Title: The Republic of Belarus (Sanctions) (EU Exit) (Amendment) Regulations 2023 **IA No: FCDO2301** **RPC Reference No: RPC-FCDO-5277(1)** **Lead department or agency: Foreign, Commonwealth and Development Office (FCDO)** **Other departments or agencies: n/a**	Impact Assessment (IA) **Date:** 6 June 2023 **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**
-£71.5m	-£71.5m	£9.1m	**£45.4m**

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

The Republic of Belarus (Sanctions) (EU Exit) (Amendment) Regulations 2023 ("the Amendment Regulations") amend the Republic of Belarus (Sanctions) (EU Exit) Regulations 2022 ("the 2022 Regulations"), to introduce additional measures on Belarus to align us with key EU measures, prevent circumvention by Russia, limit Belarus' access to weapons and stop propaganda reaching the UK. The Belarusian regime is openly facilitating Russia's illegal invasion of Ukraine. Our overall objective is to support HMG's strategic approach to Russia/Ukraine by encouraging the Belarusian regime to cease supporting or enabling Russian actions that are destabilising Ukraine. Whilst some businesses might choose to reduce economic ties with Belarus, without sanctions this would happen in an uncoordinated and incomplete manner.

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; disrupt 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:

a. **Deter** the Belarusian regime from continuing to undertake or undertaking further actions which serve to destabilise Ukraine or undermine or threaten the territorial integrity, sovereignty or independence of Ukraine, and to refrain from any other action which undermines or threatens peace, security or stability in Europe. We also seek to influence decision makers and elites and deter Belarus from participating more directly in the conflict.
b. **Disrupt** Belarus' ability to provide economic, military and in-kind support to Russia's costly invasion and occupation of Ukraine. This will be achieved by targeting its strategic and economic interests.
c. **Demonstrate** 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 disrupt Belarus by causing significant short-term disruption to its financial system and economy and in the long term further disrupt Belarus' economic development. These measures will also disrupt Belarus' ability to provide economic, military, and in-kind support to Russia's costly invasion and occupation of Ukraine.

3. Expanding these measures will demonstrate 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:

- Option 0: Do nothing. The baseline against which the alternative policy options are compared is a scenario in which all existing measures are kept in place, but no new ones are imposed.
- **Option 1 [Preferred option]:** Implement new sanctions measures. The new measures can be grouped into the following categories: trade measures, designation criteria and financial measures:

Exports from the UK to Belarus:

Exports of the following products from the UK to Belarus will be prohibited: Machinery; bank notes: (their export, supply and delivery and making available); precursor chemicals for chemical and biological weapons and technology.

Imports from Belarus to the UK:
Imports of the following products from Belarus will be prohibited: cement (as defined in Annex XI of EU Regulations); rubber (as defined in Annex XIII of EU regulations); wood (as defined in Annex X of EU Regulations) and gold: import, supply and delivery and making available/acquisition.

Broadcasting/Internet Services
Belarus does not enjoy a free media. These new measures relate to internet services and online media and preventing the spread of disinformation from the Belarusian government gaining an audience in the UK.

Designation Criteria
Changes that will allow the FCDO to more effectively target those persons that are involved in supporting Russia's invasion of Ukraine.

Dealing with transferable securities or money market instruments
This will ensure there is not a gap in the Belarus Regs that Russia can exploit to undertake activity that we have prohibited in the Russia Regulations. The measure aims to limit the funds that Belarus can raise by restricting its access to the UK securities market, thus constraining Belarus' ability to support the invasion of Ukraine.

Will the policy be reviewed? It will be kept under continuous review (see paras 130).

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 David Rutley MP Date: 6 June 2023

Summary: Analysis & Evidence Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2020	Time Period Years 9	Net Benefit (Present Value (PV)) (£m)		
			Low: 60.9	**High: 76.8**	**Best Estimate: 71.5**

COSTS (£m)	**Total Transition** (Incl. Profitability) Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Incl. Profitability, Present Value)
Low	£13,100		£7.7m	**£60.9m**
High	£14,400	1	£9.8m	**£76.8m**
Best Estimate	£14,100		£9.1m	**£71.5m**

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 2031. 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 cement, rubber and wood. 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 cement, rubber and wood users caused by the import ban on Belarusian products would likely be offset by potential positive impacts to protection of competitiveness of upstream 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: 9.1	**Benefits: 0.0**	**Net:** 9.1	45.4

Contents

1. Rationale

1.1 Policy background

2. 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 regime under Alexander Lukashenko has openly facilitated the illegal invasion of Ukraine by the armed forces of the Russian Federation. In December 2021 and January 2022 some 30,000 Russian troops entered Belarus with the full acquiescence of the Lukashenka regime under the guise of a military exercise. In February these forces launched an (ultimately unsuccessful) ground offensive towards Kyiv. Russian units invading Ukraine from Belarus included some who it is alleged were involved in the commission of war crimes against Ukrainian civilians including women and children.

3. Belarus has not committed its own forces alongside those of the Russian Federation to combat against Ukraine. However, in addition to allowing Russia the use of its territory as the launch pad for part of the initial offensive against Ukraine the Lukashenko regime permits the use of its territory and airspace by Russian forces to conduct missile and drone strikes against Ukraine it is also providing significant logistical and other support. The regime has transferred materiel and munitions from its reserve stocks to Russia, treated wounded Russian soldiers and has made available its military infrastructure and instructors to provide combat training to Russian military personnel prior to their deployment to Ukraine. The – predominantly state owned or controlled – Belarusian Military Industrial Complex (MIC) is closely integrated with that of Russia and is supplying, refurbishing and repairing a range of equipment being used by Russian forces in Ukraine. In March 2023 Putin announced that he had agreed with Lukashenko on the forward basing of nuclear munitions (under Russian control) in Belarus and that facilities for the storage of such munitions would be operational by July 2023.

4. The economies of Belarus and Russia are increasingly integrated within the framework of the Russia-Belarus "Union State". The integration of the respective military forces is at an advanced stage with the aim of the creation of a common defense space. Since the flawed Presidential elections of August 2020, the Lukashenko regime has brutally suppressed human rights and fundamental freedoms in Belarus. Independent media and civil society have been virtually eradicated. There are more than 1,400 persons serving prison sentences on politically motivated charges. The list of offences for which the death penalty can be imposed (Belarus is the only country in Europe that continues to carry out the death penalty) has been expanded. The Belarusian regime has orchestrated acts of transnational repression such as the forced diversion of Ryanair flight FR4978 in May 2021 for the purpose of arresting a Belarusian dissident journalist travelling on board, and in mid-late 2021 deliberately engineering a migration crisis on the borders of neighboring states Poland and Lithuania. Regime controlled media and propagandists in Belarus echo the views of the Russian state in attempting to justify its aggression against Ukraine. The security organs of the Belarusian regime (at times working in concert with those of Russia) have arrested and declared as either "extremists" or "terrorists" Belarusians who are opposed to Russia's invasion of Ukraine and the Lukashenko regimes facilitation of it.

5. Belarus also provides diplomatic support to Russia for example voting against the UNGA resolution condemning the Russian invasion (alongside Russia, Syria, North Korea and Eritrea).

6. 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.

7. 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.

8. 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.

9. UK sanctions action, in concert with the US, EU and other G7 partners, also sends a strong demonstration to the Belarusian government that failure to respect the territorial integrity 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.

1.1.1 Problem under consideration and rationale for intervention

10. 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.

11. 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.

1.2 Policy Objectives

12. 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.

13. HM Government's objectives of the Republic of Belarus (Sanctions) (EU Exit) (Amendment) Regulations 2023 are to:

    a. **Deter** the Belarusian regime from continuing to undertake or undertaking further actions which serve to destabilise Ukraine or undermine or threaten the territorial integrity, sovereignty or independence of Ukraine, and to refrain from any other action which undermines or threatens peace, security or stability in Europe. We also seek to influence decision makers and elites and deter Belarus from participating more directly in the conflict.
    b. **Disrupt** Belarus' ability to provide economic, military and in-kind support to Russia's costly invasion and occupation of Ukraine. This will be achieved by targeting its strategic and economic interests.
    c. **Demonstrate** 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.

14. 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. A Chatham House poll conducted in March 2023 showed that of Belarusian urban residents polled only 3% were supportive of Belarus committing its forces to the Ukraine conflict with 56% favouring an immediate ceasefire and peace talks. We seek to align closely with partners to achieve maximum impact on the Belarusian government associated individuals and entities.

1.3 Description of options under consideration

1.3.1 Option 0: Do nothing counterfactual

15. Rely on existing sanctions, included those implemented by our partners and by the UK last in July 2022 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 demonstrate to the Government of Belarus that such actions are unacceptable.

16. 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). These measures were subsequently amended and renewed in February 2023. 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.

1.3.2 Option 1: Implement new sanction measures [Preferred option]

17. 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.

18. The new measures can be grouped into three categories: financial, trade, and designation criteria expansion. 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:

a. Amendments to the existing designation criteria to allow the more effective targeting of persons that are involved in Russia's invasion of Ukraine. This covers:
    i. The ability to nominate, appoint or remove a Director or members of management and supervisory bodies of relevant entities. Rationale: those with the ability to nominate, appoint or remove a Director or members of management and supervisory bodies of relevant entities in Government of Belarus-affiliated entities/companies in sectors of strategic significance are exerting influence and able to play a role in supporting Russia.
    ii. Persons that work for, or are affiliated to, Belarusian authorities. Rationale: A list of such persons would make it easier for designation teams to specify whether a person should be designated due to their importance to the Belarusian regime.
b. Amendments to the dealing with transferable securities or money market instruments measure to ensure that Belarusian Global Depository Receipts (GDRs) are within scope of regulation 15A.
c. An expansion of existing trade measures to include:
    i. New measures relating to internet services and online media, as inserted into Russia by SI 9.
    ii. Restrictions on exports of the following goods:
        - Machinery
        - Bank notes
        - Chemical and biological weapons and technology
    iii. Restrictions on imports of the following goods:
        - Cement
        - Rubber
        - Wood
        - Gold

iv. A ban on ancillary services for all prohibited goods (including technical assistance and financial and brokering services).

19. 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. The EU has sanctioned Belarus since 2007. EU measures since the invasion have covered different sectors, including trade restrictions, a SWIFT ban for five Belarusian banks and limits on financial flows between the EU and Belarus. These regulations will align with key EU trade measures. The US responded to the invasion by designating 24 Belarusian individuals and entities, as well as other measures. Although US sanctions in particular are often different in content, we recognise that working with these partners will amplify their collective impact. This package is targeted to ensure that they have maximum impact on Belarus' strategic economic interests 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.

20. This option will protect and advance UK interests by deterring and constraining the capability of Belarus to continue to facilitate 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.

21. Further sanctions on Belarus would strengthen the impact of previous measures, 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.

22. 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 implement urgent fixes, expand designation criteria, align with key EU measures and apply additional trade measures. 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.

23. 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. This illustrates firmly that further international pressure is needed to encourage a behaviour change.

2. Implementation Plan

2.1 Secondary legislation

24. The Government intends to make secondary legislation under the Sanctions and Anti-Money Laundering Act (SAMLA) 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.

2.2 Licensing and exceptions

25. 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.

26. 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 Business and Trade (DBT)'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.

2.3 Enforcement

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

28. 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.

29. 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. DBT's Import Licensing Branch implements trade sanctions and licensing relating to imports.

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

30. The evidence compiled in this Impact Assessment has been compiled by FCDO, drawing on evidence and analysis provided by relevant government departments including DBT, HMT and DSIT/DCMS.

31. Given the speed and constantly changing nature of international events related to Ukraine, this policy needed to be developed rapidly against a backdrop of constantly changing developments. In addition, the requirement to keep discussion of potential policy responses secure (to avoid indicating to Belarus how we might respond and thus allow them to take advanced steps to mitigate the impact on its economy) has limited the extent to which HM Government has been able to consult with external stakeholders.

32. There are challenges associated with estimating the impact of sanctions that are often coordinated in nature. This Impact Assessment focuses on the impact of UK sanctions only.

3. Assessment of costs and benefits

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

32. 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.

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

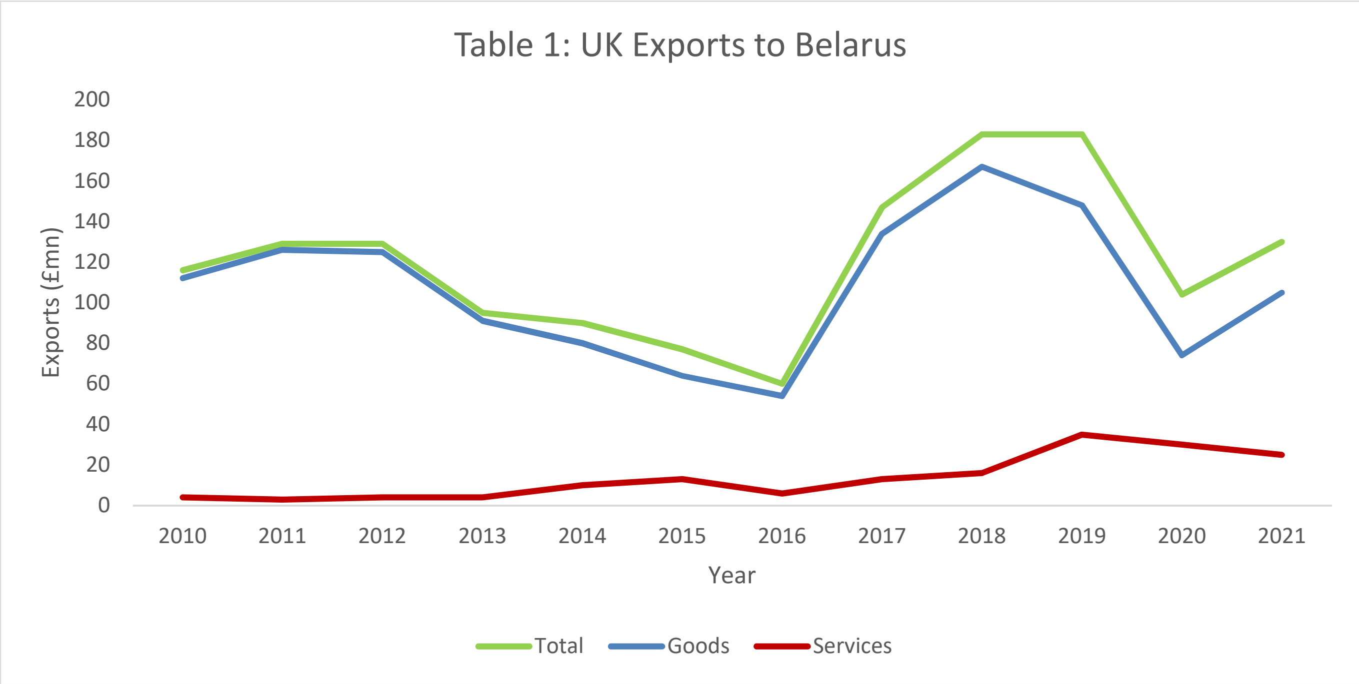
34. In the subsequent analysis, we make projections over the future economic relationship between the UK and Belarus in the counterfactual under which the UK does not apply these sanctions measures. In this way, we identify the costs to UK businesses in foregone revenue and profit of the measures. However, 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 and trade 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.

3.2 Background to assessment of the costs and benefits of both exports and imports measures

35. UK trade with Belarus has been relatively volatile since 2010, but Belarus' significance in UK trade is minimal, with it being the UK's joint 134th largest trading partner accounting for less than 0.1% of total UK trade[1]. 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 Covid-19 pandemic, UK exports to Belarus increased to £183m in 2019

[1] Trade and Investment Factsheet (publishing.service.gov.uk)

before dropping in 2020.[2] In the four quarters to the end of Q3 2022, total trade in goods and services between the UK and Belarus was £150 million, a decrease of 48% or £132 million in current prices from the four quarters to the end of Q3 2021[3].



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

36. UK imports from Belarus in the four quarters to the end of Q3 2022 were £91m (ranking as the UK's 124th most significant import partner), of which £27m (29.7%) were goods and £64m (70.3%) were services. UK imports of goods from Belarus decreased by 67.5% or £56m compared to the four quarters to the end of Q3 2021 while UK imports of services from Belarus increased by 12.3% or £7m year-on-year, albeit from a very low base.[4]

37. UK exports to Belarus in the four quarters to end the of Q3 2022 were £59m (ranking as the UK's 141st most significant export partner), of which £43m (72.9%) were goods and £16m (27.1%) were exports in services. UK exports of goods to Belarus decreased by 61.3% or £68m compared to the four quarters to the end of Q3 2022 while UK exports of services to Belarus decreased by 48.4% or £15m year-on-year.

38. Some UK exports to Belarus are already subject to licencing restrictions.[5] 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 15 licences, including all licenced products, were considered each year between 2017 and 2021 for export to Belarus (of which an average of approximately 12 were SIELs[6])[7]. This includes licences that were both issued and refused.

---

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

[3] Trade and Investment Factsheet (publishing.service.gov.uk) April 2023

[4] https://www.gov.uk/government/collections/trade-and-investment-factsheets Trade and Investment Factsheet (publishing.service.gov.uk)

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

[6] Standard individual export licence

[7] Data taken from the Strategic export controls: licensing data annual reports Strategic export controls: licensing statistics, 2021 - GOV.UK (www.gov.uk)

Strategic export controls in relation to Belarus: licensing data		2017	2018	2019	2020	2021	Average 2017-2021
Value of SIEL export licences approved (£million)							
Non-military		0.5	1.5	0.6	0.2	0.5	0.7
Military		0.1	0.0	0.0	0.0	0.0	0.0
All SIEL applications approved		0.6	1.5	0.6	0.2	0.5	0.7
Volumes of applications							
SIELs	Issued	14	4	6	8	24	11
	Refused	3	0	1	0	0	1
	Revoked	0	0	0	0	0	0
	Total	**17**	**4**	**7**	**8**	**24**	**12**
OIELS[8] (excl Other OIELs)	Issued	1	0	0	3	0	1
	Rejected	0	3	1	0	0	1
	Revoked	0	1	0	0	0	0
	Total	**1**	**4**	**1**	**3**	**0**	**2**
SITCLs[9]	Issued	0	0	0	0	0	0
	Refused	0	3	0	1	3	1
	Revoked	0	0	0	0	0	0
	Total	**0**	**3**	**0**	**1**	**3**	**1**
OITCLs[10]	Issued	0	0	0	0	0	0
	Refused	0	0	0	0	0	0
	Revoked	0	0	0	0	0	0
	Total	**0**	**0**	**0**	**0**	0	0
Total all licence types		**18**	**11**	**8**	**12**	**27**	**15**
Data taken from the Strategic export controls: licensing data annual reports https://www.gov.uk/government/collections/strategic-export-controls-licensing-data-annual-reports							

Table 2: Export licencing decisions made by HM Government 2017-2021. Source: The Export Control Joint Unit and the Department for International Trade

3.3 Monetised costs of trade measures

39. 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 2019, total Belarusian imports from the world amounted to $42.4bn.[11] Prior to the invasion of Ukraine, the Department for International Trade (now DBT) published projections for global trade.[12] 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.

40. 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,

---

[8] Open individual export licenses

[9] Standard individual trade control licences

[10] Open individual trade control licences

[11] 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

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

with measures coming into force in 2019 with further amendments made in 2021. In 2022, the UK introduced further economic, trade and transport sanctions on Belarus, including import and export bans on goods worth around £60m. This included bans on the export of oil refining goods, advanced technology components and luxury goods and bans on imports of Belarusian iron and steel[13]. These new 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. Machinery
   ii. Bank notes
   iii. Chemical and biological weapons and technology
b) Prohibiting the provision of related technical assistance, financial services, funds and brokering services in relation to the export of:
   i. Machinery
   ii. Bank notes
   iii. Chemical and biological weapons and technology
c) Prohibiting the import, acquisition, supply, and delivery, making available and transfer of technology of:
   i. Cement
   ii. Rubber
   iii. Wood
   iv. Gold
d) Prohibiting the provision of related technical assistance, financial services, funds and brokering services in relation to the import of:
   i. Cement
   ii. Rubber
   iii. Wood
   iv. Gold

41. The assessment therefore focuses on the costs and benefits of these additional measures in the associated Statutory Instrument (SI) and provides an indicative assessment of the marginal changes based on 2019 levels of trade. After a background summary of UK-Belarus trade, three types of impacts are assessed, for both exports and imports:

   i. **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;
   ii. **Regulatory impacts:** the cost to UK business to comply with the proposed measures, and;
   iii. **Administrative and enforcement impacts:** the cost to HMG of processing licence applications and enforcing these under the updated regulatory framework.

[13] UK to implement further punishing economic measures on Belarus - GOV.UK (www.gov.uk)

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 for Russia’s actions.

Assessment period

42. 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 length has been aligned with previous sanctions Impact Assessments (nine years from 2023 to 2031 inclusive) to enable a comparable and potentially collective view of HM Government’s actions to be undertaken in due course.

3.3.1. Commodity and service classifications and statistical threshold

43. 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 follow HS 2023 goods classification nomenclature.
44. 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.
45. 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 2019 trade data used for this analysis.

3.3.2. Methodology note on calculations of Net Present Social Value for export and import measures

46. The following assumptions and methodology were followed to develop a Net Present Social Value:

    a. To estimate how future Belarusian trade will evolve we use the November 2022 IMF WEO projections for growth rates in volumes of imports and exports for Belarus. We use the disaggregated ‘goods only’ demand to align with the ‘goods only’ analysis captured in the valuation.

    b. Given the Covid-19 pandemic has led to considerable disruption in recent global trade we avoid using past growth rates in Belarusian demand and instead use projections for the 2023-2031 growth rate based on the IMF's forecasts published in 2022.

c. As the IMF projections only extend to 2028, this growth rate was extended to 2031, using a flat rate of 1%. The 1% rate was based on the IMF's GDP forecast for Belarus for the 2023-2028 period, as well as the OECD's GDP forecast for Belarus in the 2028-2031 period. The IMF and the OECD's GDP forecasts present a broadly flat GDP trend post 2025.

d. The extended IMF WEO projected growth rates of Belarus imports and exports from 2023-2031 were used as our central scenario. We conducted sensitivity analysis with three scenarios of losses to UK businesses: central (based on the projected growth rate), high loss scenario (based on the most optimistic projections of the Belarusian economy) and low loss scenario (based on the least optimistic projections of the Belarusian economy). The high and low scenarios were constructed adopting the same methodology as used in Impact Assessment produced for the Russia Sanctions Regulations 2023[14]. This calculates the high and low scenarios by applying an asymmetric uplift and revision downwards of the central scenario to obtain three projected growth scenarios. For the low scenario, we applied a 3.5 percentage point revision downwards of the central scenario and for the high scenario we applied a 10% uplift on the central scenario. These values were obtained based on high and low estimations of Russia's GDP projections from various international organisations. Being a much smaller economy, equivalent projections for Belarus' economy are not as readily available. However, since Belarus' economy is expected to follow a similar growth trajectory to Russia's, the same size up- and downward revisions to the central scenario are used as were for the Russia 2023 Impact Assessment.

e. The high scenario is not symmetric to the low scenario. Instead, it is more conservative than a symmetric sensitivity would be. This is based on current expectations of the performance of the Belarusian economy – which tend to lean towards the downside (entailing a lower expected cost to UK businesses from the new sanctions measures).

   i. To obtain the low scenario, we revised the central scenario down by 3.5 percentage points.
   ii. For the high scenario we applied a 10% uplift on the central scenario, which is based on the IMF's forecasts for export and import demand from Belarus. This was consistent with the methodology used for the Russia regulations Impact Assessments.

	Belarus import demand growth projections sensitivity analysis based on extended IMF WEO April 2023 data used to calculate estimated costs to UK exporters (central scenario shows the extended IMF projections)									
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
Central scenario growth rate	-12.76%	3.24%	2.58%	1.75%	2.06%	2.21%	1.58%	1.00%	1.00%	1.00%
Low scenario growth rate	-16.26%	-0.27%	-0.92%	-1.75%	-1.44%	-1.30%	-1.92%	-2.50%	-2.50%	-2.50%
10% of central scenario	-1.28%	0.32%	0.26%	0.18%	0.21%	0.22%	0.16%	0.10%	0.10%	0.10%

[14] The Russia (Sanctions) (EU Exit) (Amendment) Regulations 2023 (legislation.gov.uk)

High scenario growth rate	-11.48%	3.56%	2.84%	1.93%	2.26%	2.43%	1.74%	1.10%	1.10%	1.10%

	Belarus export demand growth projections sensitivity analysis based on extended IMF WEO April 2023 data used to calculate estimated costs to UK importers (central scenario shows the extended IMF projections)									
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
Central scenario growth rate	-13.69%	2.93%	2.85%	1.79%	1.36%	1.20%	1.28%	1.00%	1.00%	1.00%
Low scenario growth rate	-17.19%	-0.57%	-0.65%	-1.72%	-2.14%	-2.30%	-2.22%	-2.50%	-2.50%	-2.50%
10% of central scenario	-1.37%	0.29%	0.28%	0.18%	0.14%	0.12%	0.13%	0.10%	0.10%	0.10%
High scenario growth rate	-12.32%	3.23%	3.13%	1.96%	1.50%	1.32%	1.41%	1.10%	1.10%	1.10%

f. This analysis focusses on the various groups of commodity codes identified in the Statutory Instruments. Codes that were wholly or partially in scope for previous Statutory Instruments are assumed to have zero import or export value.

g. The trade values have a price base year of 2021, and a present value base year of 2023. The BIT calculator processes these and presents NPSV in 2019 prices with a 2020 base year, as these are the years being used throughout the current parliament for consistency and comparability. The approach is the same taken for the Russia trade sanctions Impact Assessments, but uses 2019 trade data as the base (instead of 2021) due to some sanctions being imposed on Belarus in 2021 and avoiding 2020 data due to the Covid-19 pandemic trade effect. This enables the best estimate of cost to UK businesses from the new sanctions measures.

h. The annuity rate for the NPSV calculation is calculated using the 3.5% discount rate (as suggested in HMT's green book) to calculate the discount factor through the appraisal periods and adding the inverse of the discount factor year on year.

i. The proposed measures are expected to have an impact on the profitability of UK companies that currently trade with Belarus. For the sanctioned commodity codes under the export measures in scope of this package of sanctions, we 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 (2023 to 2031 inclusive) to calculate an estimate of profit lost[15]. Due to data limitations, the impacts on affected ancillary services have not been quantified.

[15] Profitability of UK companies time series - Office for National Statistics (ons.gov.uk)

j. Two additional one-off costs to regulation were added to the 2023 trade values. The first was to reflect regulatory impact costs, defined as the cost to UK firms to comply with the proposed measures. The approach taken for both exports and imports was to see these impacts as primarily a one-off familiarisation cost with the new regulations. Hence this Impact Assessment focused on familiarisation costs mentioned in the RPC's guide to implementation costs.

   i. The calculations assume that one hour is required for this familiarisation per company; we then multiply the number of traders exporting or importing to Belarus on the HS codes covered by the sanctions by the average UK wage for one hour (based on the ONS median weekly pay in 2021).
   ii. HMRC trade microdata could not be sourced for this Impact Assessment, so an estimate for the number of UK traders importing and exporting to Belarus in the sanctioned commodity codes was produced. This was done by multiplying the number of UK traders in the sanctioned commodity codes by the percentage that UK trade with Belarus makes up of total UK trade in 2019. The downside to this approach is that it assumes trade with Belarus in those commodity codes is proportionate to the total number of traders in those codes overall. This may not be the case if trade is concentrated (for example, with only one exporter per code) and any given trader is likely to trade with more than one destination. Yet given the minimal UK-Belarus trading relationship, the number of traders is likely to be small, producing a minimal cost to familiarisation – we therefore feel this approach is justified on proportionality grounds.
   iii. The calculations also assume a 35-hour weekly number of hours worked. This approach produces a total regulatory impact value for all traders affected by this regulation, broken down by exporters and importers. These values were taken as the entire regulatory impact cost and implemented as an upfront cost applied across to export and import buckets in 2023 only.

k. The second one-off cost was reflected only on the import ban. 10% of the value of the 2023 imports trade on the HS codes covered by this regulation was taken to reflect the expected transitory costs. Across most of products covered by the imports ban the UK has a small import dependency from Belarus i.e. only a small percentage of the UK imports from the world originate in Belarus. In this situation, it is reasonable to assume that UK importers would relatively easily be able to source the same imports with minimal change in price. Therefore, we assume that the cost of this trade diversion is a one-off transitional cost and apply it in 2023 only.

3.3.3. Assessment of costs and benefits of export measures

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

47. 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 (£108m in 2019, of which £106m were exports) directly captured by these sanctions until 2031. As outlined in the previous section, using November 2022 IMF WEO projections for growth rates in volumes of imports and exports for Belarus through to 2028, we projected values of trade

in those years according to categories of sanctioned codes, which was done using nominal 2021 HMRC data[16]. Projections for trade values were then extended to 2031 using central, high, and low IMF GDP growth forecast projections for Belarus.

48. As outlined in the previous section's methodology note (3.3.3), the direct economic cost estimates have been assessed under three potential scenarios underpinned by different assumptions around Belarus's demand for UK goods exports. 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.

    i. **Low-impact estimate:** assumes low economic cost to the UK 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. 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 2023 and 2031.

    ii. **Central-impact estimate (best estimate):** a central estimate of economic cost is based on the IMF estimates of the projected 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 2023 and 2031.

    iii. **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 apply a 10% uplift to the central scenario. 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 2023 and 2031.

49. This analysis is subject to a number of assumptions and caveats:

    i. 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.

    ii. 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.

    iii. 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.

    iv. Due to data limitations surrounding the availability of equivalent HS codes for the sanctioned CAS codes, the economic impact of the ban on the export of chemical and biological weapons and technology has not been quantified. However, the

[16] Codes that were in scope for previous Statutory Instruments have been removed from the analysis of this Statutory Instrument to avoid duplication (of impact analysis).

national security justifications for these measures mean that the benefits of the measures almost certainly outweigh the costs.

50. 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. There is a possibility this could add a reasonable additional cost to the UK, but which we have not been able to monetise at this stage.

   i. **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.

   ii. **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.

   iii. **“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.

51. 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.

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

52. Regulatory impacts are defined as the cost to UK firms to comply with the proposed measures. As the primary monetised costs of the measures come from the set of bans on imports and exports the regulatory cost is seen as primarily a one-off familiarisation cost with the new regulations, applied to 2023 only.

53. To calculate regulatory impacts this Impact Assessment based its approach on the RPC's guidance on implementation costs[17]. Familiarisation costs – incorporating the potential dissemination of information throughout the business, IT system changes or possible training costs – are estimated.

54. In line with the previous sanctions package Impact Assessment, it is assumed that one hour will be required for the familiarisation with the sanctions per company exporting products to Belarus under the commodity codes covered by these measures. This relatively small amount of time also reflects UK companies' actual behaviours since many UK companies are self-embargoing their trade with Belarus. Factors such as the chilling effect described in paragraph 50(iii) also contribute to the expectation that the UK – Belarus trade will be significantly reduced if compared to 2019 and we assume that many companies expect that the products they trade with Belarus could be sanctioned soon if that has not already taken place.

55. Regulatory impacts are calculated by multiplying the estimated number of traders exporting goods to Belarus in 2019 on the commodity codes covered by the measures covered in this Impact Assessment by the UK average wage for one hour (based on the ONS' provided median weekly pay in April 2021 - £611 – rebased to 2019). A 35-hour weekly number of hours worked is assumed.

56. Additionally, a 22% uplift is added to the labour cost mentioned above. Labour costs consist mainly of wage and salaries but also non-wage labour costs, such as employers' National Insurance Contributions. This uplift is included to ensure that the full cost to the employer of an employee's time is accounted for.

57. Overall regulatory costs for the group of goods exporters affected by these measures are estimated to be £1089.

58. It was not possible to identify the number of ancillary services exporters affected by these measures, so an equivalent regulatory cost has not been identified. As such, the regulatory costs captured in this Impact Assessment is an underestimate but it is not expected that any costs to ancillary services will be significant.

59. Since the cost of £1089 is our best estimate in the absence of HMRC microdata, we adopted a sensitivity analysis where the number of traders in the sanctioned commodity codes deviates from our estimated figure. In the high-cost scenario, we estimate that the number of traders is 100% higher and in the low-cost scenario we estimate that the number of traders is 50% lower, reflecting the fact that our best-estimate is likely to be an underestimate.

   i. In our high-cost scenario, the regulatory costs to exporters affected by these measures are £2177.

   ii. In our low-cost scenario, the regulatory costs to exporters affected by these measures are £555.

60. 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.

61. 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

[17] Statistical Threshold – Sterling figure to apply for 2021 - UK Trade Info

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.

62. 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.

63. 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 measures 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.

64. 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 the licensing process and a licencing regime, as the proposed measures cover products which currently do not require export licences.

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

65. 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.

66. 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. 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.

67. However, the combined administrative and enforcement costs to HM Government are, similar to the regulatory costs, not expected to be significant.

68. Primarily this is because HMG does not expect a large number of applications for licences on the export measures covered in this Statutory Instrument. Table 2 shows that the average annual number of applications for export licences for exports to Belarus in 2017-2021 was just 15.

69. Rationale for this expectation include:

   a. As Table 1 indicates, there has already been a significant reduction in UK trade with Belarus compared to 2018/19 values, which consequently reduces the number of licences that would be required. Reasons for this reduction in trade include companies' self-embargos and the 'chilling effect' of previous sanctions (see paragraph 50).

b. If such requests are received it is expected that they would be very specific and limited in number, e.g. a licence to trade a particular chemical.

c. It is expected that few applications will be received for licences on humanitarian grounds.

70. Nevertheless, it is possible that there may be a learning cost for companies that decide to apply for exports licences against the set of proposed measures, as such companies may have limited experience in licensing. Such cost would be incorporated in the one-off regulatory impact outlined in the previous sub-section ('regulatory impacts for export measures' in 3.3.3).

71. There may also be some additional costs from the enforcement of the application of the measures. However, given the fall in UK-Russia trade, including as a result of existing sanctions and self-sanctioning, and the level of existing sanctions the additional enforcement cost from these measures is not expected to be significant.

3.3.4. Assessment of costs and benefits of import measures

Economic impacts for import measures

72. An import ban on Belarusian cement, rubber and wood by both the EU and US are assumed. 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 cement, rubber and wood could be re-routed through Belarus to bypass import bans imposed on Russia.

73. The import costs have been calculated as a one-off familiarisation cost (excluding the regulatory costs) and added to the total cost to UK businesses. Across the products covered by the imports ban the UK has a small import dependency from Belarus, meaning only a small percentage of the UK imports in the world originate from Belarus. In this situation it is reasonable to assume that UK importers would relatively easily be able to source the same imports with minimal change in price. Therefore, we assume that the cost of this trade diversion is a one-off transitional cost and apply it in 2023 only.

74. The one-off import costs are calculated by taking 10% of the value of the 2019 imports trade on the HS codes covered by the regulation, adjusting the value according to the IMF's projected growth trends in Belarusian exports, and applying it to the 2023 trade value only. Similar to export costs, the direct economic cost to importers have been assessed under three potential scenarios underpinned by different assumptions around Belarus' export growth to the UK in 2023. Our central scenario (best estimate) assumes that the 2019 value of Belarus' exports in the sanctioned commodity codes grows in line with the IMF WEO growth projections to 2023. The cost to UK business is then estimated to be 10% of this 2023 value.
   i. In the low scenario, we revise central growth scenario down by 3.5 percentage points to estimate the value of the sanctioned imports in 2023. We then take 10% of this low estimate value.
   ii. In the high scenario we apply a 10% uplift on the central scenario growth rate to obtain a high estimate for 2023 trade values, and then take 10% of this value.

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

i. It assumes downstream firms import cement, rubber and wood from other countries at the average import price in 2019. Downstream firms could also purchase the goods from domestic UK upstream producers. Some commodities that would have been purchased by downstream firms may be on-shored so is produced in the UK.

ii. This assumes there is perfect substitution between cement, rubber and wood produced in Belarus vs that which is produced in the rest of the world.

iii. This assumes the import price of cement, rubber and wood remains relatively flat until the end of the appraisal period.

iv. The value of UK imports of any ancillary services that would be affected by these measures has not been estimated here due to data limitations. Services data is available at an aggregated level and the identification of trade flows specific to affected ancillary services is not possible.

76. Banning cement, rubber, wood and gold 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 the sanctioned goods to Belarus for further exporting.

77. Banning gold imports from Belarus aligns with the EU's planned package and is intended to help prevent the circumvention of the Russia regulations through Belarus, for example by changing the listed origin. Since importing Russian gold is already banned, we expect these measures to have a negligible economic cost to the UK. Data on UK imports of gold that has been processed in a third country, but incorporates some gold originating in Russia, is not available and the additional impact of this measure to the existing gold ban on Russia cannot be quantified.

Regulatory impacts for import measures

78. Regulatory costs to businesses of complying with a ban on imports of cement, rubber and wood is likely to be minimal:

i. The exceptions to this stated in the SI and mainly relate to the dates when these goods are consigned from Belarus and imported into the UK. Businesses who signed contracts prior to the ban coming into force but where the goods are 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.

ii. Businesses may face further administrative costs in trying to find new suppliers in unsanctioned countries. However, these costs are thought to be minimal and so have not been monetised.

79. The same approach to calculating the regulatory impact of export measures is applied to import measures.

80. Regulatory impacts are applied to 2023 only and calculated by multiplying the estimated number of traders importing goods from Belarus in 2019 on the commodity codes covered by the measures in this Impact Assessment by the UK average wage for one hour (based on the ONS' provided median weekly pay in April 2021 - £611 – rebased to 2019). A 35-hour weekly number of hours worked is assumed.

81. Additionally, a 22% uplift is added to the labour cost mentioned above. Labour costs consist mainly of wage and salaries but also non-wage labour costs, such as employers' National Insurance contribution. This uplift is included to ensure that the full cost to the employer of an employee's time is accounted for.

82. Due to the very low estimated number of importers in the sanctioned commodity codes, overall present value total regulatory costs for the group of goods importers affected by these measures are estimated to minimal at just £44.

83. It was not possible to identify the number of financial services, funds and brokering services importers affected by these measures, so an equivalent regulatory cost has not been identified. As such, the regulatory costs captured in this Impact Assessment is an underestimate but it is not expected that any additional costs will be significant.

84. Since the cost of £44 is our best estimate in the absence of HMRC microdata, we adopted a sensitivity analysis where the number of traders in the sanctioned commodity codes deviates from our estimated figure. In the high-cost scenario, we estimate that the number of traders is 100% higher and in the low-cost scenario we estimate that the number of traders is 50% lower, reflecting the fact that our best-estimate is likely to be an underestimate.

    i. In our high-cost scenario, the total present value regulatory costs to importers affected by these measures are £88.

    ii. In our low-cost scenario, the total present value regulatory costs to importers affected by these measures are £22.

Administrative and enforcement impacts for import measures

85. Aside from the exemption (operationalised through licencing) to provide for contracts completed before the date in which these sanctions come into effect for cement, rubber and wood delivered up to a certain point in time, 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.

86. 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.

Summary table 1: Present Value Total Cost for the new trade measures 2023-2031 (not incl. profitability) (2019 prices, 2020 base year)[18]

		Costs to businesses
Export measures costs	Low	-£563,711,200
	Central	-£662,397,300
	High	-£710,851,100
Import measures (transition) costs	Low	-£120,400
	Central	-£129,900
	High	-£132,300
Regulatory costs to exporters	Low	-£500
	Central	-£900
	High	-£1900
Regulatory costs to importers	Low	-£20
	Central	-£40
	High	-£75
Total Present Value Total Cost (2023-2031, 2019 prices) (not incl. profitability)	Low	-£563,832,100
	Central	-£662,528,100
	High	-£710,985,400

[18] Costs below £100 have been rounded to the nearest £5, and costs above £100 have been rounded to the nearest £100.

Summary table 2: Net Present Social Value for the new trade measures for period 2023-2031 (2019 prices, 2020 base year) (profitability applied)[19]

		Costs to businesses
Export measures costs	Low	-£60.88m
	Central	-£71.54m
	High	-£76.77m
Total transition costs (including one-off regulatory costs to importers and exporters and one-off familiarisation cost to importers)	Low	-£13,000
	Central	-£14,100
	High	-£14,500
Total Net Present Social Value (2023-2031, 2019 prices) (profitability applied)	Low	-£60.89m
	Central	-£71.55m
	High	-£76.79m

3.4. Non-monetised costs of broadcasting/internet services measures

87. Implementing new measures relating to internet services and online media could present direct costs to UK businesses in terms of regulation.

3.4.1. Wider Impacts, Transfers and Benefits of broadcasting/internet services measures

88. In addition to the stated direct costs above, there will be some wider impacts and transfers resulting from the Regulations.

i. **Reduced disinformation**. A key non-monetised benefit of these measures would be to reduce the amount of disinformation circulating in the UK. Most media outlets in Belarus are at least partly state controlled so this will help to prevent disinformation from the Belarusian government gaining an audience in the UK and beyond. This disinformation can undermine support for Ukraine if it enables the circumvention of the Russia measures through Belarusian media, thereby materially reducing Ukraine's ability to resist Russian aggression. Preventing UK service providers distributing content from Belarusian platforms is thus of benefit to Ukraine, the UK, and its allies.

ii. **Competition**. Blocking designated entities from operating in the UK may lead those who consume their content towards other news providers. If these are UK owned, this could provide an economic boost to UK firms via greater online engagement. However, the amount of people who view Belarusian content is diminishingly small relative to the wider UK market, meaning this impact will likely be minimal. It could also reduce the amount of competition in the media sector, although again only

[19] Costs below £1m have been rounded to the nearest £100, and costs above £1m have been rounded to 2 decimal places.

marginally as Belarusian presence in UK media is minimal and their market share is negligible in an already highly competitive sector.

iii. **Consumer choice.** Removing designated Belarusian entities from the UK reduces the range of options available to UK consumers in the media sector. As consumers are typically thought to value choice, this implies a cost in the form of a narrower set of options.

iv. **Retaliatory measures.** The UK could incur costs from Belarusian retaliation to sanctions.

v. **Reputational impact.** The UK supports an open, free, secure and pluralistic Internet, and champions this internationally. In 2019, the UK hosted an international media freedom conference, was a founding member of the Media Freedom Coalition and continues to work closely with likeminded partners to promote and protect media freedom both at home and internationally. Through our membership of the Freedom Online Coalition (FOC) and work through multilateral fora, we collaborate with civil society and governments to promote rights online. We have recently joined a new FOC Task Force on Internet Shutdowns, which is committed to taking action to address this issue. As a principle, we refrain from arbitrary or undue restrictions limiting access to the Internet, or imposing network disruptions and shutdowns, which undermine the exercise of human rights, including the right to freedom of opinion and expression. By designating Belarusian sites, there is a risk that sanctions are seen as a negation of our commitment and a direct contradiction of our policy position. This may undermine our position as a leader on internet freedom issues, viewed and cited by Belarus and others as an example of double standards, and pointed to as an example of hypocrisy and/or used in Belarus and elsewhere to undermine the need to keep the internet on and open.

3.5. Non-monetised costs of designation criteria measures

89. Changing the criteria for designation will expand the pool of potential targets. However, it is not possible at this stage to assess the number of additional designations that may result from this, though it is likely there will be an increase in designations in the near-term once the new criteria are enshrined in law.

90. This is an enabling provision, which gives power to the Secretary of State to more effectively designate persons that are involved in supporting Russia's invasion of Ukraine. This includes listing persons that work for, or are affiliated to, Belarusian authorities or are otherwise involved in Belarus' economy.

91. The expansion of the designation criteria in itself does not impose any direct costs. Costs may arise when a person or entity is designated – this will be considered as part of the designation process.

92. The key cost to UK business of these amendments will be an increase in compliance and due diligence costs relating to any additional designations that may be implemented. However, the mechanism for designating individuals will be the same as for other regimes, minimising the marginal compliance costs.

93. The UK currently designates approximately 3 900-4 000 individuals and entities across all existing UK autonomous and UN sanctions. It is not possible to accurately estimate the proportion of future designated persons that might have UK assets, given HMG has not determined (or yet disclosed) targets for designations.

94. Overall, due to the small proportion of additional designations expected, we forecast marginal costs for businesses to implement the amendments to be low.

3.6. Non-monetised costs of financial measures

Transferable Securities and Money-Market Instruments

95. The new measures ensure that Belarusian Global Depository Receipts (GDRs) are within the scope of regulation 15A (dealing with transferable securities or money-market instruments). This measure extends the existing prohibition on securities, loans and credit arrangements to ensure there is not a gap in the Belarus Regulations that Russia can exploit to undertake activity that we have prohibited in the Russia Regulations. The measure aims to limit the funds that Belarus can raise by preventing 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, thus constraining Belarus' ability to support the invasion of Ukraine.

Cost to UK financial markets

96. 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)[20], 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.

97. 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.[21] 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 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.

98. For debt issuances, there will be foregone revenues from listing fees, although these are small given the maximum listing fee is £5,500[22]. 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.

[20] 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

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

[22] Figure provided by the Bank of England

99. Therefore, in the counterfactual scenario in which Belarusian entities would have continued to list in London, the cost to UK businesses would be minimal per year in foregone revenues.

Cost to UK investors

100. 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.[23] 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. Additionally, UK market share in Belarus was just 0.4% in 2021 and total UK Foreign Direct Investment was just £37m (£32m outward and £5m inward to the UK)[24].

101. Therefore, due to the limited financial relationship between the UK and Belarus and low value of total FDI, 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 and 2022, it is likely that these firms have already borne any costs of this kind.

Loans and credit arrangements

102. 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.

Financial services relating to foreign exchange reserve and asset management

103. 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[25]. Information on what proportion of this is held in the UK is not available.

104. 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.

105. **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).

[23] Internal BOE analysis.

[24] Foreign direct investment (FDI) totals for inward and outward flows, positions and earnings: 2019 and 2020 - Office for National Statistics

[25] Belarus Foreign Exchange Reserves, Trading economics, April 2022.

106. **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.

107. **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.

108. **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.

109. **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

110. 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:

i. **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 discourage 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.

ii. **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.

3.7. Compliance costs

111. 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 trade and 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.

112. 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.[26] 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>

113. 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 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.

114. 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, <u>so the cost is expected to be negligible.</u>

<u>Costs of non-compliance</u>

115. 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

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

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.

3.8. Summary of monetised and non-monetised costs

116. In summary, the total costs to UK businesses were calculated by assessing the costs of the trade measures, designation criteria and financial measures separately. Given data limitations and estimated negligible costs until the instances of designations, the only set for which we are able to provide monetised estimates is the trade measures. These are however assumed to be the bulk of all costs to UK businesses from the measures.

117. For the designation criteria measures, the cost to businesses occurs at the point of designation. Since the number and scale of future designations is unknown, the impact of these measures has been left unquantified.

118. 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.

119. For the trade measures, in our central scenario, these show an EANDCB for the export and import measures of £9.1 million (excluding transition costs, profitability applied). Together these imply a total monetised cost to businesses of £71.5 million (profitability applied).

120. For the broadcasting/internet services measures, the overall impact on UK businesses is expected to be minimal. As such, the EANDCB for the internet measures is unquantified.

121. 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.

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 (2023-2031, 2019 prices, £m)	**Equivalent Annual Net Direct Cost to Business (2023-2031, 2019 prices, £m)**
Trade: Import and export measures	Low	-£60.9m	-£7.7
	Central	-£71.5m	-£9.1
	High	-£76.8m	-£9.8
Broadcasting/Internet services measures		Unquantified	Unquantified
Financial measures		Unquantified	Unquantified
Designation criteria measures		Unquantified	Unquantified
Total	Low	-£60.9m	-£7.7
	Central	-£71.5m	-£9.1
	High	-£76.8m	-£9.8

3.9. Benefits to UK

122. 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.

123. 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.

4. Wider impacts, risks & assumptions of imposing new sanctions measures

4.1 Supply chains and employment

124. The impact of these measures should be considered in the context of a bilateral trading relationship worth around £150 million per year[27]. 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.

125. There are also some general risks associated with the introduction of new sanctions measures against Belarus:

   i. **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.

   ii. **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.

   iii. **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

[27] Trade and Investment Factsheet (publishing.service.gov.uk). April 2023.

'clean' place to do business. Businesses' reputational risk will be reduced by divesting from relationships with individuals and entities associated with serious corruption.

iv. **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. For example, there is a risk that UK upstream producers in a supply chain could lose out due to sanctions placed by other jurisdictions on the ability of end-producers to export to Belarus. This is however out of scope for this IA as it is not a result of this UK legislation (see paragraph 51).

v. **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.

4.2 Impact on small and micro businesses

126. 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.

127. 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.

128. 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 (exports worth just £59 million[28]), 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:

5. Monitoring and Evaluation

[28] Trade and Investment Factsheet (publishing.service.gov.uk) April 2023.

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

130. 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.

131. 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.

132. 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.

133. The policy intention is to keep sanctions on Belarus 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.