Title: The Republic of Belarus (Sanctions) (EU Exit) (Amendment) Regulations 2022 **IA No: FCDO2205** **RPC Reference No:** **Lead department or agency:** Foreign, Commonwealth & Development Office **Other departments or agencies:** Department for International Trade	**Impact Assessment (IA)** **Date: 04/07/2022** **Stage:** Final **Source of intervention:** Domestic **Type of measure: Secondary Legislation** **Contact for enquiries:** sanctions@fcdo.gov.uk

Summary: Intervention and Options

RPC Opinion: Awaiting scrutiny

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**
-£370.2m	-£370.2m	£5.9m	Qualifying provision

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

The Belarusian regime has openly supported and enabled Russia in its invasion of Ukraine. Although Belarus has not committed its forces against Ukraine, the regime has facilitated the invasion, by allowing the country to be used as the launch pad for Russian forces based in Belarus to conduct offensive air and land operations against Ukraine and provided logistical support.

This has included allowing Russian military bases on their territory, and enabling transportation of Russian military personnel, heavy weapons and tanks through their territory. In addition to its facilitating role, Belarus also provides diplomatic support to Russia and their economies are closely integrated. Belarusian state media has justified the war in Ukraine using the same justifications as Russia. Individuals protesting against the war have been arrested and protests quashed. Belarus voted against the UNGA resolution condemning the Russian invasion (alongside Russia, Syria, North Korea and Eritrea).

UK sanctions action, in concert with the EU and other allies, aims at encouraging Belarus to cease supporting or enabling Russian actions destabilising Ukraine. UK sanctions action also seeks to deter Belarus from engaging in further action that destabilises Ukraine by discouraging them from further participating more directly in the conflict. UK Government intervention, in the form of stronger 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 to support the Russian invasion of Ukraine. Without intervention, it is likely that UK businesses which benefit from trading with Belarus would continue to provide or purchase the targeted goods, services and indirectly support the Government of Belarus by contributing to its economy.

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

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.

In this instance, HMG's objectives are to:

1. **Coerce** the Belarusian regime to cease actions destabilising Ukraine or undermining or threatening the territorial integrity, sovereignty or independence of Ukraine, including by supporting or facilitating Russia's actions in respect of Ukraine. Encourage Belarus to refrain from any other action which undermines or threatens peace, security or stability in Europe.
2. **Constrain** Belarus' ability to provide economic, military and in-kind support to Russia's costly invasion and occupation of Ukraine.
3. **Signal** to Belarus that the UK strongly condemns Belarus' role in facilitating the Russian invasion of Ukraine and that we are aligned with international partners, in the message we are sending to the wider international community that support for Russia's territorial expansionism is unacceptable and is being met with a serious response.

The suggested intervention helps achieve these objectives in the following ways:

1. Matching the appropriate existing sanctions measures imposed on Russia and applying them to Belarus is intended to encourage the Belarusian regime to cease supporting or enabling Russian actions destabilising Ukraine. We also seek to deter Belarus from engaging in further action that destabilises Ukraine, including participating more directly in the conflict.
2. Extending the Russia measures to Belarus would seek to coerce Belarus by causing significant short-term disruption to its financial system and economy and in the long term further constrain Belarus' economic development. These measures will also constrain Belarus' ability to provide economic, military and in-kind support to Russia's costly invasion and occupation of Ukraine.
3. Expanding these measures will signal to Belarus that we are aligned with international partners in the message we are sending to the wider international community that support for Russia's territorial expansionism is unacceptable and is being met with a serious response. Expanding the scope of these sanctions measures will ensure we are aligned with key partners the EU and the US who have imposed further measures on Belarus.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

The Government has considered two options:

- <u>Option 0</u>: 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.
- **<u>Option 1 [Preferred option]</u>:** Implement new sanctions measures to match the existing sanctions imposed on Russia. The new measures can be grouped into three categories: financial, trade, and transport. They will include the following:

Financial Measures:

a. Extend existing prohibitions relating to securities, loans and credit arrangements, including extending the prohibitions to all Belarusian entities;
b. Prohibit the provision of financial services to the National Bank of Belarus, or the Ministry of Finance of Belarus in relation to the foreign reserve and asset management to any legal person, entity or body acting on behalf of, or at the direction of, those entities.

Trade Measures:

c. Further prohibit the export supply and delivery, making available and transfer of Dual-Use items for any purpose to Belarus. Currently trade in these items is only prohibited where the items are for military end use;
d. Prohibit the export, supply and delivery, making available and transfer of critical industry items (as well as related technical assistance, financial services, funds and brokering services);
e. Prohibit the export, supply and delivery, making available and transfer of quantum computing and advanced materials-related goods and technology (as well as related technical assistance, financial services, funds and brokering services). This will limit Belarus' access to quantum and advanced materials, further limiting Belarus' military capability advancement;
f. Prohibit the export, supply and delivery, making available and transfer of oil refining goods and technology (as well as related technical assistance, financial services, funds and brokering services);
g. Prohibit the export, supply, delivery, making available and transfer of certain luxury goods;
h. Prohibit the import, acquisition, supply and delivery of certain iron and steel products, as well as a wider range of petroleum products, arms and arms-related materiel (as well as related technical assistance, financial services, funds and brokering services);
i. Prohibit the import of a wider range of potash products (as well as related technical assistance, financial services, funds and brokering services);

Transport Measures:

Aircraft

j. Prohibit the future registration of aircraft owned, chartered or operated by a designated person, and enable the Secretary of State to direct the termination of the existing registration of any such aircraft;
k. Ban aircraft owned, chartered or operated by a designated person, or a person connected with Belarus, or registered in Belarus from overflying or landing in the UK;
l. Provide the power to detain aircraft operated by a designated person, a person connected with Belarus or aircraft registered in Belarus;

Ships

m. Prohibiting certain Belarus-connected ships, and other ships specified by the Secretary of State, from entering ports in the United Kingdom;
n. Conferring powers on the Secretary of State and harbour authorities to detain such ships at ports or anchorages;
o. Conferring powers on the Secretary of State to control the movement of such ships by requiring them to leave or enter specified ports, proceed to a specified place or remain where they are;
p. Prohibit the provision of technical assistance relating to ships to, or for the benefit of a designated person in Belarus;
q. Prohibiting the registration of ships on the UK Ship Register where they are owned, controlled, chartered or operated by a designated person or persons connected with Belarus, or where they are a specified ship.

Will the policy be reviewed? It will be reviewed (see paras 118-120). If applicable, set review date: **N/A**

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	Lord Ahmad of Wimbledon	Date:	04/07/2022

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2022	Time Period Years 9	Net Benefit (Present Value (PV)) (£m)		
			Low: -440.2	**High:** -311.9	**Best Estimate:** -370.2

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	0.0		4.6	**311.9**
High	0.0		18.2	**440.2**
Best Estimate	0.0		5.9	**370.2**

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. For the purposes of this assessment the direct economic cost of the preferred policy option in comparison to the baseline is considered to be the trade value directly captured by these sanctions until 2030. The proposed measures are expected to have an impact on the profitability of UK companies that currently export to Belarus.

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

Wider economic impacts of the export restrictions that have not been monetised include impacts on ancillary services, supply chain effects, displacement and business closure as well as the chilling effect of sanctions. On the import side, the ban may increase production costs to downstream firms in the UK who may have benefitted from relatively lower costs of Belarusian steel. Financial measures could also impact the provision of ancillary services and contribute to asset-price volatility for those already holding Belarusian securities.

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

Any negative impacts to downstream steel users caused by the import ban on Belarusian iron and steel would likely be offset by potential positive impacts to protection of competitiveness of upstream steel producers. However, the principal benefit of these measures is the economic cost they impose on Belarus, through which they will exert pressure on the regime.

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

For the monetised costs of the export measures, a central estimate of economic cost is based on the IMF estimates of the growth rate of Belarus goods imports. The IMF's forecast for the increase in Belarus's global import demand of goods is then applied to the UK exports to Belarus of the goods in scope. In the low estimate, we take the IMF's growth forecast for Belarus's global import demand of goods and revise downwards by 3.5 percentage points while the high estimate revises it upward by 3.5 percentage points.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**Score for Business Impact Target (qualifying provisions only) £m:**
Costs: 5.9	**Benefits:** 0.0	**Net:** 5.9	29.5

Evidence Base

Contents

Policy background

1) Following its illegal annexation of Crimea in 2014, Russia has continued to pursue a pattern of aggressive action towards Ukraine. This has included use of military force to invade Ukraine, announced by Putin on 24 February 2022 as a “special military operation”, the recognition of the ‘Donetsk People’s Republic’ and ‘Luhansk People’s Republic’ as independent states, and the deployment of Russian military to those regions. Throughout, the Belarusian government has provided open, direct support to Russia in its invasion of Ukraine. Under the guise of a joint military exercise, it allowed in excess of 30,000 Russian troops and their equipment to enter Belarus in January and February.

2) Although Belarus has not committed its own forces against Ukraine, the regime is facilitating the invasion. It has permitted the use of Belarusian territory and infrastructure by Russian forces to conduct offensive air and land operations against Ukraine and provided logistical support to Russian forces. Russian forces have launched air and missile strikes on Ukraine from Belarusian territory. Belarusian infrastructure such as the rail and road networks has been used to transport Russian military personnel and equipment. Entities owned or controlled by the Belarusian regime have provided logistical support – primarily the supply of petrol, oil and lubricants – to Russian military forces based in Belarus. The security and intelligence apparatus of the Belarusian regime has been used to identify, repress and arrest any in Belarus who have criticised the support of Belarus for Russian actions in Belarus or sought to take action against the presence of Russian forces.

3) The UK continues to reiterate its support for Ukraine. The UK has called for Russia to withdraw its troops from Ukrainian soil, to end its support for the separatists, and to

enable the restoration of security along the Ukraine-Russia border under effective and credible international monitoring. UK policy is focused on ending the crisis in Ukraine and on assisting Ukraine to secure its borders against Russia's aggressive actions, ensuring a stable, prosperous and democratic future for all its citizens. The UK has been unwavering in its support for Ukraine's territorial integrity and sovereignty.

4) Sanctions have been a key lever used in response to the Lukashenko regime's human rights abuses following August 2020's disputed presidential election. This included violent repression by Belarusian authorities of civil society, democratic opposition, independent media and journalists, and the continued undermining of democratic principles and rule of law. In 2021, the UK introduced further sanctions measures to prevent UK businesses from trading goods and services across various sectors of the Belarusian economy. These were intended to encourage the Government of Belarus to refrain from actions that repress civil society, to respect democratic principles and to comply with international human rights law and to respect human rights.

5) Increasing our sanctions on Belarus is part of a broader policy of measures, which also include diplomatic pressure and designations of individuals under the existing Russia sanctions regime and a 35 percentage point increase in duties on a range of products imported from Belarus introduced at the end of March 2022. These measures are intended to encourage the Belarusian regime to cease supporting or enabling Russian actions destabilising Ukraine. We also seek to deter Belarus from engaging in further action that destabilises Ukraine, including participating more directly in the conflict. Change will therefore be sought through diplomatic pressure, and other measures, supported by implementing sanctions in respect of actions undermining the territorial integrity, sovereignty and independence of Ukraine.

6) UK sanctions action, in concert with the US, EU and other G7 partners, also sends a strong signal to the Belarusian government that failure to respect the territorial integrity of and sovereignty of Ukraine incurs significant costs to both the government and any entities linked to and supporting this malign behaviour. More broadly, it also demonstrates the UK's willingness to stand-up for the international rules-based system and to take action against transgressors, sending a deterrent signal to others.

Problem under consideration and rationale for intervention

7) Whilst some businesses might choose to reduce economic ties with Belarusian individuals or entities in response to its support of the Russian invasion of Ukraine, this would happen in an uncoordinated and incomplete manner. More generally, the private benefit accruing to UK businesses from trading with Belarus does not factor in the wider societal cost to Ukraine, nor the wider impacts of such actions by Belarus. Without intervention, it is possible a level of economic activity would continue – directly or indirectly – enabling the Belarusian government and entities to continue to benefit from access to goods, services and finance.

8) Given the nature of the issue, there is no appropriate non-governmental or private sector solution to the issue at hand. HM Government intervention in the form of these prohibitions is necessary to reconcile the disparity between the private costs and benefits found in trading the listed goods with Belarus, and the wider societal costs. This will ensure UK businesses cannot directly or indirectly provide these goods, technical assistance or financing to the Belarusian government, military and strategic sectors helping to support destabilising activities in Ukraine. Failure to join the international community and impose sectoral sanctions would also undermine the UK's reputation as an upholder of international law, human rights, freedom of expression and democracy.

Policy Objectives

9) 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 them.

10) HM Government's objectives of the Republic of Belarus (Sanctions) (EU Exit) (Amendment) Regulations 2022 are to:

a. **Coerce** the Belarusian regime to cease actions destabilising Ukraine or undermining or threatening the territorial integrity, sovereignty or independence of Ukraine, including by supporting or facilitating Russia's actions in respect of Ukraine, and to refrain from any other action which undermines or threatens peace, security or stability in Europe. This will be achieved by targeting its strategic and economic interests, and by influencing decision makers and elites. We also seek to deter Belarus from taking further action, including participating more directly in the conflict.

b. **Constrain** Belarus' ability to provide economic, military and in-kind support to Russia's costly invasion and occupation of Ukraine.

c. **Signal** to Belarus that the UK strongly condemns Belarus' role in facilitating the Russian invasion of Ukraine and that we are aligned with international partners, in the message we are sending to the wider international community that support for Russia's territorial expansionism is unacceptable and is being met with a serious response.

11) These measures are designed and intended to constrain the destabilising behaviour of the Belarusian government. We aim to limit the direct impact on the people of Belarus, the UK and its partners. However, it is not possible to entirely mitigate these impacts. We recognise the distinction between the Belarusian people and the Belarusian regime, with the most recent Chatham House poll in April showing only 3% of Belarusians were supportive of Belarus directly taking part in the military conflict, and only 23% of Belarusians believing that Belarusian soldiers would fight, even if Lukashenko commits troops to do so. We seek to align closely with partners to achieve maximum impact on the Belarusian government, and associated individuals and entities.

Description of options considered

Option 0: Do nothing counterfactual

12) Rely on existing sanctions, included those implemented in August 2021 by both the UK and our partners to erode the financial power of the Belarusian Government, to constrain the Belarusian state's ability to support and enable Russia as it destabilises and invades sovereign nations, and to force them to change course. Continue to act through diplomatic channels and multilateral forums to signal to the Government of Belarus that such actions are unacceptable.

13) Not implementing any further sanctions would go against UK objectives to align our package with those of a broad coalition of partners in order to maximise the impact of sanctions taken and avoid creating opportunities for circumvention of sanctions. For example, on 2 March 2022 the EU published a set of additional restrictive measures as

a response to Belarus' actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine (Council Regulation 2022/355). The prohibition of export of dual use goods and critical industry items to Belarus and the import measures on iron and steel in this instrument are in step with that set of EU measures, delivering against HM Government's priority to implement measures in coordination with partners. The export measures on luxury goods are in line with measures introduced by the US.

Option 1: Implement new sanction measures [Preferred option]

14) Our package will complement HM Government efforts to broaden the coalition of partners implementing sanctions, aligning as far as we can with the US and EU, and influencing wider G7 partners.

15) The new measures can be grouped into three categories: financial, trade, and transport (shipping and aircraft). The full scope of these measures has been developed through cross-government workshops, in order to meet the policy objective of mirroring sanctions placed on Russia and aligning with allies and partners. This process explored how the current Belarus sanctions regime differed from the Russia sanctions and whether it was appropriate to mirror the Russia sanctions and apply them to Belarus. Not all sanctions in the Russia regime could be appropriately applied to Belarus. An alternative option of targeting different sectors was discounted as it would not have met the policy objectives of mirroring Russian sanctions and aligning with allies. Mirroring sanctions on Russia for Belarus is important, to avoid the risk that Russia may use its economic ties with Belarus to circumvent the sanctions imposed on them. Aligning with allies is also important as broadening the coalition of partners implementing sanctions in concert increases the effectiveness of the sanctions regime. The sanctions measures will include the following:

Financial measures

a. Extend existing prohibitions relating to securities, loans and credit arrangements. Previous sanctions prohibited this for the Government of Belarus and state-owned banks only; this measure will extend it to all Belarusian entities;

b. Prohibit the provision of financial services to the National Bank of Belarus, or the Ministry of Finance of Belarus in relation to the foreign reserves, gold and asset management to any legal person, entity or body acting on behalf of, or at the direction of, those entities;

Trade measures

c. Further prohibit the export supply and delivery, making available and transfer of Dual-Use items for any purpose to Belarus. Currently trade in these items is only prohibited where the items are for military end use;

d. Prohibit the export, supply and delivery, making available and transfer of critical industry items (as well as related technical assistance, financial services, funds and brokering services). This measure will constrain and disrupt Belarus' strategic industries, and limit access to goods required by Belarus' military to maintain and develop its capabilities;

e. Prohibit the export, supply and delivery, making available and transfer of oil refining goods and technology (as well as related technical assistance, financial services, funds and brokering services). This measure would frustrate Belarus' ability to develop its oil industry, thus inhibiting the ability of the Belarusian state to generate revenue that would likely enable the continuation of financing of support for Russian military action. Entities owned or controlled by the Belarusian regime have supplied of petrol, oil and lubricants – to Russian military forces based in Belarus;

f. Prohibit the export, supply and delivery, making available and transfer of quantum computing and advanced materials-related goods and technology (as well as related technical assistance, financial services, funds and brokering services). This will limit Belarus' access to quantum and advanced materials, further limiting Belarus' military capability advancement;

g. Prohibit the export, supply, delivery, making available and transfer of certain luxury goods. Acting in concert with the US this would restrict the access that Belarus elites have to certain 'western' consumer items;

h. Prohibit the import, acquisition, supply and delivery of certain iron and steel products, as well as a wider range of petroleum products, arms and arms-related materiel (as well as related technical assistance, financial services, funds and brokering services)This would mirror the introduction of similar measures by the EU. Implementing this measure to broadly the same effect that the EU removes the risk resulting from the current disparity in approach where displaced Belarusian steel products could enter the UK market and damage UK producers;

i. Prohibit the import of a wider range of potash products (as well as related technical assistance, financial services, funds and brokering services);

Transport measures

Aircraft

j. Prohibit the future registration of aircraft [LB(5] owned, chartered or operated by a designated person, and enable the Secretary of State to direct the termination of the existing registration of any such aircraft;

k. Ban aircraft owned, chartered or operated by a designated person, or a person connected with Belarus, or registered in Belarus from overflying or landing in the UK;

l. Provide the power to detain aircraft operated by a designated person, a person connected with Belarus or aircraft registered in Belarus;

Ships

m. Prohibiting certain Belarus-connected ships, and other ships specified by the Secretary of State, from entering ports in the United Kingdom. We consider the imposition of the shipping measures proportionate on the basis that despite being a landlocked country, Belarus has the ability to flag and register vessels;

n. Conferring powers on the Secretary of State and harbour authorities to detain such ships at ports or anchorages;

o. Conferring powers on the Secretary of State and harbour authorities to detain such ships at ports or anchorages;

p. Prohibiting the registration of ships on the UK Ship Register where they are owned, controlled, chartered or operated by a designated person or persons connected with Belarus, or where they are a specified ship;

q. Prohibit the provision of technical assistance relating to ships to, or for the benefit of a designated person in Belarus.

16) Sanctions measures are most effective when coordinated with the UK's partners. As such, the UK will align with the US, EU and other G7 partners in introducing many of these measures. This package is targeted to ensure that they have maximum impact on Belarus' strategic economic interests and its armed forces while minimising direct harmful impact on the Belarusian civilian population. Avoiding impact on ordinary Belarusians entirely, however, is impossible. Some 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. The UK will seek to minimise any unintended consequences of sanctions on the delivery of humanitarian support to affected populations for example through the use of humanitarian and food security licencing provisions.

17) This option will protect and advance UK interests by deterring and constraining the capability of Belarus to continue to support and enable Russian aggression against Ukraine and undermine Belarus' capabilities to take aggressive action against the UK and its partners. It will reinforce the UK's support for democracy, the international rule of law, and peace and security in Europe.

18) Sanctions thus far have had a clear impact on the Belarusian regime and economy. Further sanctions would strengthen this impact and would serve to continue to place significant pressure on the regime. However, there does remain the risk that further sanctioning reduces Belarus' sovereignty by forcing them to rely further on Russia economically.

19) Having considered the costs and benefits of all options, HM Government believes that Option 1 is appropriate and that it will best support UK domestic objectives with regard to Russia's military aggression in Ukraine. Option 1 will deliver against the 'deepening' pillar of HM Government's Sanctions strategy in response to the Russian invasion of Ukraine. It will implement a new and intensified set of measures to influence the Russian and Belarusian regimes and signal the HM Government's continuing condemnation of Russian military aggression against Ukraine and those who support it. It will also ensure that UK sanctions policy remains in alignment with that of its major allies. Available evidence suggests that sanctions are most effective when done in concert with others.

20) HM Government believes further sanctions measures are appropriate now, as the conflict in Ukraine becomes more protracted. President Lukashenko has continued to make public statements and comments that demonstrate his regime's steadfast support of Russia's actions. For example, during his meeting with Putin, he claimed that the massacre in Bucha was in fact a British 'psychological operation.' This illustrates firmly that further international pressure is needed to encourage a behaviour change.

Implementation Plan

Secondary legislation

21) The Government intends to make secondary legislation under the Sanctions and Anti-Money Laundering Act 2018. Orders in Council will be made by the Privy Council to

extend these amendments to the Overseas Territories. Gibraltar and Bermuda make their own legislative arrangements, as do the Isle of Man, the Bailiwick of Jersey and the Bailiwick of Guernsey. The arrangements will come into effect in due course.

Licensing and exceptions

22) HM Treasury, through its Office of Financial Sanctions Implementation (OFSI), deals with licensing in relation to financial sanctions. Individual licences can only be issued by OFSI where there are legal grounds to do so. The amendments to the Belarus regime introduce further Treasury licensing grounds for diplomatic missions, medical goods or services and food. The licensing powers would include a power to enable General Licences to be introduced to authorise specific activities.

23) The new trade 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. The Export Control Joint Unit (ECJU) administers the UK's system of export controls and licensing in relation to trade sanctions. The Department for International Trade's Import Licensing Branch implements licensing relating to import sanctions. The licensing powers would include a power to enable General Licences to be introduced to authorise specific activities.

24) The new shipping and aircraft regulations will provide for certain exceptions to the new prohibitions they introduce for safety purposes, such as where failing to land would endanger the lives or persons on board or the safety of the aircraft. The new regulations will also provide for the Secretary of State to grant licences that permit overflight and/or landing of aircraft, which would otherwise be prohibited.

Enforcement

25) It will be a criminal offence to contravene the new trade, financial and transport sanctions. This is in line with what is currently provided in relation to the existing measures.

26) 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). The Office of Financial Sanctions Implementation (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.

27) 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). The Export Control Joint Unit (ECJU) 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.

28) Offences of breaching the new transport sanctions measures will be triable either way and carry a maximum sentence on indictment of 7 years' imprisonment or a fine (or both).

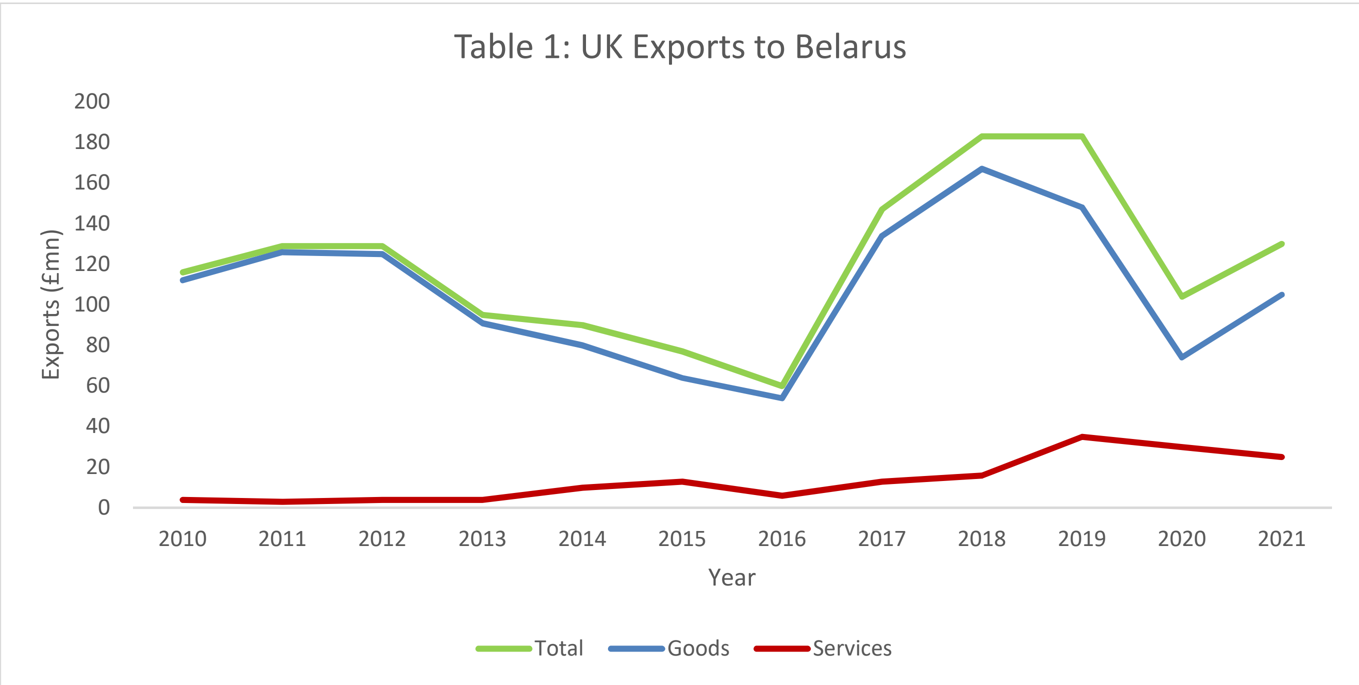
Rationale and evidence to justify the level of analysis used in the IA (proportionality approach)

29) The evidence compiled in this Impact Assessment has been compiled by FCDO, drawing on evidence and analysis provided by relevant government departments including HMT, DIT, DfT, and BEIS.

30) Given the speed and constantly changing nature of international developments related to Ukraine, this policy needed to be developed rapidly. In addition, the requirement to keep discussion of potential policy responses secure has limited the extent to which HM Government has been able to consult with external stakeholders

Economic Impacts

31) UK trade with Belarus has been relatively volatile over the last 10 years. UK exports to Belarus fell by 26% from 2012 to 2013, from £129m to £95m, and fell 53% from 2012 to 2014, from £129m to £60m. Prior to the onset of the Covid19 pandemic, UK exports to Belarus increased to £183m in 2019 before dropping in 2020.[1] Total UK exports to Belarus amounted to £130m in 2021 (an increase of 25.0% or £26m compared to 2020), following a rise in goods exports. However, trade sanctions implemented in the Republic of Belarus (Sanctions)(EU Exit)(Amendment)(No.2) Regulations 2021 were only passed in October 2021 and, as such, their impact will not yet be reflected in the trade data. In 2021, exports to Belarus accounted for less than 0.1% of total UK exports.



Source: Office of National Statistics, UK Total trade data (seasonally adjusted), extracted February 2022

32) UK imports from Belarus in 2021 were £126m (less than 0.1%% of total UK imports), of which £71m (56.3%) were goods and £55m (43.7%) were services. UK imports of goods from Belarus decreased by 21.1% or £19m compared to 2020 while UK imports of services from Belarus increased by 77.4% or £24m compared to 2020.[2]

[1] Office of National Statistics (ONS): UK total trade data (seasonally adjusted). https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktotaltradeallcountriesseasonallyadjusted

[2] https://www.gov.uk/government/collections/trade-and-investment-factsheets

33) Some UK exports to Belarus are already subject to licencing restrictions.[3] The Export Control Joint Unit and the Department for International Trade publish export licencing decisions made by HM Government as Official Statistics. The annual reporting suggests that a total annual average of 12 licences, including all licenced products, were considered each year between 2017 and 2020 for export to Belarus (of which an average of approximately 9 were SIELs[4])[5]. This includes licences that were both issued and refused.

Strategic export controls in relation to Belarus: licensing data		**2017**	**2018**	**2019**	**2020**	**Average 2017-2020**
Value of SIEL export licences approved (£million)						
Non-military		0.5	1.5	0.6	0.2	0.7
Military		0.1	0.0	0.0	0.0	0.0
All SIEL applications approved		0.6	1.5	0.6	0.2	0.7
Volumes of applications						
SIELs	Issued	14	4	6	8	8
	Refused	3	0	1	0	1
	Revoked	0	0	0	0	0
	Total	**17**	**4**	**7**	**8**	**9**
OIELS[6] (excl Other OIELs)	Issued	1	0	0	3	1
	Rejected	0	3	1	0	1
	Revoked	0	1	0	0	0
	Total	**1**	**4**	**1**	**3**	**2**
SITCLs[7]	Issued	0	0	0	0	0
	Refused	0	3	0	1	1
	Revoked	0	0	0	0	0
	Total	**0**	**3**	**0**	**1**	**1**
OITCLs[8]	Issued	0	0	0	0	0
	Refused	0	0	0	0	0
	Revoked	0	0	0	0	0
	Total	**0**	**0**	**0**	**0**	0
Total all licence types		**18**	**11**	**8**	**12**	**12**
Data taken from the Strategic export controls: licensing data annual reports https://www.gov.uk/government/collections/strategic-export-controls-licensing-data-annual-reports						

Monetised and non-monetised costs and benefits of each option (including administrative burden)

34) Option 0 is a 'do nothing' option, so the marginal costs and benefits would be zero. For the preferred option (option 1), the costs of each component of the package are analysed below.

3 https://www.gov.uk/government/publications/notice-to-exporters-202206-ogels-amended-to-exclude-belarus/nte-202206-ogels-amended-to-exclude-belarus

4 Standard individual export licence

5 Data taken from the Strategic export controls: licensing data annual reports https://www.gov.uk/government/collections/strategic-exportcontrols-licensing-data-annual-reports

6 Open individual export licenses

7 Standard individual trade control licences

8 Open individual trade control licences

35) In the remainder of this section, we consider the costs of financial, trade and transport measures separately. We then aggregate these together to produce an estimate of the total cost of the combined package of measures.

36) In the subsequent analysis, we make projections over the future economic relationship between the UK and Belarus in the counterfactual under which the UK does not apply these sanctions measures. In this way, we identify the costs to UK businesses in foregone revenue and profit of the measures. However, these projections do not take into account sanctions measures that partner countries such as the EU and US may choose to apply. This may bias our cost estimates as sanctions imposed by partner countries may alter the financial, trade and transport flows between the UK and Belarus. Nonetheless, there is no proportionate analytical method to adequately account for this bias. Moreover, given the overall impacts to UK businesses are comparatively small, we think the scale of the bias is likely also likely to be relatively minor.

Monetised costs of financial measures

Familiarisation & training costs

37) The new measures will be implemented through established channels, with which businesses are already familiar. Designated individuals and entities will be listed on the UK Sanctions List. UK businesses are already required to check against this list, so the processes for complying with these new measures should not change. Indeed, in the case of Belarus, existing financial sanctions are in place with which UK businesses are already required to comply. All UK sanctions, including these regulations, are accompanied by guidance, aimed at reducing the familiarisation costs to UK businesses.

38) Compliance screening software is available for prices ranging from ≈£1,000/year to upward of £20,000/year and beyond, depending on the required volume of annual checks.[9] The number of checks required by a business varies with the number of customers that business has. Most software is used to screen for anti-money laundering, adverse press and anti-bribery (among others), as well as for sanctions compliance. Furthermore, most software will screen for compliance to UN, US and EU sanctions (among others), at the same time as for UK sanctions. Subscriptions are paid for on a per-user basis. Give this cost structure, once a certain grade screening software is purchased, the software cost does not vary with the number of persons listed under a UK sanctions regime. Therefore, while there may be significant fixed software costs associated with sanctions compliance, businesses are likely to have already incurred these in order to comply with existing global sanctions regimes. Therefore, <u>the marginal compliance costs from the Regulations are expected to be negligible.</u>

39) Compliance costs may increase if there is significant divergence from US and EU sanctions, though some businesses have indicated they set compliance thresholds to match the most stringent sanctions (for simplicity and to reduce risk). Given a significant proportion of the package of measures is being developed in conjunction with the US and EU, this means the risk of additional compliance costs arising from these <u>measures in this IA is small.</u> Where the measures that are imposed are more stringent than the US or the EU, for example prohibiting loans to all Belarusian companies rather than only state-owned ones, they match measures already in place on Russia. As such the additional compliance cost arising from these measures is likely to be small as industry

[9] Based on prices from a representative supplier available online (AEB).

will already be required to comply with similar measures in place on Russia. Moreover, given the high degree of state ownership in the Belarusian economy the number of additional private sector Belarusian companies affected by this measure is likely to be small, further limiting the compliance burden on UK companies.

40) Firms already require their staff to undergo training – regardless of the existence of this new regime – in order to ensure compliance with existing regimes, or new regimes by other nations. Therefore, there is unlikely to be significant additional training required (on top of existing training), due to these regulations, so the cost is expected to be negligible.

Costs of non-compliance

41) The Office of Financial Sanctions Implementation (OFSI) can impose penalties for serious financial sanctions breaches of up to £1m or 50% of the breach, whichever is higher. OFSI sets the fine in line with what it views as reasonable and proportionate, based on OFSI's view of the seriousness of the case. In recent years, the value of fines issued by OFSI has varied considerably in accordance with the volume and severity of non-compliance – £160,000 in 2019, over £20m in 2020 and £86,000 in 2021. However, penalties by their very nature would only be incurred when businesses breach the Regulations – this will be influenced by numerous factors including, but not limited to, the number of breadth of measures, the strength of a UK entity's economic ties with Russia and the effectiveness of their internal compliance system. Therefore, this cannot be quantified in this Impact Assessment.

Securities and Money-Market Instruments

42) This measure extends the existing prohibition on securities, loans and credit arrangements to all Belarusian entities. The measure will prevent entities from raising finance on UK capital markets or receiving loans or credit arrangements from UK persons. This will further prevent UK businesses from purchasing securities or providing loans to Belarusian businesses this will further undermine sources of revenue for the Government of Belarus and the sanctions measures aim to coerce the authorities into changing their behaviour.

Cost to UK financial markets

43) There have not been any bond issues by Belarusian state-owned enterprises (SOEs) in the UK in the past decade. There is no comprehensive oversight of data showing the number of bond issues by Belarusian entities that are not state-owned. However, the Belarusian economy is dominated by SOEs (with SOEs accounting for 55% of Belarus' output and two thirds of overall employment according to a World Bank report on Belarus' industrial strategy)[10] , particularly in its largest and most important sectors. As it is companies in these sectors that are most likely to access international finance, we assess that it is very unlikely that non-SOEs have listed bonds on UK markets in the last decade.

44) None of the firms described by the Government of Belarus as Belarus' "most successful companies" have raised equity or listed on UK markets in the last decade.[11] However, even if a Belarusian listing has been left unidentified, the impact of these measures is likely to remain negligible. For equity issuance, there will be foregone revenues in

[10] Favaro, Edgardo; Smits, Karlis; Bakanova, Marina. 2012. Structural Challenges for SOEs in Belarus : A Case Study of the Machine Building Sector. Policy Research Working Paper;No. 6010. World Bank, Washington, DC.. https://openknowledge.worldbank.org/handle/10986/19871

[11] From the Official Website of the Republic of Belarus. https://www.belarus.by/en/business/brands-of-belarus

ancillary services that support such listings. Internal BoE analysis indicates that for a typical initial public offering (equity issuance), companies that facilitate the listing would expect to receive around 2.5-4.5% of the proceeds in fees. This includes 0.5-1.5% of accounting and auditing fees, and 1-2% of legal expenses. Therefore, the value to UK firms of any lost equity issuances due to this sanction would be just 2.5% - 4.5% of the value of the listing. And given that any listing we may have not identified would be that of a small non-SOE, the direct cost to UK businesses would be negligible.

45) For debt issuances, there will be foregone revenues from listing fees, although these are small given the maximum listing fee is £5,500[12]. We have limited information on the number of debt issuances by Belarusian companies in the UK in recent years. Moreover, given the existing prohibition on debt issuances by state-owned companies, most companies who would be likely to access the UK market are already prevented from doing so. Again, then we assess the cost to UK companies to be minimal.

46) Therefore, in the counterfactual scenario in which Belarusian entities would have continued to list in London, <u>the cost to UK businesses would be minimal per year in foregone revenues</u>.

Cost to UK investors

47) The Bank of England estimates that total UK financial sector activity in Belarus in Q4 of 2021 was less than $1 million, down from $33 million the quarter before.[13] Whilst this does not capture all UK investments in Belarusian entities, it provides some indication of the scale of the market and its associated revenues.

48) However, there is no reason why this measure should have a notable negative impact on UK investors. There is no expectation that UK persons who would have otherwise been investing in Belarusian entities would no longer invest their money; they would instead invest in similar securities elsewhere. It is not possible to say whether these would perform better or worse than their existing portfolios. It is conceivable that certain firms which specialise in trading in Belarusian markets may be disproportionately affected, but we do not have any data that indicates which firms might be in this position and the extent of the risk. Moreover, given the existing sanctions imposed in 2021, it is likely that these firms have already borne any costs of this kind.

<u>Loans and credit arrangements</u>

49) It is not possible to quantify or assess the cost to UK businesses as a result of the loans and credit arrangements restrictions in the Regulations as there is no comprehensive oversight of this data.

<u>Financial services relating to foreign exchange reserve and asset management</u>

50) According to data from the Belarusian National Bank, Belarus holds $7.57bn in foreign exchange reserves, down from $8.5bn at the end of 2021[14]. Information on what proportion of this is held in the UK is not available.

51) In general, UK banks do not have significant or widespread exposures to the National Bank of Belarus. Therefore, the extent of any foregone income from not transacting with these entities would be small relative to their trading business. In addition, we expect these institutions would find alternative business elsewhere, which would offset at least some of the negative impact on their revenues.

[12] Figure provided by the Bank of England

[13] Internal BOE analysis.

[14] <u>Belarus Foreign Exchange Reserves</u>, Trading economics, April 2022.

52) **Holding frozen assets.** Where UK financial institutions hold National Bank of Belarus assets, they would be prevented from allowing them to access those reserves. This means such assets would need to remain on the relevant institution's balance sheet for the duration of the measure being in force. Although the financial cost of retaining such assets (liabilities from the perspective of the bank in question) would be minimal, there could be legal costs (see risks section below).

53) **Frozen funds**. As the National Bank of Belarus and Ministry of Finance will be unable to access their assets, they will also be unable to buy/sell assets. If UK firms are not able to, for example, gain ownership of their shares from these designated entities, they could be forced to raise other forms of capital, which comes with liquidity risk if they cannot raise the finance elsewhere.

54) **UK subsidiaries in Belarus.** For UK financial institutions with subsidiaries in Belarus, the direct impact of these specific measures should, in theory, be quite limited as the prohibitions do not apply to them. However, it is possible that the legal uncertainty associated with managing sanctions compliance while complying with Belarusian legal obligations would be significant. They would also be particularly exposed to the risk of retaliation (see risks section below). We are not, however, aware of any such subsidiaries currently operating in Belarus.

55) **Opportunity costs.** There will be foregone revenues from ancillary services that support UK persons providing financial services to the National Bank of Belarus, or Ministry of Finance. These include legal and brokering fees. Again, there is limited oversight of such financial activity so there is no available data on the volume or value of activity in this space, thus limiting any quantitative judgements.

56) **Licensing costs.** "Licensing" is when an application is made to undertake sanctioned activities, e.g. to conduct business with sanctioned individuals or entities. The inclusion of a licensing purpose for financial regulation and stability may cause a large number of licences to be sought. While there is no fee for applying for OFSI licences, companies may need to seek legal advice regarding licences. They therefore may incur administrative costs.

Wider impacts of financial measures

57) Due to the expansive nature of the package of sanctions being developed, there remain inherent risks given the potential for indirect and unintended consequences. However, the majority of these fall beyond the scope of the specific measures within scope of this Impact Assessment. For the measures covered by this IA, we identify the following as the main risks:

a. **Trade impacts:** The financial measures may have unintended consequences for UK-Belarus bilateral trade, as some trade relies on financing arrangements. There is a risk that the financial measures discourages exporting activity in firms who are not in scope of the policy. In addition, there is a cost associated with businesses that stop exporting to Belarus due to uncertainty around whether their goods or services are captured in the sanction package - the so-called "chilling effect". It is not possible to disaggregate this impact from the declining risk appetite of businesses caused by the invasion. The extent to which this chilling effect is persistent over time and trade rebounds is uncertain.

b. **Asset price volatility:** There is a risk that these financial measures will lead to additional variation in asset prices for those market participants which already hold Belarusian securities – though as the measure is forward-looking (i.e. trading of existing securities is still allowed on the secondary market), participants would be able to exit the market in an orderly fashion. However, if the London Stock Exchange chooses to take additional steps beyond those mandated by these measures (e.g. suspension of certain listings), this may have a more wide-reaching impact on asset prices, and associated knock-on effects, and/or prevent current holders of Belarusian securities from being able to exit the market.

Monetised costs of trade measures

58) The assessment of the potential impact of the intervention makes use of projections of Belarusian economic growth to better understand how the sanctions outlined in this legislation might impact on value of UK trade. In 2013, total Belarusian imports from the world amount to $46.4bn.[15] Prior to the invasion of Ukraine, the Department for International Trade published projections for global trade.[16] In this it estimated that the import demand in Belarus would continue to grow 0.8% per year in real terms (3% in nominal terms) through the course of the next decade, reaching over $59bn by 2030.

59) It has not been possible to consult UK businesses on potential impacts of these specific sanction measures due to the speed and sensitivity of responding to the conflict in Ukraine and Belarusian support to Russia's actions.

60) Data from the Office of National Statistics (ONS) and from HM Revenue and Customs (HMRC) have been used to undertake an assessment of the potential economic costs and benefits of the proposed sanctions outlined in the preferred policy option.[17] These data are not always directly comparable: ONS data are recorded on a balance of payments basis and reflect a change of ownership during the transaction; HMRC data are more granular and recorded on a physical movement basis. HMRC data are more directly applicable to the policy options under consideration. However, they are only available for goods trade and do not capture any associated services trade that may be sold alongside a goods transaction (for example maintenance contracts for equipment, or insurance policies).

61) The UK has already taken action against Belarus including restricting exports of, tobacco industry goods, military goods, interception and monitoring equipment and dual-use items for military use; and prohibiting the import from Belarus of potash and petroleum products, with measures coming into force in 2019 with further amendments made in 2021. These measures are in addition to those and will include the following:

a) Prohibiting the export, supply, delivery, making available and transfer of additional categories of goods to, or for use in, Belarus of:

   i. Critical Industry goods and technology;

   ii. Dual Use[18] goods and technology for all users;

   iii. Luxury goods;

   iv. Oil refining goods and technology;

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[15] UNCTAD: Goods and Services (BPM6): Exports and imports of goods and services, annual. Some UNCTAD data may be based on estimates. https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=89795

[16] https://www.gov.uk/government/publications/global-trade-outlook-september-2021-report

[17] HMRC Overseas Trade Statistics: https://www.uktradeinfo.com/trade-data/overseas/
Office of National Statistics (ONS): UK total trade data (seasonally adjusted).
https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktotaltradeallcountriesseasonallyadjusted

[18] Dual-use refers to products or items that can deployed for civil or military use.

v. Quantum computing and advanced materials goods and technology;

b) Prohibiting the provision of related technical assistance, financial services, funds and brokering services in relation to the export of:

i. Critical Industry goods and technology;

ii. Dual Use[19]goods and technology for all users;

iii. Oil refining goods and technology;

iv. Quantum computing and advanced materials goods and technology;

c) Prohibiting the import, acquisition, supply, and delivery, directly or indirectly, of:

i. Arms and arms-related material;

ii. Certain iron and steel products into the UK if they have originated in Belarus or have been consigned from Belarus;

iii. Wider definition of petroleum (mineral) products;

d) Prohibiting the provision of related technical assistance, financial services, funds and brokering services in relation to the import of:

i. Certain iron and steel products;

ii. Wider definition of petroleum (mineral) products.

62) The assessment therefore focuses on the costs and benefits of these additional measures and provides an indicative assessment of the marginal changes:

a. **Economic impacts:** the reduction in the value of UK trade as a result of the prohibition of affected trade with Belarus and the resulting impact to the profitability of UK firms;

b. **Regulatory impacts:** the cost to UK business to comply with the proposed measures, and;

c. **Administrative and enforcement impacts:** the cost to HMG of processing licence applications and enforcing these under the updated regulatory framework.

63) The standard period for assessing the economic impact of regulatory measures is 10 years. However, given the unpredictability of the situation which has led to this package of measures being proposed, it is impossible and would be unwise to put a time limit on how long these measures might or should remain in effect. This package of measures is part of broader actions deployed in response to Belarus' support for Russian aggression in Ukraine. Therefore, the appraisal period has been aligned with previous assessments (nine years from 2022 to 2030 inclusive) to enable a comparable and potentially collective view of HM Government's actions to be undertaken in due course.

64) While the operationalisation of the legislation will not necessarily be on the basis of commodity codes, commodity codes have been used to proxy the value of trade that may be disrupted. The true value may differ from these estimates. For the purposes of the analysis, the relevant commodity codes, to the 8-digit Combined Nomenclature (CN8) level, for each product have been identified. However, due to the specificity of the items under consideration, even these granular commodity codes capture some items that may fall outside the scope of policy. Codes that were in scope for previous Statutory Instruments have been removed from the analysis of this Statutory Instrument to avoid duplication. This analysis has been undertaken based on trade figures that

[19] Dual-use refers to products or items that can deployed for civil or military use.

follow HS 2017 goods classification nomenclature. Trade values may differ under an HS 2022 goods classification nomenclature.

65) In addition, due to the breadth of the codes it is possible that the goods captured by this assessment may be granted exemptions (i.e., it may be possible to apply for a licence to continue to trade). Finally, given the unpredictability of the situation, no judgement has been made about the proportion of licences that may be granted and their associated export value. As such, the estimates should be considered an upper bound of the direct potential economic cost to the UK.

66) The statistical threshold for recording a customs declaration is defined in UK legislation as £873 (in value) or 1,000kg (in net mass). Transactions below these thresholds may not be recorded in the relevant data sources. As such, some transactions below these thresholds will not appear in the data 2021 trade data used for this analysis.

Assessment of costs and benefits of export measures

<u>Economic impacts for export measures</u>

67) In 2021, the total value of UK goods exports to Belarus under the commodity codes covered by the proposed measures in the legislation was £54.3m, representing 57% of all UK goods exports to Belarus in 2021[20] broken down as follows:

Table 1: Total value of UK goods exports to Belarus under the commodity codes covered by the proposed measures (2021)

Measure	Value of goods exports to Belarus (2021, £m)	Proportion of goods exports to Belarus relative to total goods exports to Belarus (2021, %)
Quantum computing and advanced materials goods and technology	£0.6	1%
Oil refining goods and technology, and catalysts	£0.9	1%
Dual use and critical industry goods	£2.4	2%
Luxury goods	£50.5	53%

68) For the purposes of this assessment, the direct economic cost of the preferred policy option in comparison to the baseline is considered to be the trade value directly captured by these sanctions until 2030. Using the April 2022 International Monetary Fund World Economic Outlook (IMF WEO)[21] projections for Belarus's global import demand for goods, we apply this to the commodity codes in scope for this assessment over the period to 2030.[22]

69) Direct economic cost estimates have been assessed under three potential scenarios underpinned by different assumptions around Belarus's demand for UK goods imports. It is not possible to accurately estimate how long these sanctions will remain in effect. Absent other factors, the measures should remain in effect until the policy objective has been achieved.

[20] HMRC Overseas Trade Statistics: https://www.uktradeinfo.com/trade-data/overseas/

[21] The IMF estimates offer a better reflection of the present circumstances and lead to significantly lower levels of country import and export demand as a result of the Ukraine – Russia conflict. The GTO estimates were produced prior to the start of the Ukraine – Russia conflict and therefore do not reflect the impact of the economic measures, taken by several countries in response to the invasion.

[22] The IMF WEO projections only go as far as 2027. For 2028, 2029 and 2030, we have assumed an import growth of 2% in each year. This is based on the IMF WEO projections converging towards 2% around 2027. In the absence of further information, we have assumed that 2% will be reached.

a. **Low-impact estimate:** assumes low economic cost based on low projections for Belarus goods import demand from the UK. In the low estimate, we take the IMF's growth forecast for Belarus's global import demand of goods and revise downwards by 3.5 percentage points.[23] This adjusted growth rate is then applied to the value of UK exports to Belarus of the goods in scope in the proposed measures, thereby creating a lower estimate of the value of UK exports captured by the sanctions between 2022 and 2030.

b. **Central-impact estimate (best estimate):** a central estimate of economic cost is based on the IMF estimates of the growth rate of Belarus goods import demand. The IMF's forecast for the increase in Belarus's global import demand of goods is applied to the UK exports to Belarus of the goods in scope. This creates a central estimate of the value of UK exports captured by the sanctions between 2022 and 2030.

c. **High-impact estimate:** assumes high economic costs based on high projections for Belarus import demand of UK goods. In the high estimate, we take the IMF's growth forecast for Belarus's global import demand and revise upwards by 3.5 percentage points. This adjusted growth rate is then applied to the value of UK exports to Belarus of the goods in scope, thereby creating a higher estimate of the value of UK exports captured by the sanctions between 2022 and 2030.

70) The proposed measures are expected to have an impact on the profitability of UK companies that currently export to Belarus. To estimate the possible impact on profits we used the central scenario for growth in Belarusian import demand used for the calculation of the economic costs and apply it to the 2021 UK goods exports to Belarus. This approach assumes that UK exports would grow in tandem with the growth in Belarusian goods import demand. We then apply the ONS profitability gross annual rate of return for the manufacturing sector private non-financial corporations (estimated to be 10.8% in the four quarters up to Q3 2021) to the appraisal period chosen for this assessment 2022 to 2030 inclusive) to calculate an estimate of profitability loss.

71) This analysis is subject to a number of assumptions and caveats:

a. Currently many UK businesses are self-sanctioning their own exports (i.e. choosing not to export even where not legally prevented from doing so), but we do not have data yet to evidence the extent to which this has occurred in relevant product codes. Therefore, it is more likely that the growth of UK exports, if any, would be below the growth in Belarusian import demand.

b. The policy suggests this self-sanctioning would remain in place as long as they are in place for Russia, however, without further information, the analysis assumed that these would last for the full duration of the appraisal period.

c. Not all exports under commodity codes used to define luxury goods will be in scope for export prohibitions. This analysis covers transactions that are below threshold activity which are not subject to these measures. As only products above a certain

[23] 3.5 percentage points is calculated by looking at a number of international organisations' GDP forecasts for Russia. The IMF estimates that Russia's GDP will fall by roughly 8.5%, the Institute of International Finance suggest a decrease in GDP by 15.5%, and average organisations suggest an 11% decline in GDP. The high to low projections indicate a 7-percentage point spread, so this is divided by two and applied to the IMF's import demand growth rate. We assume it is sensible to extrapolate Russian forecasts to Belarus given the interdependencies between economies. Whilst this is assumption based, in September 2021 both Russia and Belarus noted an agreement on 28 integration road maps that cover common approaches to macro-economic policies and integrations of energy markets, https://www.reuters.com/world/russia-belarus-agree-closer-energy-economic-integration-2021-09-09/

value will be in scope for an export prohibition, these estimates are likely to be an overestimation.

d. The prohibition of catalysts is based on the description of the catalyst. CN8 code 3815 90 90 is used to proxy the potential impact of an export prohibition of catalysts and is incorporated into the Oil Refinery Goods and Technology NPSV.

e. Profitability only considers the profit impact to the final supplier in the supply chain. There may be further profit loss to firms, both in the UK and overseas, producing inputs to the final product that have not been captured in these estimates.

f. As mentioned above, this analysis has been undertaken based on trade figures that follow HS 2017 goods classification nomenclature. Trade values may differ under an HS 2022 goods classification nomenclature.

Table 2: Net Present Social Value and Equivalent Annual Net Direct Cost to Businesses of export measures (£m)

		Net Present Social Value (2022-2030, 2019 prices, £m)	Equivalent Annual Net Direct Cost to Business (2022-2030, 2019 prices, £m)
Economic cost of export measures			
Total	Low	-£311.9	£4.3
	Central	-£370.2	£5.1
	High	-£440.2	£6.0 [24]

72) All associated economic costs from this component are assumed to be direct costs to business and no indirect costs have been identified at this stage. There may be wider economic impacts on the UK and there are some specific secondary impacts that are excluded from this analysis, but which are believed to add a substantial additional non-monetised cost to this intervention:

a. **Ancillary services:** Some goods are sold with a 'package' of services, for example maintenance services, or insurance or other financial products. Data from the OECD shows that in 2018 15.9% of the value of UK exports to the world were driven by indirect domestic value add from the UK services industry. It has not been possible to identify the value and volume of services that might be affected by this intervention and therefore the assessment relates only to the value of goods traded.

b. **Supply chain effects:** Given the UK is aligning with partner countries to impose these measures; we recognise there may be both positive and negative ramifications for UK businesses via their integration into complex multinational supply chains. For example, where UK goods (and services) may feed into the production of these goods within a country that has also deployed sanctions to prevent export to Belarus.

[24] As per paragraph 68, the EANDCB is calculated by first dividing the Net Present Social Value over the relevant 9-year period by the annuity rate (source BIT calculator) with base year 2022 and 2019 prices. This figure is then multiplied by ONS profitability gross annual rate of return for the manufacturing sector private non-financial corporations (estimated to be 10.8% in the four quarters up to Q3 2021) to calculate the final value of the EANDCB. The profitability rate is used to ascertain the profitability loss for UK businesses rather than simply calculating lost revenues.

c. **Displacement and potential business closure:** It is possible that the inability to export to Belarus because of these sanctions (directly or indirectly) may lead to the closure of some UK businesses. Alternatively, businesses may seek to shift their exports to other markets or to domestic consumption to mitigate against the loss of export value and reduce the overall cost of the impact of the sanctions. It is not possible to make any credible assumptions on which of these may prove to deliver the greater impact other than that the former (closure) is likely to happen in the shorter term, while the latter (displacement) would likely happen over a longer time frame (but within the appraisal period) as global demand shifts and the time it may take for UK businesses to identify and establish in new export partners.

d. **"Chilling effect":** There may be some residual exports that are stopped due to uncertainty around whether their goods or services are captured by this intervention, posing an additional cost. It is not possible to disaggregate this impact from the wider declining risk appetite of businesses caused by the situation that has precipitated this intervention to use additional trade sanctions against Belarus. Such effects may come from wider uncertainty and risk aversion associated with trading with Belarus, plus additional impacts may materialise through global market movements (for example, energy or specific commodity markets) or via exchange rate movements, as markets adjust to internalise new assessments of relative risk between countries.

73) This is an assessment of the direct economic cost for the UK economy as a result of the export bans. Further, the UK, in acting with partner countries, is part of a much larger package of measures, which, cumulatively, are designed to impact the Belarusian economy. However, this assessment does not seek to quantify the impact of partners' actions on UK exporters.

Regulatory impacts for export measures

74) The new regulations will provide for certain exceptions to the new prohibitions. UK business will need to apply for additional licences when exporting, as a result expanding the number of cases for which export licenses are required.

75) The total regulatory cost of the preferred option is the product of the number of additional licences processed annually and the unit cost of an individual licence. However, we expect this total regulatory cost to be negligible due to two principal factors: self-embargoing businesses refusing to do business with Belarus will reduce the number of applications for licences and existing sanctions applied to Belarus will mean that businesses already in need of licences will be subject to the existing licencing regime. As such, it is expected that the current usage of licences will be similar in future.

76) The set of proposed measures in this Statutory Instrument are also subject to exceptions and licences. They are necessary to reduce unintended consequences, bring the presumed impact on the UK of the associated sanctions measures into tolerable bounds, support wider HM Government interests overseas and mitigate risks of divergence from partners.

77) However, the calculation of an estimate of the cost of potential licences for the set of export prohibitions proposed in this set of measures – or the associated exceptions and licences – was not considered robust. The rationale behind this conclusion is that: there is no benchmark on how many licences could be needed nor do we know what type of businesses will be applying for these licences. Moreover, it is unlikely that the cost of licencing for the proposed measured would be a significant addition to the estimated Net Present Social Value (NPSV) and Estimated Annual Net Direct Cost to Business (EANDCB) figures. This is due, in part, to the fact that those businesses who are self-

embargoing exports to Belarus would further reduce the number of licences that would be required for exporting.

78) With that said, it is also possible to argue that the costs here would have a negligible impact if we assumed that the current usage of licences would be similar in the future. This is because a negligible increase in applications for export licences (as would be the case if current usage of licences were to continue) would mean a negligible increase in processing and regulatory costs associated with any such applications.

79) However, there may be a higher (non-monetised) learning cost for companies that decide to apply for exports licences against the set of proposed measures. This would be because such companies may have limited experience in licensing process and a licencing regime, as the current set of proposed measures only includes products, which currently do not require export licences.

<u>Administrative and enforcement impacts for export measures</u>

80) In addition to the regulatory cost to business, there will be a direct cost to HM Government associated with assessing additional applications and enforcing additional licences.

81) The currently proposed set of measures will also incur costs to the public sector – either administrative costs of processing new applications for exports or for the associated enforcement. With that said, it is also possible to argue that the costs here would have a negligible impact if we assumed that the current usage of licences would be similar in the future. It has not been possible to make a reliable assessment of these potential costs for the reasons outlined above – that is, we do not have a benchmark on how many licences could be needed for the prohibitions in this set of measures. Therefore, we are not able to reach the overall cost of processing the additional applications that are expected to be submitted as a result of the new measures.

82) Additionally, the combined administrative and enforcement costs to HM Government are, similar to the regulatory costs, expected to be relatively small. Partly this is due to the expectation of receipt of a significantly reduced number of applications that require processing due to self-embargoing of companies that usually would trade with Belarus.

Assessment of costs and benefits of import measures

<u>Economic impacts for import measures</u>

83) The counterfactual for a wider definition of <u>petroleum products</u> is that the EU implements a similar import ban. Whilst arms and arms-related materiel and a wider definition of petroleum and potash products are being sanctioned, imports in the relevant commodity codes in 2021 was £0. With that in mind, we believe any impacts on the UK from an import ban to be negligible. However, it is still necessary to sanction these products to prevent any future trade in these goods.

84) The counterfactual for an <u>iron and steel</u> import ban assumes that all specified goods are subject to the 35% uplift in tariffs above MFN rates. An import ban on Russian iron and steel by both the EU and UK are assumed, in addition to the EU implementing an iron and steel import ban on Belarus. A counterfactual where the UK does not implement an import ban on Belarus could enhance the risks of trade diversion from the EU. Further to this, we make an assumption that there is a risk that Russian iron and steel could be re-routed through Belarus to bypass import bans imposed on Russia. If this were to occur, relatively lower Belarusian and Russian steel prices could potentially negate the impact of increased tariff prices. It is worth noting that the diversion of Russian iron and steel from the EU to the UK has been quantified in a

previous IA[25] so has not been included in this analysis. Given the uncertainty surrounding counterfactual import volumes, three scenarios have been modelled:

a. **Low-impact estimate:** In the low-impact estimates, we assume that the UK value of imports from Belarus in subject iron and steel commodity codes reduces by 50% in 2022 compared to 2021 due to UK businesses self-embargoing and facing higher tariffs. Also, in the low estimate, we take the IMF's growth forecast for Belarus's global export demand and revise downwards by 3.5 percentage points.[26] This adjusted growth rate is then applied to the value of UK imports from Belarus of iron and steel goods in scope in the proposed measures, thereby creating a lower estimate of the value of UK imports captured by the sanctions between 2022 and 2030.[27]

b. **Central-impact estimate (best estimate):** Assumes UK value of imports from Belarus in subject iron and steel commodity codes are the same as imports in these goods in 2021 for each year until the end of the appraisal period. In the central impact scenario, the IMF's growth rate of Belarus goods export demand has been used to estimate a best-estimate assumption of Belarus's future exports. The IMF's forecast for the increase in Belarus's global export demand of goods is applied to the UK import of iron and steel goods from Belarus in scope.

c. **High-impact estimate:** Assumes that 5% of the value of Belarusian exports to the EU in 2021 is diverted to the UK for each year until the end of the appraisal period. This reflects the potential increase in iron and steel imports from Belarus as a result of trade diversion from the EU to the UK as a result of lower input prices and currency fluctuations. In the high estimate, we take the IMF's growth forecast for Belarus's global export demand and revise upwards by 3.5 percentage points. This adjusted growth rate of Belarus goods export demand is then applied to the UK imports of iron and steel from Belarus.

Table 3: UK imports of specified iron and steel codes in scope for a UK import ban, 2021

	UK		EU	
	Value (£m)	**Volume (Tonne)**	**Value (£m)**	**Volume (Tonne)**
Imports from Belarus in 2021	£5.6	4,647	£721.2	1,150,328
Imports from world in 2021[28]	£13,329	9,583,914	£464,553.6	453,718,775

85) Banning imports from Belarus to the UK in subject commodity codes denies downstream users of iron and steel from accessing potentially cheaper iron and steel from Belarus.[29] These firms would likely need to source these commodities either from domestic steel producers or from countries potentially with higher production costs. However, banning relatively cheaper imports from Belarus could potentially protect

[25] The Russia (Sanctions) (EU Exit) (Amendment) (No. 8) Regulations 2022 Impact Assessment <https://www.legislation.gov.uk/ukia/2022/36/pdfs/ukia_20220036_en.pdf>

[26] In the absence of further information, we assume a low impact scenario by taking the IMF's WEO outlook for Belarus goods export demand and revise downwards by 3.5%. Similarly, for a high impact scenario, we take the IMF's WEO outlook for Belarus goods export demand and revise upwards by 3.5%. The IMF estimates that Russia's GDP will fall by roughly 8.5%, the Institute of International Finance suggest a decrease in GDP by 15%, and average organisations suggest an 11% decline in GDP. The high to low projections indicate a 7-percentage point spread, so this is divided by two and applied to the IMF's export demand growth rate.

[27] The IMF WEO projections only go as far as 2027. For 2028, 2029 and 2030, we have assumed an export growth of 2% in each year. This is based on the IMF WEO projections converging towards 2% around 2027. In the absence of further information, we have assumed that 2% will be reached.

[28] World does not include Belarus and Russia imports

[29] It is not clear whether Belarusian iron and steel would be cheaper with the additional 35% tariff rate.

profits of upstream domestic steel producers as a result of trade diversion thereby protecting their competitiveness. As such, the overall net impact to businesses as a result of an import ban is likely to zero-to-marginal and has therefore not been monetised in this impact assessment.

86) However, despite the estimated net impact of the import ban being zero-to-marginal, the ban may increase production costs to downstream firms who may have benefitted from relatively lower costs of steel. The additional cost to these businesses has therefore been monetised to estimate an EANDCB. The average UK import price of a tonne of steel in subject commodity codes from Belarus is assumed to be £1,203. The average UK import price of a tonne steel in subject commodity codes from the World (excluding Belarus and Russia) is assumed to be £1,390.[30] If downstream firms can no longer source steel from Belarus, it is assumed that they would need to source it from other steel producers, which would mean their import costs could potentially increase by £188 per tonne. This could lead to higher costs to consumers of finished iron and steel products.

87) Note that this analysis is subject to several sources of uncertainty, and subject to a number of assumptions:

a. This assumes downstream firms import steel from other countries at the average import price in 2021. Downstream firms could also purchase steel from domestic UK upstream producers. Some steel that would have been purchased by downstream firms may be on-shored so is produced in the UK.

b. This assumes there is perfect substitution between steel produced in Belarus vs steel that is produced in the rest of the world.

c. This assumes the import price of steel remains relatively flat until the end of the appraisal period. This may not be the case, given the diverging price of steel in 2022.

88) It is thought that the overall net impact to UK businesses of a ban on iron and steel in commodity codes subject to the legislation would be marginal-to-zero. Any negative impacts to downstream steel users would likely be offset by potential positive impacts to protection of competitiveness of upstream steel producers. It is assumed that the monetised benefit to these upstream steel producers would mirror the negative costs to downstream steel users. As such, the Net Present Social Value of an iron and steel import ban is estimated to be zero in this Impact Assessment. This assumption is uncertain and the benefit to upstream steel producers could differ from the estimated benefit.

89) Given the small volumes of iron and steel trade involved in these sanctions, we believe the impact of such an import ban would be negligible on UK businesses. As such, we have not conducted the sensitivity analysis undertaken for Russia iron and steel sanctions.

90) Banning iron and steel imports from Belarus will deprive the Belarusian state of this revenue stream. It also denies the Russian state this revenue stream if they were to export Russian iron and steel to Belarus for further exporting.

Table 4: Net Present Social Value and Equivalent Annual Net Direct Cost to Businesses of import measures (£m)

[30] HMRC Overseas Trade Statistics: https://www.uktradeinfo.com/trade-data/ots-custom-table/. Export price estimated to dividing the value of imports in 2021 by the volume (mass) of imports in 2021. Accessed 18/05/2022

		Net Present Social Value (2022-2030, 2019 prices, £m)	Equivalent Annual Net Direct Cost to Business (2022-2030, 2019 prices, £m)
Economic cost of import measures			
Total	Low	£0.0	£0.3
	Central	£0.0	£0.8
	High	£0.0	£12.2

Regulatory impacts for import measures

91) Regulatory costs to businesses of complying with a ban on imports of subject iron and steel is likely to be minimal:

a. There are no exceptions to the new prohibitions. Businesses who signed contracts prior to the ban coming into force but where steel is delivered after it comes into force, up until a certain date, will be exempt from the ban. This will be operationalised through licencing but there will be no other grounds on which businesses can apply for a licence.

b. Businesses may face further administrative costs in trying to find new suppliers in unsanctioned countries. On 6 April 2022, the Trade Remedies Authority launched a review of steel tariff quotas from Russia and Belarus on whether tariff-rate quotas for Russia and Belarus should be re-allocated. If quotas are reallocated, UK businesses may face additional administrative costs to find new suppliers to continue importing trade at reduced tariff rates. However, these costs are thought to be minimal and so have not been monetised.

92) As such, the regulatory costs of the iron and steel import ban assumed to be zero in this impact assessment.

Administrative and enforcement impacts for import measures

93) Aside from the exemption (operationalised through licencing) to provide for contracts completed before the date in which these sanctions come into effect for steel delivered up to a certain point in time (detailed in paragraph 92a), there are no licenses associated with this import ban to allow exceptions to import. As such, the administrative costs associated with this measure are assumed to be marginal-to-zero.

94) There are likely to be additional enforcement costs to identify, disrupt and dispose of banned imports at the UK border. It has not been possible to make a reliable assessment of the potential enforcement costs attached to the preferred option.

Monetised costs of transport measures

Assessment of costs of aircraft measures

95) Implementing new aircraft sanctions could present direct costs to UK businesses in two ways:

a. Lost revenue for UK airports and aviation authorities due to the loss of airport landing and overflying fees, reductions in ancillary services (ground handling, maintenance, fuel, crew, catering etc.) and CAA registration fees.

b. Transition and compliance costs.

Costs arising from the prohibition of aircraft registration by designated persons and the power to detain aircraft.

96) The current regulations prohibit scheduled services by Belarusian air carriers flying to and from the UK and state-owned Belaeronavigatsia (Belarusian air traffic control) is already designated. Given there is already no air traffic between Belarus and the UK, the direct impact of these further measures will be negligible.

97) In addition, the changes to the regulations prohibition the registration of aircraft owned, operated or chartered by designated persons, provide power to direct the termination of the registration of such aircraft, and introduce the power to detain aircraft. However, neither the UK Government, CAA nor NATS hold a full register of aircraft currently located in the UK. As such, it is difficult to determine the exact number of Belarusian aircraft currently located in the UK that would be subject to a detention order. However, given the existing aircraft measures already in place it unlikely that further measures will have a significant impact.

98) It has not been possible to fully investigate the number of non-Belarusian registered aircraft connected with individuals with significant ties to Belarus located in the UK, given often complex ownership structures. The aircraft measures cover aircraft owned by persons connected with Belarus and by persons designated under the regulations. It could be expected that anyone who is already on the UK's sanctions list (such as those designated for an asset freeze and/or a travel ban) would be additionally designated under these regulations if appropriate . However, we think it is highly unlikely that an individual on the sanctions list or likely to be on the sanctions list will still have an aircraft in the UK.

99) We assume the additional impact of these restrictions, beyond the current sanctions already in place, is going to be minimal. Scheduled services by Belarusian airlines are already banned, and the UK has already advised airlines against overflying Belarusian airspace after the hijack of a Ryanair aircraft over Belarusian airspace in May 2021, so the restrictions will only additionally apply to Belarusian chartered and private flights. These are likely to contribute a minimal amount to airport/NATS (and CAA) revenue. Beyond UK sanctions, the EU has also closed its airspace for Belarus-owned, Belarus-registered or Belarus-controlled aircraft meaning that flights to/from the UK by Belarusian aircraft are even less likely given the difficulty of getting to the UK without passing through EU airspace. In addition, as mentioned earlier, the designation of Belaeronavigatsia has meant that, in practical terms, these aircraft sanctions are de facto already in place. Adding these prohibitions will give us the power to ensure these measures are adhered to in the future but will not have an immediate impact on Belarus-UK air traffic. As such, these aircraft measures will pose negligible direct costs to UK airports and aviation authorities. However, we consider that it is necessary to impose these measures in order to maximise the impact of sanctions taken and avoid creating opportunities for circumvention of sanctions.

100) Considering the different type of costs UK firms may be subject to as a result of these Regulations:

a. Loss of revenue to airports (landing charges/passenger fees/storage etc.). Flights have to pay a number of charges to airports in order to (amongst other things) land, park and depart appropriately. These costs can vary significantly. There could also be a loss of revenue from ancillary services (ground handling, maintenance, fuel, crew, catering etc.). There are potentially specific risks to ancillary service companies who specialise in business flights, for example ground handling, private lounges and catering services such as Harrods Aviation and Fayair. However, as mentioned earlier, due to the current restrictions already in place on Belaeronavigatsia, Belavia and existing overflight restrictions, losses to airports through these channels are expected to be zero.

b. Loss of revenue to NATS, although the impact will be minimal. Charges vary by aircraft weight and distance flown, but a typical business jet travelling to London might be expected to pay approximately £80 for NATS services.

c. Loss of revenue to the CAA from future registrations. This impact is expected to be minimal, due to the number of new registrations and also the small cost – £146 for aircraft over 15 tonnes and £73 for other aircraft.

d. Cost to the CAA to deregister (likely to be minimal if directed to remove certain registrations, if expecting to trawl registrations looking for any link to Belarus then this will be significant due to complex ownership structures etc.) This could have a business impact as regulator costs get passed through.

e. If we assume compliance with the regulations then all Belarusian aircraft/those controlled by designated individuals, will depart the UK. Otherwise, there will be a cost of detaining aircraft (storage, workforce etc.). However, we can expect this to be legally fully repaid following either: a) payment by owner to release aircraft; or b) selling of the aircraft. We'd expect movement out of the UK prior to the implementation of sanctions and such it is unlikely that significant numbers of aircraft will be left to detain. Those that can't be moved (as they are not airworthy) would be detained. In addition, airports themselves can proceed to legally recover unpaid charges. Therefore, we expect no additional cost to UK airports from detaining aircraft in the long term.

f. Freight impacts are likely to be minimal. Air freight between the UK and Belarus is almost entirely carried by scheduled passenger or cargo-only flights that are already in scope of current sanctions measures. Air freight is responsible for around 1% of freight moved to and from the United Kingdom internationally so any impact in this space will be negligible.

Transition & compliance costs

101) All businesses in all sectors – including the aviation and insurance/reinsurance sector – are obliged to comply with sanctions, and therefore need to have adequate controls in place. There will be no change to the method through which businesses are notified of designated entities (in this case, aircraft subject to the prohibitions laid out in the Regulations).

102) There are significant *fixed* compliance costs to businesses, including detainment of aircraft[31]. However, this assessment is of the additional cost to businesses of compliance brought about by the Regulations, not all costs of sanctions compliance. On that front, the marginal cost is not expected to be significant.

[31] See paragraph 98(e) for full explanation of potential compliance costs relating to the aircraft measures

Assessment of costs of shipping measures

103) The shipping measures are expected to have a negligible impact on UK businesses. Belarus is landlocked and, according to UNCTAD stats, only has four ships registered on the national flag. According to the BIMCO-ICS Seafarer Workforce Report (2021), there are zero reported Belarusian seafarers, which suggests that, of the Belarusian-flagged ships, none are operated by Belarusian firms. There is no available data on Belarusian-flagged or owned ships docking in the UK. Belarus' main access to a port for the purpose of exporting goods such as fertilisers is through Lithuania (by railway) to the port of Klaipeda. However, due to EU sanctions, Lithuanian railways have refused to deliver Belarusian goods to Klaipeda. As such, Belarus' maritime activity has been severely limited. However, we consider it necessary to still impose these shipping measures in order to maximise the impact of sanctions taken and avoid creating opportunities for circumvention.

104) Due to Belarus' restricted access to ports and already limited maritime activity, the cost of these shipping sanctions is expected to be negligible.

Summary of monetised and non-monetised costs

105) In summary, the total costs to UK businesses were calculated by assessing the costs of financial, trade and transport measures separately. Given data limitations, the only set for which we are able to provide monetised estimates is the trade measures.

106) For the financial measures, data limitations concerning Belarusian firms' activity in UK financial markets means that the impact of these measures has been left unquantified.

107) For the trade measures, in our central scenario, these show an EANDCB for the export measures of £5.1 million and for the import measures of £0.8 million. Together these imply a total monetised cost to businesses of £5.9 million.

108) For the transport measures (which includes aircraft and shipping sanctions), due to existing sanctions on Belarus' aviation sector, Belarus' restricted access to ports and its limited maritime activity, the overall impact on UK businesses is expected to be minimal. As such, the EANDCB for the transport measures is unquantified.

109) In addition, there are a number of other non-monetised costs although we anticipate these will be comparatively small. A summary of the costs of this sanctions package is in the table below.

Table 4: Summary table: Net Present Social Value and Equivalent Annual Net Direct Cost to Businesses for each of the measures and for the totality of the sanctions package (£m)

		Net Present Social Value (2022-2030, 2019 prices, £m)	**Equivalent Annual Net Direct Cost to Business (2022-2030, 2019 prices, £m)**
Trade: Import Measures	Low	£0.0	£0.3
	Central	£0.0	£0.8
	High	£0.0	£12.2
Trade: Export Measures	Low	-£311.9	£4.3
	Central	-£370.2	£5.1
	High	-£440.2	£6.0
Transport measures		Unquantified	Unquantified

Financial measures		Unquantified	Unquantified
Total	Low	-£311.9	£4.6
	Central	-£370.2	**£5.9**
	High	-£440.3	£18.2

Benefits to UK

110) The benefit of these measures is the economic cost they impose on Belarus, through which they will exert pressure on the regime. However, the overall impact on Belarus derives from the overall set of sanctions imposed by the international community, of which the UK is only one part.

111) As discussed above, there is some potential for benefits to upstream UK steel producers, though these are likely to be marginal and counteracted by a possible increase in costs.

Wider impacts, risks & assumptions

112) The impact of these measures should be considered in the context of a bilateral trading relationship worth around £0.4bn per year[32]. The measures covered in this IA will reduce economic activity between the UK and Belarus. In the majority of cases, Belarus is a small market for the majority of UK sectors or markets are sufficiently large that alternative suppliers/buyers can be found elsewhere. In addition, the cumulative effect of further sanctions will raise the perceived risk of the Belarusian market to UK businesses, and market access issues that UK firms already experience in Belarus will highly likely be exacerbated.

113) There are also some general risks associated with the introduction of sanctions measures against Belarus:

a. **Retaliatory measures.** The UK could incur costs from Belarusian retaliation to sanctions. It is likely retaliatory risks exist across other types of sanctions, and the complex nature of trading relationships mean it is possible that the Belarusian government would choose to respond in an asymmetric manner. These costs are unquantifiable at this stage as they depend on the actions Belarus chooses to take.

b. **Litigation measures.** The UK could incur costs from litigation through the UK seeking to designate persons. These costs are unquantifiable as they depend on how sanctions are interpreted by third parties, foreign policy and unpredictable future events.

c. **Reputational impact**: The measures could affect the UK's reputation as a place to do business. There may be a reputational cost to the UK resulting from higher risk and perceived compliance burden of doing business in the UK – particularly if there is over-compliance. These effects will likely last longer than the sanctions themselves. However, the cost will be offset by enhancing the UK's reputation as a 'clean' place to do business. Businesses' reputational risk will be reduced by divesting from relationships with individuals and entities associated with serious corruption.

[32] DIT Trade and Investment Factsheet, Feb 2022.

d. **Third-party impacts**: There is a risk that UK sanctions and those of its allies could create disruptions for third parties. This could have unintended consequences. In particular, the impact of sanctions measures on trade and supply chains would not be limited to those exporting directly to Belarus and would vary across sectors of the UK economy.

e. **Global peace:** Promoting global peace, security and economic development – as the UK is doing via these measures – also brings longer-term economic benefits. Conflicts lead to less prosperous societies by diminishing investment, weakening institutions and undermining the rule of law. Discouraging such conduct will help facilitate conditions conducive for global peace, security and economic development. The UK will benefit from a more secure, prosperous world and a decrease in destabilising activities, which represent a net drain on GDP.

Impact on small and micro businesses

114) The Regulations apply to all UK persons wherever they are in the world. UK persons include British nationals, as well as bodies incorporated or constituted under the law of any part of the UK.

115) Although small firms are, in general, disproportionately impacted by regulatory burdens, they are already obliged to have processes in place to ensure compliance with existing sanctions regimes under the Sanctions Act. As stated above, there will be no change to the way UK business, charities and voluntary bodies are notified of those individuals and entities that are sanctioned and we believe no changes to IT systems or administrative processes will be required. However, it is possible small businesses could face proportionately slightly higher familiarisation, compliance and legal costs due to these Regulations due to their extensive nature. However, it would be inappropriate to exempt small businesses from the Regulations as this would allow Belarus to circumvent the measures, undermining the policy objectives and reducing the pressure such measures will exert on Belarus.

116) Public data on the business characteristics of exporters does not allow us to identify the demography of exporters to Belarus. However, given the overall small size of the trade relationship, it is unlikely to be significant. Even though it has not been possible to estimate the number of Small and Micro Businesses (SMBs) impacted in each of the targeted sectors, the expected impacts on SMBs in each sector is considered below:

a. **Iron and steel sector**: Banning imports from Belarus to the UK in subject commodity codes denies downstream users of iron and steel (most of which are small businesses) from accessing potentially cheaper iron and steel from Belarus. These firms would likely need to source these commodities either from domestic steel producers or from countries potentially with higher production costs.

b. **Airline sector**: 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**: SMBs 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. **Luxury goods sector**: Data relating to the size distribution of firms in the affected industries is unavailable; therefore, it is not possible to assess the impact on SMBs.

e. **Quantum computing and advanced materials sector**: Data relating to the size distribution of firms in the affected industries is unavailable therefore, it is not possible to assess the impact.

f. **Providers of arms and arms-related material**: DIT are not able to disclose publicly the names of companies that have imported such items in the past, due to commercial sensitivity. For this reason, an assessment impact is not included here.

g. **Manufacturers of dual-use items**: Manufacturers of dual-use items 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.

Monitoring and Evaluation

117) The Economic Crime (Transparency and Enforcement) Act 2022 has amended the Sanctions and Anti-Money Laundering Act 2018 and removed section 30 of the Sanctions Act requiring review of the measures on an annual basis.

118) While FCDO does not intend to undertake a formal post-implementation review, all Russia and Belarus sanctions will be kept under continuous review and will be adapted when the context changes. FCDO is developing a monitoring and evaluation framework to assess how sanctions meet UK objectives. Such an assessment will include the continued collection of open source and classified information to monitor the political and economic situation in Belarus and Russia as well as any unintended impacts, including on UK businesses that become evident. Assessments of the regulatory and administrative costs of the sanctions package will draw on the Office of Financial Sanctions Implementation (OFSI)'s reporting on the number of applications for licences. HM Government also has regular engagement with UK businesses. This will provide another channel through which information on the impact of the sanctions on UK businesses is fed back to HM government.

119) Published data from both the ONS and HMRC now covers the period since the invasion, and by autumn, published data will cover the period following the introduction of these measures. Bilateral trade between the UK and sanctioned nations since the invasion of Ukraine will then form a central pillar of the monitoring framework for these measures. Additional use of HMRC microdata could allow for impacts to be monitored at a business level and identify any disproportionate impacts across business characteristics. HM Government also has regular engagement with UK businesses. This will provide another channel through which information on the impact of the sanctions on UK businesses is fed back to HM government.

120) Several economic assumptions have been made in this impact assessment. Therefore, it is important that an economic evaluation of the estimated economic impact on the UK takes place when possible to do so. This type of evaluation could include more in-depth analysis to understand the impact on various parts of the UK economy and its businesses. It should be noted that it may not be possible to separate the impacts of sanctions from the overall impact of the war when undertaking these analyses.

121) The policy intention is to keep sanctions on Russia in place until Russia has ended its occupation of Ukraine, withdrawn its troops from Ukrainian soil, ended its support for the separatists, and enabled the restoration of peace and security along the Ukraine-Russia border, and HM Government is assured that Russia's current behaviour of threatening Ukraine's sovereignty and destabilising the rules-based international conventions has ceased. The FCDO will continue to coordinate with international partners, including on the future of the regime.