

Belarus: new EU sanctions for its participation in the war against Ukraine

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On 2 March, the Council of the European Union adopted a new package of restrictions against Belarus in response to its complicity in the Russian aggression against Ukraine. These sectoral economic sanctions are aimed at completely preventing the export of the country's most profitable commodities: tobacco products, petroleum products, fuels and bituminous substances (which had previously not been restricted), potash fertilisers, timber production, cement, metal, iron and rubber products. The embargo covers the sale of dual-use products and technologies necessary for the functioning of the Belarusian defence sector. The sanctions came into force with immediate effect from the date of their announcement; however, contracts concluded before 2 March may be completed (although no later than 4 June). In addition, a further 22 people were banned from entering the EU (making 707 in total); the latest names on the list are mainly high-ranking Belarusian army officers.

Commentary

- The full application of the newly-adopted restrictions, along with the fuel embargo which has been in force since June 2021, will lead to a collapse in Belarusian exports to the EU; this will significantly deepen the negative balance in Belarus's foreign trade, and will seriously threaten the country's financial stability. Initial estimates of the potential losses amount to at least US\$5.6 billion (c. 9% of GDP). This means Belarusian exports to the EU will fall by more than half, with the greatest losses coming from blocking sales of timber, timber products, metal and iron products. The new restrictions will lead to a significant decline, estimated at between 6 and 10%, in the Belarusian GDP.
- This is the EU's second package of sectoral sanctions against Belarus. It rounds off and complements the June 2021 package (which blocks fuel exports, among others), while at the same time hitting Belarus's most important exports to the EU. Last year exports rose by US\$4 billion, 74.4% more than 2020, and reached the value of US\$9.5 billion (a quarter of all exports). These dynamic exports allowed Belarus to generate a rise in GDP of 2.3% in 2021, reduce its foreign trade deficit by US\$1.7 billion (to US\$1.9 billion), and stabilise its foreign exchange reserves – despite successive sanctions packages imposed on it by the EU and the US since autumn 2020. This enabled the Belarusian government to claim its economy had an alleged 'immunity' to the restrictions introduced, and to disavow the effectiveness of the pressure from the West.

- The impact of the sanctions will depend on how precisely they are implemented. Based on experience to date, it can be assumed that Minsk will try to circumvent the restrictions, e.g. by trade intermediaries, or by falsifying commercial documentation; such actions may be facilitated by the transitional period that will apply until mid-year. Belarus will also try to redirect sales to alternative markets, both outside Europe (China) and Russia. A large deficit may appear in various sectors of the latter market because the local companies will be unable to import many goods from EU countries, due to the Western sanctions introduced after the launch of the armed aggression.