £20 million (2.87%) of this was from Belarus and only a subset of this was potash. Given the level and share of imports of potash from Belarus are very low, the measure is unlikely to have a major impact. There may be a small increase in price to farmers eventually as the overall world market adjusts.

Familiarisation costs

52. Minimal costs of £5,954 – £29,771 in total (£42 - £211.4 per firm). Assuming 1-5 people per firm must familiarise themselves with the measures at each firm yields a range of £5,954 – £29,771 for the sector to familiarise itself with the measures. This assumes all importers of HS 3104 and 3105 trade with Belarus, so should be considered an upper-bound estimate.
    a. Assumptions:
        i. 141 UK non-EU importers of HS 3104 and 3105 must familiarise themselves with the measures[7];
        ii. The new measures will be 9000 words in length;
        iii. Assume it takes 1hr 30mins to read and familiarise with measures[8]
        iv. Assumed wage of £23.46[9]
        v. Non-wage cost factor of 1.2x[10]

Monetised Costs

53. It has not been possible to monetise the costs listed below due to data constraints and little available open source evidence. Given the expected limited impacts on the UK agriculture industry, it has not been considered proportionate to gather further evidence and monetise these costs.

Non-monetised costs

[7] HMRC. 2021. *Trader Search*. https://www.uktradeinfo.com/search/traders/?q=3105&t=commodity-code

[8] Assuming a reading time for technical text as 100 wpm taken from EFTEC (2013), "Evaluating the cost savings to business from revised EA guidance – method paper" as cited in the BIT Appraisal guidance https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/609201/business-impact-target-guidance-appraisal.pdf

[9] Mean wage for legal activities. ONS. 2020. *Earnings and hours worked, industry by four-digit SIC: ASHE Table 16.5a hourly pay - gross 2019*. https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/industry4digitsic2007ashetable16. Wage uplifted from 2019 prices to 2020 prices using ONS published GDP deflator values.

[10] This has been calculated using ONS data on UK labour costs per hour https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/indexoflabourcostsperhourilch/julytoseptember2020 and in line with RPC guidance on implementation costs https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/827926/RPC_short_guidance_note_-_Implementation_costs__August_2019.pdf

54. There is no data available on the purchase or transport of potash; however, given the low levels of imports we do not expect significant impacts.

Producers

55. The share of potassic fertilisers (Harmonised System Codes 3104 and 3105) imported from Belarus is extremely small. The regulations also only cover specific codes within these wider four-digit HS code functions, so the quantity imported will be even smaller. In 2020, the UK imported £697 million of fertilizers of all types from the world; £20 million (2.87%) of this was from Belarus. Of the £20 million of fertilizer imported from Belarus, £119,278 (0.6%) of this was potash fertilizer, all of which was potassium chloride. This makes up 0.12% of all potassic imports and 0.13% of all potassium chloride imports by value to the UK.

56. The main user of potash is the agriculture sector, which could be negatively impacted by import restrictions. However, given the low proportion of potash imported from Belarus, the impact on the UK would be expected to be negligible. As the product is relatively undifferentiated, firms will source imports from other countries if they cannot source them from Belarus. Therefore, there will likely be limited impact on the UK supply of potash given the small amounts imported.

57. The available data indicates importers are more likely to be "users" than producers of potash fertiliser. Matching this info to available profit margins suggests these companies have tight profit margins, ranging between -0.6% to 13.2%. If these companies are dependent on imports from Belarus (though there is little indication that this is the case), then any additional costs due to the sanction might be difficult to absorb if there are significant costs to change suppliers. DIT does not have access to price data of specific countries, so we are not able to say if Belarus has cheaper potash compared to others.

Consumers

58. DEFRA does not have bespoke modelling regarding the impact this may have on prices. Belarus accounts for roughly 17% of global potash production.[11] Restricting purchases from Belarus may increase global demand for non-Belarusian potash, potentially pushing up prices. The UK's actions alone are unlikely to have substantial effects, but actions jointly taken by other countries (e.g. the EU) may contribute to any effect.

59. Product importers and intermediate users may try to pass on any higher costs. No estimates are available for price elasticity of supply for fertiliser. Past price rises for potash (e.g. in 2008/9) have led to substantial reductions in demand.[12] However, it is unknown to what extent importers and fertiliser producers will pass on the higher costs to consumers.

Transition costs

60. Transition costs for producers of fertiliser are understood to be minimal, with industry sources suggesting the next buying round will be in Spring 2022.

Non-Monetised and Monetised Benefits

61. There are no domestic UK producers of potash; the last mine switched from potash to polyhalite. The UK market is highly concentrated (one firm has c.70% of potash market in the UK and sources from Spain and Israel). The remaining 30% of potash imports to UK is sourced from Germany, Canada (goes into Belgium and redistributed from there), Brazil and Russia. Non-Belarusian suppliers may respond to these prohibitions by increasing production, or may benefit from the imposition of artificial supply constraints leading to higher sale prices for potash.

Risks

62. There may be an unintended impact of increasing Russian exports of potash to the UK. Historically, Belarusian and Russian potash exports to the EU have been negatively correlated,

[11] USGS. 2020. *Potash commodity summary*. https://pubs.usgs.gov/periodicals/mcs2020/mcs2020-potash.pdf

[12] Defra. 2020. *British Survey of Fertiliser Practice 2019*. https://www.gov.uk/government/statistics/british-survey-of-fertiliser-practice-2019

i.e. when one increases, the other falls – suggesting a high level of substitutability and the high likelihood that Uralkali will replace Belaruskali potash.

63. As highlighted in para 57, the potash industry measures may push a small number of companies out of business if their profit margins are already negative, however we asses this risk to be low.

64. There is a risk that UK companies could be put in a position where they are unable to honour existing contracts. We therefore intend to adopt a policy that, in general, trade licences will be granted to allow such activity to proceed where the existence of a pre-existing contract has been verified.

Aviation sector

65. We expect the impact from any directions under the new aviation measures which prevent Belarusian aircraft from overflying and landing in the UK would be transmitted through lost profit from UK airports, while there would be limited impact on airlines and passengers. We expect the impact to UK industry from the prohibition on the provision of technical assistance to or for the benefit of designated persons to be negligible.

Familiarisation costs

66. Although these measures do not apply to UK airlines as such, it is expected that UK airlines would still familiarise themselves with the measures. Assuming 1-5 people per firm must familiarise themselves with the measures at each firm yields a range of £571 – £2,855 in total (£23 - £114 per firm) for the sector to familiarise itself with the measures. They will also need to read any additional guidance issued by the Department for Transport. It is likely that more than one employee in each airline would have to read and remain up to speed with the sanctions; it is also likely that these would be higher paid than the average, operating in more senior positions and legal employees.
    a. Assumptions:
        i. 25 registered UK airlines
        ii. The new measures will be 9000 words in length in total
        iii. Assume it takes 1hr 30minsto read and familiarise with measures[13]
        iv. Assumed wage of £12.69[14]
        v. Non-wage cost factor of 1.2x[15]

67. Airport operators would also need to familiarise themselves with the measures. Only two airport operators are expected to be impacted. Gatwick airport and Manchester airport were the only airports operating regular flights between the UK and Belarus in pre-Covid 2019. NATs is the only air traffic controller in the UK and would also need to familiarise itself with the measures. Both airport operators and traffic controllers would also need to familiarise themselves with any additional directions or guidance from the Department for Transport. Using the same assumptions as para 66, the expected familiarisation cost per firm is £23 – £114.

Monetised Costs

Airports

[13] Assuming a reading time for technical text as 100 wpm taken from EFTEC (2013), "Evaluating the cost savings to business from revised EA guidance – method paper" as cited in the BIT Appraisal guidance https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/609201/business-impact-target-guidance-appraisal.pdf

[14] Department for Transport reported a 2019 wage of £12.50. This has been converted into 2020 prices using ONS published deflator values.

[15] This has been calculated using ONS data on UK labour costs per hour https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/indexoflabourcostsperhourilch/julytoseptember2020 and in line with RPC guidance on implementation costs https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/827926/RPC_short_guidance_note_-_Implementation_costs__August_2019.pdf

68. Airports would be impacted by these sanctions through a reduction in revenue received from Belarusian aircraft. During 2020 all scheduled flights to and from Belarus operated to/from Gatwick. Gatwick's average revenue (excluding property revenue) per passenger is around £18. If we assume Belarus is reasonably typical, and traffic levels remain at 2019 levels (34,255 passengers), this equates to a total revenue loss of around £616,590 a year. We have used 2019 levels as we believe it gives a more accurate estimate than Covid hit 2020 levels. Assuming a profit margin of 14.9%[16], **the annual opportunity cost to UK business of lost profit would be £91,872** in the central scenario. This could potentially be offset to a small extent by a reduction in variable costs, but given how small a proportion of Gatwick's traffic Belarus accounts for, we suspect it would be highly marginal.

69. In the low scenario, one in which measures are only in place for three years, we have also assumed passenger numbers are lower - 25,691 (75% of the central estimate). Under this scenario the annual cost to UK business would be £68,903. In the high scenario, we have assumed passenger numbers are high - 42,819 (25% more than the central estimate). Under this scenario, the annual cost to UK business would be £114,841.

70. We believe these are still conservative estimates. A high proportion of the 34,255 passengers are likely to still travel to Belarus but will now be forced to take a more circuitous route (see para 76). Given that these passengers will still be departing and arriving at UK airports, the cost is likely to be still lower than even the low scenario.

<u>NATS</u>

71. NATS could also see a loss in revenue from less en-route charging for flights to/from Belarus through UK air traffic control. We do not hold data on overflights and the charging structure for air traffic management is complex. It appears no Belarusian flights overfly the UK (e.g. to Ireland or North America) so the only revenue loss is for direct flights. The estimate of lost revenue, based on the 382 flights in 2020, is just under £50k per year[17]. The actual cost depends on distance flown and aircraft weight, and therefore there is significant uncertainty surrounding the estimate. Assuming a profit margin of 14.9%, **we have estimated the annual cost to UK business as £7,450** in the central scenario.

72. As we have done for the costs to airports, we have assumed flight numbers are lower and this would reduce revenues by 25% to £37,500. Under this scenario the annual cost to UK business would be £5,588. Likewise, in the high scenario, we have assumed flight numbers are greater and this would increase revenues by 25% to £62,500. Under this scenario the annual cost to UK business would be £9,313.

Non-monetised costs

<u>Aircraft service providers</u>

73. There may be additional impacts relating to the provision to or for the benefit of designated persons of technical services relating to aircraft. Data is not available to monetise the impact. However, HMG's assessment is that only a small number of aircraft are likely to be affected by this provision, and of those few rely on technical services provided by UK companies, and therefore it is not proportionate to conduct further analysis on the impact of this prohibition.

<u>Passengers</u>

74. Annex A shows the number of passengers and airlines who could be negatively impacted by these sanctions by no longer being able to operate routes or having to take less efficient longer journeys. Passengers would have to travel indirectly to/from Belarus, via other countries or via

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[16] ONS "Profitability of UK Companies: Oct to Dec 2019
https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/bulletins/profitabilityofukcompanies/octobertodecember2019
[17] Estimate provided by Department for Transport

other modes which will result in longer and more expensive journeys and may deter passengers from travelling.

75. The number of passengers expected to fly between the UK and Belarus is unknown, however assuming the number of passengers who wish to travel between the UK and Belarus remains the same as the 2019 level, then we expect up to 34,255 could be impacted.

Airlines

76. Beyond passengers there would be an impact on some airlines who operated routes to/from Belarus. During 2020 there were only 190 flights arriving from Belarus, just over three a week. Passengers may no longer travel due to longer and more expensive journeys, this would result in a loss of revenue for the airlines. However, all of these routes were operated by Belarusian airlines.

77. Belarus all-cargo carriers also operate ad hoc services for UK companies, typically motor manufacturers bringing in parts from third countries. Those companies would need to find alternative carriers, which are likely to be more expensive. However, we have been unable to monetise this as there is no data available on the cost difference and we have not been able to consult with industry. However, given the limited trade between the UK and Belarus and the availability of other carriers, we do not expect the impact to be significant.

Non-monetised and monetised benefits

78. There will be no direct benefits to UK industry.

Risks

79. The economic impact on UK airlines would be increased significantly if Belarus' allies were to take retaliatory action, for example if Russia were to restrict access to its airspace.

80. The terms of any directions by the Secretary of State, air traffic control or airport operator in relation to Belarusian aircraft will be able to address circumstances in which landing in or overflying the UK is required to avoid endangering the lives of those on the aircraft or the safety of the aircraft.

81. Directions will be made consistent with the UK's obligations under the Chicago Convention.

82. There is a risk that a blanket prohibition on technical assistance to designated persons in relation to aircraft could prevent assistance that is required to avoid endangering the lives of those on the aircraft or the safety of the aircraft. We intend that this will be mitigated by including an exception to enable the provision of technical assistance in these circumstances.

Tobacco sector

83. Prohibition on the export, making available, supply or delivery of items used in the manufacture of cigarettes. We expect the impact to be limited to the opportunity cost of profit for exporters of machinery and paper, which we have estimated to be £257k per year.

Familiarisation costs

84. There may be a cost associated with switching buyers where firms currently export to Belarus. It has not been possible to identify which UK companies would have to familiarise themselves with the new regulations, however given the low export values, we expect the familiarisation costs to be minimal.

Monetised Costs

Exports

85. There were UK exports to Belarus of cigarette paper and machinery for preparing tobacco, worth £120,000 and £650,000 in 2020 respectively. The value of exports affected in both categories is low, and the proportion of total UK exports of these products that go to Belarus is also low (0.89% for cigarette paper, and 1.31% for tobacco machinery based on 2018-2020). The final impact will depend on the market response i.e. whether exports to Belarus can be replaced by exports to other countries or domestic sales, at similar prices.

86. For this assessment, the annual revenue that would be lost by UK exports is estimated at £770k. Assuming a 33% profit margin[18], **the annual cost to UK business would be £257k**. For the low scenario, we have assumed that sales to Belarus would be replaced by other sales. Under this scenario there would be no annual cost to UK business. For the high scenario, we have assumed that we have underestimated the export loss by 25%. Under this scenario the annual cost to UK business would be £321k.

Non-monetised costs

87. There is no data available on the sale or transfer of items used in the manufacture of cigarettes, however given the low levels of exports we do not expect significant impacts.

88. There are additional products that Belarus imports from the UK to produce cigarettes (e.g. chemicals used as additives); however, we are not able to separate the use of these products in the manufacturing of cigarettes from their other uses, so we have not been able to monetise the cost to UK business.

Non-monetised and monetised benefits

89. No direct benefits to UK industry have been identified.

Risks

90. There is a risk that UK companies could be put in a position where they are unable to honour existing contracts. We therefore intend to adopt a policy that, in general, trade licences will be granted to allow such activity to proceed where the existence of a pre-existing contract has been verified.

Information and Communication Technology sector

91. The measures include a prohibition on the export, making available, supply, delivery or transfer (as applicable) of specified items and technology (including software) that could be used for the interception or monitoring of telecommunications in Belarus, as well as prohibitions on related technical assistance, financial services, funds and brokering services. There will also be a prohibition on the provision of interception and monitoring services to the Government of Belarus. We expect the impact to be negligible.

Familiarisation

92. Most items that could be used for interception and monitoring are already controlled under export control legislation. This new prohibition just controls a small number of additional items that fall outside of existing controls. Exporters of these items are already complying with export control legislation and would be familiar with export controls. Therefore, any impact is expected to be minimal.

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[18]. CSI Market. 2021. *Tobacco industry profitability.* https://csimarket.com/Industry/industry_Profitability_Ratios.php?ind=508. Figure taken from the gross margin from Q1 2021.

Monetised costs

93. It has not been possible to monetise the costs listed below due to data constraints and a lack of open source evidence. Given the expected limited impacts on UK industry, it has not been considered proportionate to gather the further evidence required to fully monetise these costs.

Non-monetised costs

94. There is no data available on the sale or transfer of items that could be used for the interception or monitoring of telecommunications in Belarus, as well as related technical assistance, financial assistance and brokering services. However, given the low levels of exports we do not expect significant impacts.

<u>Exports</u>

95. There is no specific data available on the sale or transfer of items that could be used for the interception or monitoring of telecommunications in Belarus. However, there is data on UK exports of telephone sets and apparatus to Belarus: these were worth £620,000 on average from 2018-2020. Most (96%) of these exports were under HS 87156200, machines for the reception, conversion and transmission or regeneration of voice, images or other data, incl. switching and routing apparatus, which could be used for the interception of communications. It is not possible to say how much of this trade would be affected by this measure, as more granular data is not available.

96. The measure will negatively impact UK firms exporting the affected products to Belarus. The final impact will depend on the market response i.e. whether exports to Belarus can be replaced by exports to other countries or domestic sales, at similar prices. Although exact data is not available, the approximate data suggests that export values to Belarus are low and therefore the impact is expected to be negligible.

Non-monetised and monetised benefits

97. No direct benefits to UK industry have been identified.

Risks

98. There is a risk that items that are for legitimate uses (e.g. telephone company billing) are prohibited by this control. This is mitigated by the inclusion in licensing policy of a licensing ground enabling activity to take place if the Secretary of State has reasonable grounds to determine that the goods or technology would not be used by the Government of Belarus or on their behalf for interception and monitoring services in Belarus.

Firearms sector

99. As a matter of policy, we intend that licences will no longer be granted for biathlon rifles, which are within the scope of trade restrictions on military goods. Given there have been only two transactions in these products in the past five years' worth around £199k, there is not expected to be a significant impact on UK business.

100. The new regulations will include a prohibition on the export, supply, delivery, making available or transfer (as applicable) of dual-use items where they are for military end-users (including the Belarusian military) or otherwise for military use. There will also be restrictions on related technical assistance, financial assistance and brokering services. The prohibition covers an array of sectors[19], but given it is mostly closely aligned to the firearms sector we have

[19] Dual use items cover the following: Nuclear materials, facilities and equipment; Special materials and related equipment; Materials processing; Electronics; Computers; Telecommunications and "information security"; Sensors and lasers; Navigation and avionics; Marine; Aerospace and Propulsion

assessed the impact in this category. Given the very low level of recent exports, impacts are expected to be negligible. Therefore, it was considered proportionate not to split the cost to each industry out.

Familiarisation

101. These items are already controlled under export control legislation on dual-use goods and technology. Exporters of these items are already complying with export control legislation and would be familiar with export controls. Therefore, any impact is expected to be minimal.

Monetised costs

Exports of Biathlon rifles and cartridges

102. Current policy is that licences may be granted for the export etc. of (certain specified types of) biathlon rifles and their ammunition and sights and (certain specified types of) rifles, pistols and calibre .22 inches, or their ammunition or and sights. There have been no UK exports of any firearms in these categories (HS9301, 9302, 9303, 9304, or 9305), including biathlon rifles, to Belarus from 2015 to 2020. The measure would negatively affect UK firms exporting the affected products to Belarus. However, given the very low level of recent exports, impacts are expected to be minimal.

103. There have been a few exports of biathlon rifle cartridges in recent years. In the last 5 years, there have been two licences issued under this licensing ground for cartridges rated ML3a. These both took place in 2017, with a total value of £90k. There were also two licences issued under the sporting end uses exemption for cartridges controlled under the Firearms Regulation – Annex I (FR AI). These took place in 2019 and 2020, with total value £109k. Therefore, exports of value £199k have been granted licences in the last five years.

104. As a matter of policy, we intend that licences for this type of equipment will no longer be granted, so such a transaction would be unable to occur in the future. Averaged over a ten-year horizon, the annual revenue to UK businesses would be £39,800. The final impact will depend on the market response i.e., whether exports to Belarus can be replaced by exports to other countries or domestic sales, at similar prices but assuming exports can't be replaced and assuming a 8.8% profit margin[20], **the annual cost to UK business from the regulation would be £3,502 per year**.

105. For the low scenario, we have assumed exporters will be able to completely replace sales to Belarus with other sales. Under this scenario there would be no annual cost to UK business. For the high scenario we have assumed we have underestimated the loss to exporters by 25%. Under this scenario the annual cost to UK business would be £4,378.

Non-monetised costs

Exports of dual-use items

106. Exports of dual-use items are already subject to export licensing, where the export of such product requires a licence being granted by HMG. Only one licence has been issued in the past five years – information security equipment to a Belarusian air base operated by the Belarusian Air Force. We do not have information on the scale of this transaction, but given the rarity of licences being issued (one in five years) and the very high likelihood that such a licence would not currently be issued – given the wider political situation – the cost to UK business will be negligible.

Non-monetised and monetised benefits

[20] ONS, Profitability of UK companies – rates of return and revisions, Published April 2021

107. No direct benefits to UK industry have been identified.

Risks

108. There is a risk that UK companies could be put in a position where they are unable to honour existing contracts. We therefore intend to adopt a policy that, in general, trade licences will be granted to allow such activity to proceed where there is a pre-existing contract.

Option 2: Comprehensive Sectoral Response [Preferred Option]

109. Option 2 includes all measures in option 1 with the addition of sectoral measures targeting the insurance, banking and petroleum sectors. As a result, the impacts of option 2 are equal to option 1 with the addition of the impacts from the further measures.

Insurance sector

110. The Government intends to introduce a prohibition to the effect that UK businesses will no longer be able to provide insurance and reinsurance to the Belarus Government, except in compliance with an existing contract. Impacts are likely to be negligible given negligible insurance and reinsurance exports to Belarus.

Familiarisation costs

111. Minimal: £14,779 – £73,893 in total (£40 - £200 per firm). Assuming 1-5 people per firm must familiarise themselves with the measures at each firm yields a range of £14,779 – £73,893 for the sector to familiarise itself with the measures. This assumes all authorised UK insurers trade with Belarus, so should be considered an upper-bound estimate.

a. Assumptions:
   i. All 370 authorised UK insurers must familiarise themselves with the measures[21];
   ii. Assumed it takes a person 1hr and 30 minutes to read and familiarise themselves with the measure[22]
   iii. Assumed wage of Insurance Underwriter of £22.19[23]
   iv. Non-wage cost factor of 1.2x[24]

Monetised costs

UK insurers

112. Exports in 2020 of insurance services to Belarus were estimated at nil or less than £500,000 in ONS data (less than 0.01% of total exports of insurance services)[25]. Assuming a 7.8% profit margin[26] and, conservatively, that all insurance exports go to government, **the annual opportunity cost of profit from the provision of insurance services is likely to be £39,000 at most**.

113. For the low scenario, we have assumed UK insurers would be able to replace sales to Belarus with other sales. Under this scenario, there would be no cost to UK business. For the

[21] Bank of England, List of authorised UK insurers 2021

[22] Assuming a reading time for technical text as 100 wpm taken from EFTEC (2013), "Evaluating the cost savings to business from revised EA guidance – method paper" as cited in the BIT Appraisal guidance https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/609201/business-impact-target-guidance-appraisal.pdf

[23] ONS, employee earnings survey 2020

[24] BEIS. 2019. *Business Impact Target Statutory Guidance.* https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/776507/Busines__Impact_Target_Statutory_Guidance_January_2019.pdf

[25] ONS, Insurance and Pension Services (exports)

[26] [26] Taken from the 2008 – 2017 average profit margin from Swiss Re Institute "Profitability in non-life insurance: mind the gap" https://www.swissre.com/dam/jcr:2bc0a0e4-ead0-4c29-8a55-0ee9329c38b4/sigma4_2018_en.pdf

high scenario, we have assumed we have underestimated the costs by 25%. Under this scenario, the annual cost to UK business would be £48,750.

Non-monetised and monetised benefits

114. No direct benefits to UK industry have been identified.

Risks

115. There is a risk that over-compliance with these measures, or wider de-risking from Belarus, could have unintended consequences for the Belarusian economy if insurers are no longer able to provide cover to private sector actors as well as the government.

116. There is a risk that a blanket prohibition on insurance and reinsurance services could void existing contracts and reduce confidence in UK insurers. To mitigate against this, insurance and reinsurance services under an agreement concluded before the date that the new measures come into force will be excluded from the scope of the prohibition, as will the extension or renewal of an insurance or reinsurance agreement, where an obligation arose before the date on which the new measures come into force for the insurer or reinsurer to accept that extension or renewal.

117. Also excluded from the scope of the prohibition will be insurance to persons acting at the direction of the Government of Belarus, where they are doing so for the purpose of docking, loading or unloading a ship or aircraft or for any purpose in connection with the safe transit of the ship or aircraft through Belarus or the airspace above it. This will avoid situations in which a person is prevented from being insured where they are acting at the direction of the Government of Belarus in relation to the transit of ships and aircraft – for example temporarily when passing through Belarusian airspace.

118. There is a risk that a blanket prohibition could prevent a person from purchasing insurance for their personal use a person from complying with an obligation to acquire insurance in the UK a consular post or diplomatic mission of the Republic of Belarus in the UK from acquiring insurance. These will all been mitigated against by including an exception to cover such circumstances.

119. There is a risk that this prohibition could prevent the provision of insurance in connection with the performance of a humanitarian assistance activity, nuclear safety or extraordinary situations. It is intended that this will be addressed through licensing, and provision will be made for this in the new regulations.

Banking sector

120. The Government intends that UK businesses will be prohibited from purchasing, selling, or otherwise dealing with securities and money market instruments issued after the date in which the regulations come into force, by the Republic of Belarus, the Belarus Government, and by state owned financial institutions and those acting on their behalf. They will also no longer be able to provide investment services to those entities in relation to those securities and instruments, including services to assist in issuance. They will also be prohibited from providing loans or credit to those entities. We expect the impact to be limited to the opportunity cost of lost profit from: i) lost fees and commissions from services to support the issuance of securities and money market instruments; and ii) the provision of financial services and other business services to Belarus. It has not been possible to monetise the opportunity cost of lost profit from trading in securities, but HMG’s assessment is that this will be negligible.

Familiarisation

121. Business may need to invest some time in staff training and software amendments. However, there is precedent for measures similar to this in the Russia, Syria and DPRK sanctions regimes, with which UK businesses are already required to comply. Most software will screen for compliance to UN, US and EU sanctions (among others), at the same time as for UK

sanctions. Therefore, while there may be significant fixed software costs, businesses are likely to have already incurred these in order to comply with existing global sanctions regimes. Therefore, the impact to UK business of familiarising themselves with these measures is expected to be negligible.

Monetised costs

122. Although the fees and commissions we have detailed below are exports, we do not believe this has been included in the ONS data on financial services and "other business services" export values. The ONS data is based on surveys so is likely to have underestimated the export of financial services. Therefore, we have decided to use a conservative estimate where we are including the value of fees and commissions in addition to the export value of financial services and "other business services".

Fees and commissions

123. Belarusian entities, including the government, have previously listed bond issuances in the UK. For the listing last year, firms appear to have shared about $10m in fees for book running and advisory work, according to press reports[27]. Therefore, this assessment is based on UK businesses' total fees for services relating to a Belarus issuance in the range of £5.4m – £9m with a central estimate of £7.2m[28]. This activity will be prohibited by the regulations, though changing international sentiment towards Belarus means future bond issuances would be unlikely irrespective of UK sanctions.

124. There has been one bond issuance by the Government of Belarus in London in the past decade. In June 2021, the Government of Belarus listed $1.2bn (£930m) of bonds on the London Stock Exchange – the first such listing in London by the Government of Belarus. In this assessment we assume the rate and size would have continued for the next ten years (i.e. there would have been one further bond issuance). Assuming a profit margin of 13.9%[29], the opportunity cost of profit from services related to bond issuance by the Government of Belarus is in the range of £750k-1.25m. **We therefore assess the average annual cost to be in the range of £75k-125k with a central estimate of £100,080 each year for 10 years**.

125. There has not been any bond issues by Belarusian state-owned enterprises in the UK in the past decade; however, we have assumed the same as above to provide a conservative assessment of the impacts for SOE issuance. In this assessment, we assume the same rate and size as the one used for government bond issuances. Assuming a profit margin of 13.9%, the opportunity cost of profit from services related to bond issuance by state owned entities is in the range of £750k-1.25m. **We therefore assess the average annual cost to be in the range of £75k-125k with a central estimate of £100,080 each year for 10 years.**

126. This is likely an overestimate, given the low likelihood the Government of Belarus would seek to issue bonds in London at the same rate in the next decade (following other UK sanctions and a worsening bilateral political and economic relationship), as it did in the preceding decade.

Exports

127. According to ONS data financial services exports to Belarus were estimated at nil or less than £500,000 in 2020, exports of "other business services" were estimated at £8m.

[27] The Telegraph. 2020. *Stock exchange helped Belarus raise $1.25bn weeks before 'rigged' election.* https://www.telegraph.co.uk/business/2021/05/26/stock-exchange-helped-belarus-raise-125bn-weeks-rigged-election/

[28] Using the exchange rate as of 27th June 2021, $10m is equivalent to £7.2m. Given HMG's understanding of the commission structure of bond issuance, and the source of the information, we assess this to be a high-end estimate.

[29] CSIMarket 2020 https://csimarket.com/Industry/industry_Profitability_Ratios.php?ind=709

128. We have assumed that profit margins for exports of financial services and "other business services" is the same as "fees and commissions" at 13.9%. Therefore, **the annual opportunity cost of profit from financial services exports is £69,500 for UK providers.** For "other business services", we have also assumed that only £4m of the £8m would be affected by the measures. Therefore, **the opportunity cost of profit from "other business services" is estimated to be £556,000 for UK providers.**

129. For the low scenario, we have assumed exporters of financial services and "other business services" will be able to replace sales to Belarus with other sales. Under this scenario, there would be no cost to UK business. For the high scenario, we have assumed we have underestimated the costs by 25%. Under this scenario, the cost would be £86,875 for providers of financial services and £695,000 for providers of "other business services".

Non-monetised and monetised benefits

130. No direct benefits to UK industry have been identified.

Risks

131. The measures taken in respect of securities and money market instruments will apply only to issues of securities and money market instruments after the date that the new regulations come into force. This will avoid affecting the value of existing securities and money market instruments already issued by Belarusian entities. However, in any case any such reductions in value would have been unlikely to be material against capital requirements even for smaller firms.

132. To mitigate the risk that securities and money-market instruments that are necessary to provide short-term liquidity would be affected, the prohibition will not cover those securities and money-market instruments with a maturity of under 90 days.

133. There is a risk that a blanket loans and credits prohibition could prevent loans and credit provided in connection with the performance of a humanitarian assistance activity, nuclear safety, or in relation to an extraordinary situation. We intend that this will be mitigated through licensing, and provision will be made for this in the new regulations.

134. There is a risk that a loans and credits prohibition could prevent loans and credit provided in connection with non-prohibited trade with Belarus, which would be undesirable because it would interfere with otherwise legitimate trade. This is mitigated against by the inclusion of an exception covering these circumstances.

Petrochemical sector

135. Prohibiting the import, acquisition and supply/delivery of petroleum and related technical assistance, financial assistance and brokering services products from Belarus is expected to impact UK business primarily through the impact on specific firms involved in these activities.

136. The prohibition on the acquisition and supply and delivery of petroleum products will have an expected impact on firms of up to £1.8m. Although this is a significant cost, it is only incurred by one firm (which has been analysed in paras 139-144). There is no evidence to indicate any other firms or the wider UK petroleum sector would be affected by the measure as data shows there have been no UK imports of oil from Belarus.

137. Due to limitations with the available data and open source material, we cannot be fully certain of the impacts on UK companies operating overseas, including the full scale of joint ventures that UK persons may be involved in.

Familiarisation costs

138. Data shows there have been no UK imports of oil from Belarus. We do not expect there to be many, if any, firms acquiring or supplying/delivering petroleum products and related technical assistance, financial assistance and brokering services from Belarus. So we expect very few if

any UK businesses having to familiarise themselves with the regulation. The only one we have identified is BNK (UK), though the cost of familiarisation is negligible.

Monetised costs

BNK (UK)

139. BNK (UK) was designated by the Secretary of State under the Belarus (EU Exit) (Sanctions) Regulations 2019, on 21 June 2021.

140. The designation of BNK (UK) prohibits dealings with any funds or economic resources which are owned, held or controlled by BNK (UK). It also prohibits funds or economic resources being made available to or for the benefit of BNK (UK). The effect of designation is that UK businesses cannot make funds or economic resources available to BNK (UK) or deal with its assets. However, BNK (UK) may be able to still operate under these conditions as most of its activity is abroad.

141. BNK (UK) strategic report for the year ended 31 Dec 2019 (the most recent available) states that the Group provides intermediate services to oil sector companies in Belarus. The Group's operating profit before exceptional items for the year decreased to EUR 2.1m from EUR 2.4m in 2018[30]. The measures included in these regulations will go beyond the impact of a designation. The measures make it illegal for it to import, acquire, supply or deliver petroleum products from Belarus, or to provide financial services or funds in relation to such imports, acquisition, supply or delivery. For the sake of this assessment, we have estimated the cost of all of BNK (UK)'s business being impacted by the measures.

142. Therefore, the impact to UK business would be equal to the operating profit of the firm. Using the exchange rate as of 27th June 2021, **the impact to UK business from this measure may be up to £1.8 million per year**. In reality, we expect the impact to be significantly below this level, as it is based on the operating profit in 2018; since then, BNK (UK) has been designated under UK sanctions. This designations will have led to reputational damage, and likely deter other persons from dealing and engaging with BNK (UK). As such, we would expect its 2021 operating profit (and therefore the cost of the firm going out of business, if this occurs) to be significantly below the level assumed in this assessment.

143. For the low scenario, we have assumed that we have overestimated BNK (UK)'s future operating profit by 25% as its sales since 2018 will have been affected by its designation under UK sanctions, and EU sectoral measures. Under this scenario, the annual cost to UK business would be £1,350,000. For the high scenario, we have assumed that we underestimated the costs to UK business by 25%. Although we do not believe we have underestimated the cost to BNK (UK), there may be other UK businesses who may be affected by measures, though we have no evidence there are. Under this scenario, the cost to UK business would be £2,250,000.

144. Finally, although BNK (UK) is a UK registered company, its parent company CJSC Belarusian Oil Company is based in Belarus.

Non-monetised costs

145. There is no data available on the acquisition and supply/delivery of petroleum products and related technical assistance, financial assistance and brokering services petroleum; however, given the low levels of imports we do not expect significant impacts.

Oil price

146. According to the 2020 BP Statistical Review of World Energy, Belarus refined 336 million barrels of crude in 2019. Removing Belarus refining capacity from the European market would

[30] Companies House. 2021. *BNK(UK).* https://find-and-update.company-information.service.gov.uk/company/06527449/filing-history (click on the PDF for "Group of companies' accounts made up to 31 December 2019)

seem unlikely to have much impact on the European market and UK market. Globally there is excess refining capacity and the nature of seaborne oil trade means supply chains would be able to adjust. However, any major disruption or increased transportation requirements would almost certainly put upward pressure on prices.

UK resilience

147. The measures will prohibit the import of any products under the HS code 2710. Import levels for products falling under 2710 are negligible with the exception of 271019 & 271020. In 2020, the combined value of imports of these goods was £137,182; however, there were no imports over 2018 & 2019. Therefore, we do not anticipate any issues with this sanction from a UK resilience perspective. When we do receive Belarusian imports, they are minimal. The impact on the UK is expected to be limited by the situation of refineries on the coast and the lack of reliance on pipeline oil from Russia/Belarus.

Joint ventures

148. Although we are not aware of UK multinational oil and gas firms having business in Belarus, there are likely to be indirect links. UK firms have stakes in Rosneft and refineries that receive oil supplies via Belarus, and therefore may be indirectly impacted by the measures.

149. Open source research has not identified any UK supply chain companies involved in the Belarusian energy sector. Azerbaijan (SOCAR) has been selling crude oil to Belarus over the past couple of years. There could be UK companies involved in such supply chains who may be required to withdraw or withdraw for reputational reasons, which could cause disruption.

Non-monetised and monetised benefits

150. No direct benefits to UK industry have been identified.

Risks

151. A number of UK firms maintain commercial interests in Belarus and there remains the threat of the regime expelling British nationals or requiring Belarusian companies to de-invest from UK joint ventures in retaliation for these sanctions measures. While this risk is prevalent across the range of measures, we assess it to be more prevalent in the petrochemical sector so is evaluated here. The overall economic impact of this, however, would be negligible.

152. Despite the limited trade that has been identified, there is a risk that a prohibition in relation to petroleum products could put UK companies in a position where they are unable to honour existing contracts. We therefore intend to adopt a policy that, in general, trade licences will be granted to allow such activity to proceed where the existence of a pre-existing contract has been verified.

153. The new regulations will also include exceptions to allow UK individuals in Belarus to purchase fuel for their personal use (for instance to fuel their vehicle while travelling through Belarus). Exceptions will also be provided in relation to humanitarian projects and diplomatic missions.

Risks

154. To complement the sector-specific risks identified throughout the assessment, we have identified a set of key risks across the impact assessment.

Table of risks

	Detail	Likelihood of risk materialising	Impact on UK business	Mitigating steps taken
Significantly underestimate the costs to UK business	Given the short timeline provided for this assessment, it is possible that the assessment has underestimated the cost to UK businesses. The most likely avenues for this under-estimation are joint ventures in the petroleum product industry and the provision of financial services.	**Low-medium**. While it is possible that costs in some sectors have been underestimated, we assess it is equally likely we have overestimated the costs to other sectors, such as the petroleum sector through the impact on BNK (UK). Furthermore, best endeavours have been made to arrive at the most accurate estimates available, including through significant collaboration with relevant government departments.	**High**. Underestimating the cost would impact the efficacy of HMG's policy decision process. However, we have provided sensitivity analyses to this effect and have a high-level of confidence that HMG would proceed with the measures even if the costs to UK business were greater than estimated.	We have provided sensitivity analysis to our assessment and, where possible, provided ranges to take into account the possibility of higher end estimates.
Significant unintended impact on the economy of key partners	For example, there may be an unintended impact on energy sectors of European countries that consume Belarusian oil.	**Low.** The UK measures shouldn't have a major impact on global markets given the small volumes of trade.	**Medium.** Given the interconnected nature of international trade, UK businesses would be indirectly impacted through any impact on key partners.	We have shared analysis and proposed measures with international partners in advance, allowing them to highlight any concerns of potential impact to them or other partners.
Reductions in existing asset values	There is a risk that the sanctions package, including measures taken in respect of securities and money market instruments affect the value of existing securities and money market instruments issued previously.	**Medium.** Alongside measures taken by partners and existing measures, this package is likely to depress market sentiment towards Belarus	**Low-Medium.** Any such reductions in value are unlikely to be material against capital requirements.	We have shared analysis and proposed measures with international partners in advance, allowing them to highlight any concerns of potential impact to them or other partners.

Loopholes within the proposed measures (HS codes)	To ensure the measures are targeted, specific HS codes have been chosen in each sector. Therefore, it is possible that the Belarusian regime or individual firms seek to evade the prohibitions through the reallocation of goods into new, unrestricted HS codes.	**Low-medium**. The measures have been designed to reduce the likelihood of such a loophole. Furthermore, if identified, the measures could be updated at a later stage to close the loophole.	**Low**. If actualised, this risk would reduce the efficacy of the regulation, but in doing so would likely reduce the impact on UK business.	We will monitor trade data against the circumvention codes.

Impact on Small and Micro Businesses (SMBs)

155. The recommended policy option of comprehensive sectoral measures will apply to small and large business in the same way, as they will all have to comply with these regulations.

156. The regulations do not include any exemptions specifically for small and micro-businesses. SMB exemptions would reduce the effectiveness of the measures, as they would allow some UK businesses to continue to provide funds, and services, and acquire and provide goods in the targeted sectors.

157. Although there are no specific exemptions for small and micro-businesses, there will be mitigations within the legislation to, where possible without reducing the efficacy of the measures themselves, reduce the impact on UK business, including SMBs by allowing otherwise prohibited activity in certain circumstances. There will be both exceptions in the legislation, and licensing to enable some otherwise prohibited activities to continue in some circumstances, which could mitigate some of the impact on business including SMBs. The package of sectoral measures is carefully targeted to ensure that they have maximum impact on the Government of Belarus while minimising impact on UK businesses, including SMBs. All UK sanctions, including these regulations, are accompanied by guidance, aimed at reducing the familiarisation costs to SMBs.

158. Nonetheless, there is a chance that SMBs in targeted sectors will be affected to a greater degree than larger businesses if they are unable to absorb any cost increase, however given the limited trade volumes between the UK and Belarus, the impacts on UK SMBs are expected to be low. The few businesses with significant interests in these sectors are typically large companies who will be able to absorb any small increase in costs or find new markets.

159. It has not been possible to estimate the number of SMBs impacted in each of the targeted sectors however the expected impacts on SMBs in each sector is considered below:

   a. <u>Potash sector</u>: potash importers in the UK are generally medium or large companies but farms are typically SMBs. Small and Micro sized farms may see an increase in price for potash fertilisers, however this increase is not expected to be significant as there are many alternative suppliers they could switch to.

   b. <u>Airline sector</u>: Due to the nature of aviation operators (high sunk cost/regulations), and the fact that in recent years the flights have operated into/out of medium and large UK airports, no airline operators or airports are considered to be Small or Micro Businesses and therefore no impact on SMBs.

c. Banking and insurance sector: Small and Micro Businesses play a negligible role in cross-border financial services provision due to high sunk costs and regulation, so it is unlikely that such measures would have a significant impact on SMBs.

d. Tobacco sector: The size distribution of firms in the affected industries is not known; therefore, it is not possible to assess the impact on SMBs.

e. Information and communication technology sector: The size distribution of firms in the affected industries is not known; therefore, it is not possible to assess the impact. However as stated in para 91, we do not believe there will be significant impacts for the industry.

f. Firearms sector: DIT are not able to disclose publicly the names of companies that have exported such items in the past, due to commercial sensitivity. Therefore, it is not possible to assess the impact.

g. Manufacturers of dual-use items: These manufacturers are familiar with the requirement for licences for their items, and would already likely have any licences refused which would be prohibited under this regulation.

h. Importers/dealers in petroleum products: BNK (UK) is a small business (though it is a subsidiary of a very large Belarusian state-owned enterprise) with only one Director. The measures would effectively stop BNK (UK) from operating in the UK. However, BNK (UK) is also part of a significant source of revenue for the Belarusian authorities and an exemption would prevent the policy objectives from being achieved.

Wider impacts

Public sector

Foreign, Commonwealth and Development Office

160. These measures may have an impact on FCDO resourcing through an increased provision of licensing advice. Any required resource will be drawn from the existing workforce for sanctions issues under the existing regulations.

Department for International Trade

161. These measures may have an impact on DIT resourcing through an increased provision of trade licence applications. In the first instance, DIT will look to meet any additional resourcing pressures from within departmental limits.

Department for Business, Energy and Industrial Strategy

162. Petroleum sectoral sanctions may have an impact on BEIS resourcing, particularly through the provision of licensing advice. In the first instance, BEIS will look to meet any additional resourcing pressures from within departmental limits.

HM Treasury (including the Office for Financial Sanctions Implementation)

163. Financial sectoral sanctions may have an impact on HMT resourcing, particularly OFSI functions including licensing and compliance. The extent of UK nexus of the measures will drive the demand on resources. This is a pressure HMT carries under UK sanctions regimes. In the first instance, HMT will look to meet any additional resourcing pressures from within departmental limits.

Civil Aviation Authority

164. The regulations prevent the CAA from approving applications from Belarus airlines to operate seasonal or ad hoc services. At only £80 per application, the loss of income from the expected fall in applications will be minimal. The CAA's income comes from fees and charges to

the industry. Providing advice on sanctions issues is, therefore, an unfunded cost. However, we do not expect these costs to be significant.

Department for Environment, Farming and Rural Affairs

165. DEFRA do not expect any significant additional costs to personnel from the new regulations.

Department for Transport

166. DfT do not expect any significant additional costs to personnel within DfT from the new regulations.

National Cyber Security Centre

167. NCSC do not expect any resourcing impact from the new regulations.

A summary of the potential trade implications of measure

168. At the macroeconomic level there is not expected to be a significant impact for either the UK or Belarus. The level of trade between the countries is historically very low, in 2020 Belarus was the UK's 110th largest trading partner, accounting for less than 0.1% of total UK trade[31].

169. Since the measures impact on international trade and investment, The Department for International Trade (DIT) and its Better Regulation Unit have been consulted (as per BRE guidance).

Monitoring and Evaluation

170. The Sanctions and Anti-Money Laundering Act 2018 (the "Sanctions Act") will require regular reviews of the proposed sanctions measures. Under section 30 of the Sanctions Act, the Secretary of State must consider annually whether or not regulations under section 1 of the Sanctions Act are still appropriate for its stated purpose and lay a report before Parliament, confirming either that is the case or explaining what action he has taken or proposes to take in consequence of that review. Section 30 applies to the existing Belarus (EU Exit) (Sanctions) Regulations 2019, and will apply to them as amended by legislation implementing the proposed measures. The new measures will therefore be reviewed annually as part of a wider review of the whole Belarus sanctions regime.

171. The FCDO's Eastern Europe and Central Asia Department will keep under review the political situation in Belarus and revise UK sanctions measures on Belarus as required. Such assessment will include the continued collection of open source and classified information. The policy intention is to keep the sanctions on Belarus in place until HMG is assured that the human rights situation in Belarus has improved, or has demonstrated steady and consistent improvement over a sustained period of time. The FCDO will continue to coordinate with international partners, including on the future of the regime. We hope to see Belarus working with international fora to strengthen alignment with and implementation of international standards and practices in the fields of rule of law, more efficient and effective democratic governance and human rights.

[31] DIT Belarus Trade & Investment Factsheet 2021. Most recent as of the time of drafting on the 6th July 2021.

Annex A: Belarus Arrivals and Departures 2019 and 2020, by airline and airport

	Arrivals		Departures	
	ATMs	Terminal Passengers	ATMs	Terminal Passengers
2019	205	18,805	208	18,722
2020	191	11,182	192	14,466

		Arrivals		Departures	
		ATMs	Terminal Passengers	ATMs	Terminal Passengers
2019	AIR HAMBURG			1	5
	BELAVIA (BELARUSIAN AIRLINES)	204	18,737	207	18,717
	EUROPE AIRPOST	1	68		
2020	BELAVIA (BELARUSIAN AIRLINES)	191	11,182	191	14,466
	TITAN AIRWAYS LTD			1	-

		Arrivals		Departures	
		ATMs	Terminal Passengers	ATMs	Terminal Passengers
2019	BELFAST INTERNATIONAL	1	68	1	41
	BIGGIN HILL	2	34	3	39
	CARDIFF WALES			1	41
	GATWICK	187	17,293	187	16,962
	LUTON			1	77
	MANCHESTER	15	1,410	15	1,562
2020	GATWICK	191	11,182	191	14,466
	STANSTED			1	-

Annex B: UK-Belarus trade in tobacco products

HS4 Product Code	2017	2018	2019	2020
4813 Cigarette paper, whether or not cut to size or in the form of booklets or tubes	£80,198	£0	£212,259	£119,405
8478 Machinery for preparing or making up tobacco	£368,248	£376,438	£532,710	£647,122

** HMRC Trade Data*

HS4 Product Code	Annual Average UK Exports to Belarus (2015 - 2019) *	Belarus Annual Average Import Market Size (2015 - 2019) **	UK's Annual Average Import Market Share (2015 - 2019)
4813 Cigarette paper, whether or not cut to size or in the form of booklets or tubes	£94,775	£8,906,600	1.06%
8478 Machinery for preparing or making up tobacco	£337,023	£4,939,400	6.82%

** HMRC Trade Data*
*** ITC Trademap based on UN Comtrade Statistics*