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Limited EU economic sanctions on Belarus

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On 23 March, the EU decided to extend its sanctions on Belarus. The list of 232 people banned from entering the EU was extended by a further 12 names, including two major Belarusian businessmen suspected of financially supporting the regime of Alyaksandr Lukashenka. In addition, economic sanctions were applied to 29 Belarusian companies, which have been banned from contacts with EU companies and have had their EU assets frozen. However, the new restrictions cover companies which have only limited contact with EU markets. The sanctions thus do not include the main Belarusian exporters to EU markets, and will not harm the economy of Belarus. This is primarily the result of consistent opposition by representatives from Latvia, whose economy is closely linked with Belarus, and from Slovenia, in the interests of a Slovenian company which is currently working on contracts in Belarus. At the same time, it must be remembered that some EU countries, due to their economic interests, will continue to block the introduction of further sanctions. Although Minsk is not ready to make concessions to the EU, nor is it interested in a further escalation of the conflict, which could block the profitable export of Belarusian goods onto EU markets.

The new sanctions' importance for the Belarusian economy

The core of the dispute between the EU and Belarus is their disagreement on human rights and democracy. Brussels has demanded the release and rehabilitation of political prisoners, and has made any decision to withdraw or suspend economic and visa sanctions (which have been gradually introduced since January 2011) dependent on this. Last June, the EU first decided to impose economic sanctions on three companies belonging to Vladimir Peftiev, a businessman suspected of close ties to the regime and its finances. However these sanctions were only symbolic in nature, because none of his companies depend on cooperation with partners from the EU.

The lack of any concessions from Minsk has prompted the EU Council to toughen its line even further. According to a decision of 23 March, sanctions have been imposed on 29 companies belonging to the aforementioned Peftiev, as well as on two businessmen who are closely linked to the regime, Yuri Chizh and Anatol Ternavsky. These companies operate in a wide range of fields – from the sale of petroleum products and the construction & food industries, up to the production of medicines – and are only marginally linked to the EU

market (see Appendix). At the same time, sanctions have not been imposed on those companies whose closest ties are with Latvia (energy) and Slovenia (construction).

The reaction from Minsk

The Belarusian government has consistently criticised the EU sanctions, describing them as discrimination and blackmail. In its statement of 23 March, the Belarusian Foreign Ministry stated that it sees no objection to the return of the EU's ambassadors to Minsk, and stated that Belarus would soon take the appropriate steps. Meanwhile, the next day the ministry's spokesman explained that this does not mean that the EU ambassadors will be deemed *persona non grata*. In addition, the demonstration organised by the Belarusian opposition in Minsk on 25 March (on the occasion of Freedom Day) passed off without the intervention of law enforcement, even though the protesters used banned symbols and anti-regime slogans. This means that despite Lukashenka's apparent disinterest in making concessions (in particular the release of all political prisoners), he does not wish to sever relations with the EU, as this could lead to a unanimous decision by the member states to impose comprehensive economic sanctions. This would be a serious blow to Belarus, as the EU was the main recipient of its exports (39% of its total export value) last year.

The interests of the EU's opponents of economic sanctions

Initially, Slovenia most clearly expressed its opposition to sanctions, because they would hit Riko Group, one of the country's most important companies. This company carries out projects for the Belarusian state-owned MAZ corporation; it is involved in modernising Belarus's power grids (a contract worth €54 million) and, in collaboration with Yuri Chizh's company, is involved in constructing a hotel in Minsk (about €50 million). Slovenia has been joined by Latvia, which points out that the sanctions will hurt Latvian businesses, contributing to an increase in unemployment there. Like Latvia, Lithuania has also expressed its concerns, although it has not pledged to block the sanctions.

Lithuanian and Latvian politicians and businessmen have warned that any extension of sanctions will come at the expense of the Baltic states, which have significant economic links with Belarus. Baltic ports, railways, and a number of land transport companies are involved with Belarusian transit services. The Belarusian market – which is relatively large from Lithuania and Latvia's point of view – is an important customer for them.

The solutions adopted by the EU have satisfied both the Baltic states, which had been reluctant to intensify the sanctions. According to their demands, sanctions have not been introduced on those Belarusian companies which do business in EU countries, especially in Latvia. However Lithuania, which reacted less strongly to the proposals for sanctions, will lose important Belarusian customers for a Lithuanian cement plant. It will also have to look

for new suppliers on the fuel market. The list of banned companies includes one owned by Chizh that sells diesel fuel in Lithuania more cheaply than controling the Baltic market Orlen Lietuva (according to information from the Lithuanian media, Belarusian company has 10% of the market share). Both countries' political and business elites are opposed to stronger sanctions, fearing retaliation by the Belarusian regime (such as access to the Belarusian market being blocked, or entry bans for politicians and social activists from Lithuania and Latvia); this would not only impede economic cooperation, but also contact with the Belarusian public. Striving to maintain diplomatic and business ties with the Belarusian ruling elite is part of these countries' political tactics, to enable them to maintain the role of intermediaries between the EU and Belarus.

Conclusions

- The sanctions introduced by the EU do not pose a serious threat to the Belarusian economy, and are only a passing problem for the companies affected by them and their contractors. However, it will be impossible for these entities to obtain loans in Western banks, or to acquire the equipment and technology they need from EU countries. Moreover, the sanctions will severely restrict their ability to make new business partners in the West.
- It can be assumed that over the next few months, all the businesses subject to the sanctions will manage to adapt to the new situation, for example by registering new companies which will take over in the cooperation with EU countries from which their predecessors had been excluded. Even now, they can use those companies they already own which have not been restricted.
- There is no indication that Minsk has decided to make any concessions to the EU in the near future. So political prisoners will not be released, and repression against the opposition and civil society will also continue. On the other hand, for fear of the economic consequences, the regime will avoid any excessive escalation of the conflict, which could lead to a rupture in relations with the EU.
- The Belarusian government will seek to exploit its business relationships with some EU countries in order to mitigate the severity of the EU sanctions. This applies especially to Lithuania and Latvia, the countries which are economically linked to Belarus to the greatest extent. Lukashenka may take advantage of the susceptibility of the Lithuanian and Latvian political elite to lobbying from local businesses, which are interested in maintaining good relations with Belarus. If EU sanctions are tightened, these two countries may also demand substantial financial compensation from Brussels. Harsher sanctions on Belarus will be opposed not only by Lithuania and Latvia, but also (as demonstrated by the example of Slovenia) by other countries where influential businessmen have ties to the Belarusian market. Therefore, we may expect serious difficulties in deciding on further economic sanctions on Belarus.

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Appendix

Belarusian economic entities subject to EU sanctions

18 companies from the Triple holding of Yuri Chizh. This holding does a wide range of business in industries such as oil supply and the export of petroleum, construction, transport and logistics products, and in the food and construction industries. Due to opposition from Latvia, three petrochemicals firms from the Triple group have been excluded from the sanctions, as they are connected to the Latvian economy. They include the Neonafta company, which since 2008 has owned 80% of the Mamas D. plant producing biofuels in Daugavpils, Latvia. Nor do the sanctions cover Belneftegaz, which exports chemicals to the EU; or another of Chizh's companies which has a contract with the Slovenian construction firm Riko for the Kempinski Hotel in Minsk. At the same time, it is unclear to what extent Chizh's companies are involved in exporting Belarusian oil products onto EU markets. Some of the companies that make up the Triple holding use Western equipment and technology (especially in the fields of building materials, construction and the pharmaceutical industry), but the EU markets are not their principal export targets.

8 companies owned by Vladimir Peftiev. These are mainly companies from the telecommunications and armaments branches associated with Peftiev's major corporations, BT Telecommunications and Beltekheksport. This effectively means a refinement of the sanctions introduced against Peftiev in June 2011. There is no specific information on how closely Peftiev's companies are linked with EU markets; we only know that he owns the Samuel International trading company, which was registered in Malta in 2010. From Beltekhholding's superficial formal company information, it appears to have partners in France, Britain, Cyprus and Greece. In addition, the British-Belarusian company Delovaya Set, which provides Internet services and is also owned by Peftiev, has contacts with EU partners.

3 companies from the Univest Group of Anatol Ternauski. These are primarily focused on activities in the petrochemical industry and real estate. One company, Univest-M, is engaged in providing oil to Belarusian refineries, and is licensed to serve wholesale domestic consumers of petroleum products. At the same time, as in the case of Yuri Chizh's companies, there is no confirmed information about the extent of their participation in exporting Belarusian oil products onto EU markets.