

**NATIONAL  
ANTI-CRISIS  
MANAGEMENT**



**The United  
Transitional  
Cabinet  
of Belarus**

**Analytical Review**

# **Sanctions Pressure on the Lukashenko Regime (2020-2023)**

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# Executive Summary

From 2020 to 2023, sanctions were progressively imposed by democratic states against the Lukashenko regime. Western democratic countries intensified sanctions as violations of international law by the Lukashenko regime extended beyond Belarus. Nearly all key export sectors of the economy controlled by the regime (fertilizers, oil refining, woodworking, tobacco industry), the financial system, as well as over 400 individuals responsible for crimes, were subjected to sanctions. In this context, the Lukashenko regime is experiencing difficulties.

The imposition of sanctions on fertilizers from Belarus, primarily potash, has been painful for the Lukashenko regime, as revenues from potash sales were one of the main sources of enrichment for those close to the regime, as well as the state as a whole. Nevertheless, the Lukashenko regime is most actively fighting against restrictions on Belarusian potash, justifying its calls for easing or lifting sanctions with the threat of global food security. However, there are no real grounds for this threat due to the steady decrease in potash prices over the last year and the stabilization of the potash fertilizer market.

Sanctions in the woodworking sector have also been significant for the Lukashenko regime. Wood products were among the leading items in Belarus's raw material exports. Nonetheless, the Lukashenko regime has found schemes to circumvent the already imposed restrictions using third countries. This problem can be solved by establishing trade or transport quotas based on the pre-war level of trade with these countries. The quota could have an annual increase of 20-30% to accommodate any organic growth, but at the same time effectively prevent smuggling. Such a practice, in addition to wood products, could further be extended to other commodity positions.

The tobacco industry is one of the main sources of income controlled by Lukashenko. In turn, sanctions have become an important factor in the growth of problems with Belarus's shadow economy related to the tobacco business. Cigarette smuggling brought significant income to the dictator and his entourage. Sanctions and border closures have contributed to the collapse of this illegal business. In this regard, maintaining physical restrictions on the movement of goods across the

border with the EU, including by rail and road transport, is an important factor in reducing the volume of smuggling, which is largely controlled by the Lukashenko regime and is a source of his enrichment.

After the events of 2020, the financial sector became one of the key directions for sanctions against the Lukashenko regime. In particular, a number of leading financial institutions (EBRD, World Bank, EIB) froze their cooperation with the Belarusian state sector. Also, a series of sanctions directly affected the Belarusian banking sector. For example, individual Belarusian banks were disconnected from the international interbank information transmission and payment system – SWIFT. Despite significant sanctions in the financial sector, there is still room for their improvement. In this regard, the following measures are proposed: freezing the assets of the National Bank of Belarus in the USA; blocking correspondent accounts of Belarusian banks in the EU, the USA, and other democratic states; banning the import of US dollar banknotes into Belarus; freezing the assets of individuals and companies under sanctions.

After 2020, a de facto ban was established on the import and transit of most of the products of Belarus's oil refining industry. One of the main problems hindering the increase in trade volumes of oil products, besides the imposed sanctions, are existing logistical constraints. Although for Belarusian oil products, unlike potash fertilizers, this problem is not as acute, significantly increasing their transshipment through Russia was also not easy. Despite improvements in the logistics situation in 2023, according to indirect data, the total annual volume of processing Belarusian oil products has not returned to the average pre-sanction level. To reach pre-sanction volumes of oil refining, the Lukashenko regime will need to not only expand transportation capabilities for delivering oil products but also reduce the cost of delivery. Therefore, trade and economic sanctions, despite the possibilities for their circumvention, remain a tangible and accordingly still effective tool for pressuring the Lukashenko regime.

# Introduction

Sanctions serve as a unique tool of political accountability for actions that grossly violate international law, including human rights violations, aiding military aggression, and other unlawful actions. Sanctions deprive violators of international law of resources (foreign currency, investments) needed to continue their criminal activities. They also contribute to destabilizing the system of such a violent regime like Lukashenko's, hastening, rather than delaying, its collapse. Economic sanctions against Lukashenko's circle and businesses around him force these individuals to reconsider whether they need a regime that brings more losses than profits. Thus, sanctions facilitate a "split" within the so-called elites.

Furthermore, under the impact of sanctions, dictatorial regimes may make concessions. Yes, sanctions are not a panacea, but they are an effective measure to force violators of international law to abandon their criminal intentions. Critics like to say that sanctions do not overthrow regimes. However, when properly constructed and effectively implemented, they create conditions for the elimination of these very regimes. Sanctions are a resource available today for the democratic forces of Belarus and our partners to negotiate with the regime from a position of strength. We must accumulate this resource and strength, and at a certain point, it should work.

## **1. The Brief Overview of all sanctions adopted in 2020-2023 against the Lukashenko regime**

Following the events of August 2020, the European Union introduced several comprehensive sanction packages against the Lukashenko regime. The first three, related to the elections and repressions, were introduced in 2020, two more in 2021 (packages related to the forced landing of a civilian airplane and the migration crisis), and finally, in 2022, after the Lukashenko regime's complicity in the Russian aggression on Ukrainian territory, the EU adopted new restrictions, including financial and transportation measures.

For the first time since the events of 2020, in response to the election fraud, as well as human rights violations before, during, and after them, on October 2, 2020, the European Union imposed personal sanctions against 40 individuals from Belarus (primarily the leadership of the Ministry of Internal Affairs and members of the Central Election Commission). The sanctions involved freezing in the EU of financial assets of the individuals and organizations listed, as well as a ban on issuing visas to them for EU countries<sup>1</sup>. On November 6, 2020, additional 15 individuals were added to the sanctions list, including Alexander Lukashenko himself, his eldest son Viktor, Igor Sergeenko, Andrei Ravkov, Petr Miklashevich, Ivan Tertel, and other leaders of state departments<sup>2</sup>.

On December 17, 2020, the third sanction package was introduced. In addition to expanding the personal list with 29 individuals, restrictions were imposed for the first time on 7 enterprises, mainly of military designation (MZKT, OAO "140 Repair Plant", OAO "AGAT-Electromechanical Plant", Beltechexport). The list of legal entities subjected to sanctions also included the Presidential Affairs Management, the large private developer Dana Holdings, and the IT company "Synesis"<sup>3</sup>.

The aim of the adopted restrictions was to exert pressure on the Belarusian political leadership to prevent further violence and repression, release all political prisoners and other unjustly detained individuals, and to initiate a genuine and inclusive national dialogue with broader layers of society<sup>4</sup>.

Following the forced landing of the Ryanair flight with Roman Protasevich on board, the European Union adopted the fourth package of sanctions on June 25, 2021. In addition to the traditional expansion of the personal list (by 78 individuals, almost doubling it), the European Union for the first time introduced sectoral restrictions. The three packages of sanctions adopted earlier were of a blocking nature, i.e., they prohibited transactions concerning specific individuals and companies. However, sectoral sanctions involved restrictions against entire sectors of the economy.

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<sup>1</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006R0765-20201002>

<sup>2</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006R0765-20201106>

<sup>3</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006R0765-20201217>

<sup>4</sup> <https://www.consilium.europa.eu/en/press/press-releases/2020/12/17/belarus-eu-imposes-third-round-of-sanctions-over-ongoing-repression/>

Prohibited goods and technologies included dual-use items, goods for the production of tobacco products, potash, and certain items related to petroleum products. Financial restrictions were also introduced. In particular, it was prohibited to directly or indirectly purchase, sell, provide investment services, or engage in securities and short-term capital market instruments with a maturity of more than 90 days: issued by the Republic of Belarus, its government, state bodies, and organizations; as well as three banks (Belarusbank, Belinvestbank, and Belagroprombank).

The list of companies under sanctions was expanded to include an additional 8 legal entities (logistics and trading firms of the regime's "wallets" such as "Sohra Group", "BremiHo Group", "Logex", the oil trader "New Oil Company", state automotive giants BelAZ and MAZ, and "Belaeronavigation", involved in the case of the Ryanair forced landing)<sup>5</sup>.

The EU introduced new restrictive measures in response to the escalation of human rights violations and repression in Belarus, as well as the forced landing of the Ryanair plane and the related detention of journalist Roman Protasevich and Sofia Sapega<sup>6</sup>. The objective of these sanctions was to exert pressure on the political leadership of Belarus to initiate a national dialogue with the broader society and to avoid further repression<sup>7</sup>.

Almost concurrently with the EU in June 2021, the USA<sup>8</sup>, the United Kingdom, and Canada also imposed sanctions against the Lukashenko regime. The US sanctions list included legal entities such as the Main Directorate for Combating Organized Crime and Corruption of the Ministry of Internal Affairs (GUBOPiK), the KGB, the Center for the Isolation of Law Violators at Okrestina, and the internal troops of the Ministry of Internal Affairs. Among individuals, 16 people were subjected

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<sup>5</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006R0765-20210625>

<sup>6</sup><https://www.eeas.europa.eu/eeas/%D0%B5%D1%81-%D0%B2%D0%B2%D0%B5%D0%BB-%D1%81%D0%B0%D0%BD%D0%BA%D1%86%D0%B8%D0%B8-%D0%B2-%D0%BE%D1%82%D0%BD%D0%BE%D1%88%D0%B5%D0%BD%D0%B8%D0%B8-%D1%8D%D0%BA%D0%BE%D0%BD%D0%BE%D0%BC%D0%B8%D0%BA%D0%B8-%D0%B1%D0%B5%D0%BB%D0%B0%D1%80%D1%83%D1%81%D0%B8 ru?page lang=be>

<sup>7</sup><https://www.eeas.europa.eu/delegations/belarus/%D0%B1%D0%B5%D0%BB%D0%B0%D1%80%D1%83%D1%81%D1%8C-%D1%87%D0%B5%D1%82%D0%B2%D0%B5%D1%80%D1%82%D1%8B%D0%B9-%D0%BF%D0%B0%D0%BA%D0%B5%D1%82-%D1%81%D0%B0%D0%BD%D0%BA%D1%86%D0%B8%D0%B9-%D0%B5%D1%81-%D0%B8%D0%B7-%D0%B7%D0%B0-%D0%BF%D1%80%D0%BE%D0%B4%D0%BE%D0%BB%D0%B6%D0%B0%D1%8E%D1%89%D0%B8%D1%85%D1%81%D1%8F-%D1%80%D0%B5%D0%BF%D1%80%D0%B5%D1%81%D1%81%D0%B8%D0%B9-%D0%B8 ru?s=218&page lang=ru>

<sup>8</sup> <https://home.treasury.gov/news/press-releases/jy0237>

to new US sanctions<sup>9</sup>. Canada imposed restrictions on 17 individuals and 5 organizations<sup>10</sup>, while the United Kingdom targeted 11 individuals and 2 legal entities<sup>11</sup>. On August 9, 2023, Canada and the United Kingdom also announced the imposition of sectoral sanctions.

Following the artificially induced migration crisis at the borders of Belarus and the EU, orchestrated by the Lukashenko regime, the European Union introduced the fifth package of sanctions on December 2, 2021. The list included 17 individuals and 11 legal entities. Specifically, the sanctions targeted representatives of the border troops' command, employees of the Ministry of Foreign Affairs and the judicial system, the airline "Belavia," enterprises in the tourism sector and hotels, as well as OJSC "Grodno Azot," the association "Belorusneft," and OJSC "Belshina"<sup>12</sup>.

On the same day, the USA, the United Kingdom, and Canada announced their support for the European Union's measures against the Belarusian regime. Specifically, according to the US Department of the Treasury, the American sanctions targeted Belarus's sovereign debt, 20 individuals, and 12 legal entities, including Dmitry Lukashenko. The sanctions also covered "Belarusian Potash Company," "Transaviaexport," "Slavkali," and "Beltechexport"<sup>13</sup>.

In 2022, a new round of sanctions was related to Lithuania's decision to stop the transit of Belarusian potash fertilizers through its territory from February 1. In response, the EU adopted a regulatory decision (published on February 18, 2022), which was framed as a technical amendment. The EU expanded financial restrictions against the Development Bank and the Dabrabyt Bank. For these, as well as the previously listed three state banks, the possibility of obtaining loans with a term of more than 90 days, as well as conducting any transactions with securities for similar terms, was closed<sup>14</sup>.

A new stage of sanction restrictions commenced on February 24, 2022, with the beginning of the full-scale Russian aggression against Ukraine.

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<sup>9</sup> <https://www.state.gov/holding-the-lukashenka-regime-and-its-enablers-to-account/>

<sup>10</sup> <https://laws.justice.gc.ca/eng/regulations/SOR-2020-214/FullText.html>

<sup>11</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1125271/Belarus.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1125271/Belarus.pdf)

<sup>12</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006R0765-20211202>

<sup>13</sup> <https://home.treasury.gov/news/press-releases/jy0512>

<sup>14</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022R0212>



Just a few hours after the onset of hostilities, the High Representative of the EU issued a declaration condemning "Belarus's involvement in the aggression against Ukraine"<sup>15</sup>. On March 2, 2022, the Council of the EU decided to impose targeted restrictive measures against 22 representatives of the Armed Forces of Belarus<sup>16</sup>.

Additionally, the Council decided to introduce further trade restrictions for Belarus concerning goods used in the production or processing of tobacco products, mineral fuels, bituminous substances, and gaseous hydrocarbons, potassium chloride, wood products, cement products, iron and steel, and rubber products. Other restrictions were also introduced on the export of dual-use goods and technologies, certain advanced goods and technologies that could contribute to the military, technological development, and the development of defense and security of Belarus, as well as restrictions on the provision of related services<sup>17</sup>.

On March 9, 2022, the EU approved new sanctions against the financial sector of Belarus. The agreed measures included: disconnecting Belagroprombank, Bank Dabrabyt, and the Development Bank and their subsidiaries from SWIFT; banning transactions with the National Bank of Belarus; restricting the inflow of financial resources from Belarus to the EU, which included a ban on deposits over 100,000 euros from Belarusian citizens or residents; and a ban on the importation of euro banknotes into Belarus<sup>18</sup>.

In addition to the already imposed restrictions, on April 8, 2022, the Council of the EU decided to prohibit Belarusian freight carriers from operating within the EU territory (including transit). However, exceptions were made for certain groups of goods – pharmaceuticals, medical supplies, agricultural products, foodstuffs, mail, and humanitarian cargo<sup>19</sup>.

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<sup>15</sup><https://www.consilium.europa.eu/en/press/press-releases/2022/02/24/ukraine-declaration-by-the-high-representative-on-behalf-of-the-european-union-on-the-invasion-of-ukraine-by-armed-forces-of-the-russian-federation/>

<sup>16</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2022:066:FULL&from=EN>

<sup>17</sup>[https://www.consilium.europa.eu/en/press/press-releases/2022/03/02/belarus-role-in-the-russian-military-aggression-of-ukraine-council-imposes-sanctions-on-additional-22-individuals-and-further-restrictions-on-trade/?utm\\_source=dsms-auto&utm\\_medium=email&utm\\_campaign=Belarus%27+role+in+the+Russian+military+aggression+of+Ukraine%3a+Council+imposes+sanctions+on+additional+22+individuals+and+further+restrictions+on+trade](https://www.consilium.europa.eu/en/press/press-releases/2022/03/02/belarus-role-in-the-russian-military-aggression-of-ukraine-council-imposes-sanctions-on-additional-22-individuals-and-further-restrictions-on-trade/?utm_source=dsms-auto&utm_medium=email&utm_campaign=Belarus%27+role+in+the+Russian+military+aggression+of+Ukraine%3a+Council+imposes+sanctions+on+additional+22+individuals+and+further+restrictions+on+trade)

<sup>18</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L:2022:082:TOC>

<sup>19</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2022:111:FULL&from=EN>

On June 2, 2022, the Council of the EU approved a package of sanctions against Russia, which included measures against Belarus as well. Specifically, it involved disconnecting Belinvestbank from SWIFT<sup>20</sup>, and restrictions were expanded to include 12 Belarusian citizens and 8 enterprises, among them "Belaruskali," its trader Belarusian Potash Company, Naftan refinery, Grodno Tobacco Factory "Neman," "Inter Tobacco," "Belkommunmash," and the logistics operator "Beltamozhservice." Sanctions were also imposed on the Belarusian state television and radio company.<sup>21</sup>

Finally, in early August 2023, another package of EU sanctions against the Lukashenko regime was introduced. The EU banned the export of a range of goods and technologies that contribute to the military-technical development of the country. An additional ban was introduced on the supply of firearms and ammunition, products, and technologies intended for use in the aviation and space industries. The EU also approved new personal sanctions. They affected 38 Belarusian citizens - security forces and propagandists, as well as three Belarusian companies (OJSC "BMZ - managing company of the BMK holding", Belneftekhim, and OJSC "Minsk Electrical Engineering Plant named after V.I. Kozlov")<sup>22</sup>.

The purpose of the economic sanctions imposed after the beginning of the full-scale Russian aggression in Ukraine was to impose serious restrictions on Russia and its ally – the Lukashenko regime for their actions, and to deprive them of the ability to continue military operations. Personal sanctions were targeted at individuals responsible for supporting, financing, or conducting actions that undermine the territorial integrity, sovereignty, and independence of Ukraine, or those who benefited from these actions.

Throughout 2020-2023, significant restrictions (financial, sectoral, personal) were also introduced by the USA. On December 23, 2020, the Office of Foreign Assets Control (OFAC) of the US Department of the Treasury listed one individual and four organizations for their role in the falsification of the On February 19, 2021, the US imposed sanctions on 43 Belarusian officials<sup>23</sup>, and on April 19 of the same year, banned any

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<sup>20</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022R0877&from=EN>

<sup>21</sup> [https://eur-lex.europa.eu/eli/reg\\_impl/2022/876](https://eur-lex.europa.eu/eli/reg_impl/2022/876)

<sup>22</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006R0765-20230805>

<sup>23</sup> <https://www.state.gov/imposing-visa-restrictions-on-additional-individuals-undermining-belarusian-democrac>  
[y/](#)

transactions with nine Belarusian state-owned enterprises of the petrochemical complex (sanctions took effect on June 3, 2021)<sup>24</sup>.

On August 9, 2021, the United States imposed sanctions on 23 citizens and 21 companies from Belarus, among them "Belaruskali" and the "Neman" tobacco factory, as well as a number of firms in the tobacco, construction, energy, and transportation sectors<sup>25,26</sup>. The Executive Order by the President of the United States also expanded the possibilities for imposing sanctions in certain sectors of the economy, including areas such as defense, security, energy, fertilizers, tobacco products, construction, and transportation<sup>27</sup>.

Following the start of the war in Ukraine, OFAC announced the imposition of sanctions against 24 Belarusian individuals and legal entities<sup>28</sup>. All their property that could be located in the United States was to be blocked. US citizens were prohibited from engaging in transactions with these organizations and their property. The new sanctions also affected major banks, defense industry enterprises, a number of high-ranking officials, and businessmen. The sanctions list specifically included Belinvestbank and Bank Dabrabyt, as well as companies owned by Belinvestbank. OFAC announced sanctions against a number of law enforcement agencies<sup>29</sup>. The US also extended the stringent export control measures introduced against Russia to Belarus<sup>30</sup>.

On April 1, 2022, the US Department of Commerce expanded restrictions against Belarus and Russia, adding another 120 enterprises from both countries to the sanctions list. The new list included, among others, MTZ, MZKT, the KGB and its "Alfa" unit, as well as the internal troops of Belarus<sup>31</sup>. On April 20, 2022, another 17 individuals from Belarus were added to the US sanctions list<sup>32</sup>, and on August 9 of the same year, visa

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<sup>24</sup> <https://ofac.treasury.gov/recent-actions/20210419>

<sup>25</sup> <https://ofac.treasury.gov/recent-actions/20210809>

<sup>26</sup> <https://home.treasury.gov/news/press-releases/jy0315>

<sup>27</sup> <https://www.state.gov/holding-the-lukashenka-regime-to-account-on-the-anniversary-of-the-fraudulent-presidential-belarusian-election/>

<sup>28</sup> <https://ofac.treasury.gov/recent-actions/20220224>

<sup>29</sup> <https://home.treasury.gov/news/press-releases/jy0607>

<sup>30</sup> <https://www.commerce.gov/news/press-releases/2022/03/commerce-imposes-sweeping-export-restrictions-belarus-enabling-russias>

<sup>31</sup> <https://www.commerce.gov/news/press-releases/2022/04/commerce-adds-120-entities-russia-and-belarus-entity-list-further>

<sup>32</sup> <https://www.state.gov/promoting-accountability-for-human-rights-abuses-in-russia-and-belarus-and-taking-action-against-sanctions-evaders/>

restrictions were additionally extended to 100 Belarusian officials and associated persons<sup>33</sup>.

On May 19, 2023, the US Department of Commerce expanded export restrictions to Belarus and Russia regarding over 1,200 types of industrial products<sup>34</sup>, and on December 5, 2023, the US sanctions list was expanded to include an additional 11 Belarusian companies from the military-industrial sector, retail trade, tobacco production, and logistics sphere; restrictions also affected 8 individuals<sup>35</sup>.

In addition to the US and EU, sanctions were introduced by 18 other countries around the world (the United Kingdom, Canada, Switzerland, Australia, New Zealand, Japan, the Republic of Korea, Ukraine, Norway, Iceland, Liechtenstein, Albania, Serbia, Montenegro, Albania, Kosovo, Taiwan, the Commonwealth of the Bahamas). Most of them actively began to join the sanctions following the airplane landing incident and especially with the onset of the war in Ukraine. The sanctions covered almost all key export sectors of the Belarusian economy (fertilizers, oil refining, woodworking, tobacco industry, military-industrial complex), the financial system, as well as more than 200 individuals.

In addition to countries, international organizations also introduced sanctions against the Lukashenko regime. On March 1, 2022, the European Bank for Reconstruction and Development indefinitely halted the Republic of Belarus's access to its projects<sup>36</sup>. On March 2, 2022, the World Bank halted all its programs in the Republic of Belarus<sup>37</sup>. As part of the EU's fourth package of sanctions, the European Investment Bank (EIB) ceased any financing or payments under all existing agreements related to projects in the public sector and under existing technical assistance contracts.

Thus, subsequent packages of sanctions by the EU and other states were directly linked to the events after which new restrictions were introduced. A number of individuals and organizations were placed on sanction lists for activities related to the violation of international law, including human

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<sup>33</sup><https://www.state.gov/promoting-accountability-on-the-second-anniversary-of-the-fraudulent-election-in-belarus/>

<sup>34</sup> <https://public-inspection.federalregister.gov/2023-10684.pdf>

<sup>35</sup> <https://ofac.treasury.gov/recent-actions/20231205>

<sup>36</sup> <https://www.ebrd.com/news/2022/ebd-moves-forward-with-action-against-russia-and-belarus.html>

<sup>37</sup> <https://www.worldbank.org/en/news/statement/2022/03/02/world-bank-group-statement-on-russia-and-belarus>

rights, following which the next package was adopted (plane landing, migration crisis).

However, such a connection is not always present, and the sanctions package adopted after the plane landing, migration crisis, and the start of Russian aggression in Ukraine included individuals responsible for election fraud and repression as well, i.e., other actions committed earlier and continuing at the moment of imposing restrictions. But overall, the countermeasures by the parties introducing the sanctions were mainly targeting the source of events due to which those restrictions were imposed.

In addition to Belarus's violations of international law, sanctions were justified by the presence of security threats to specific countries and alliances (particularly, these justifications became more common following the start of the full-scale war in Ukraine), aiming to deprive resources from states and individuals helping in carrying out aggression and punishing those guilty in it, allowing sanctions to be interpreted as a civilized measure of coercion and accountability.

## **2. The Fertilizer Production Industry and the Problem of Sanction Easing**

The production of mineral fertilizers is an important part of the country's industry. Belarus is one of the few countries that produces all three main types of fertilizers – potassium, phosphorus, and nitrogen. In Belarus, virtually all the largest enterprises in this sector are state-owned.

The main fertilizer producers are Belaruskali, Grodno Azot, and Gomel Chemical Plant. Specifically:

JSC "Belaruskali" is one of the leading producers of potassium fertilizers in the world, with this enterprise accounting for about 1/7 of their global production until recently;

JSC "Grodno Azot" is the largest enterprise that forms the basis of the country's petrochemical complex, producing liquid ammonia, urea, ammonium sulfate, and methanol.

Both of these enterprises are under EU and US sanctions. The US reinstated sanctions against Grodno Azot in April 2021 for the dismissals and intimidation of workers due to protests following the 2020 elections in Belarus<sup>38</sup>. Separately, in August 2021, the director of this enterprise, Igor Lyashenko, came under American sanctions<sup>39</sup>.

Grodno Azot was included in the fifth package of EU sanctions on December 2, 2021<sup>40</sup>. In their statement, European authorities noted that the enterprise is responsible for the persecution of civil society. Sanctions against this enterprise were also introduced by Switzerland, Japan, and Ukraine (before the war, Grodno Azot was the largest supplier of fertilizers for the latter).

Unlike the potassium sector, which was completely covered by sectoral sanctions from the EU and a number of other democratic countries, the nitrogen fertilizer production sector avoided total sectoral restrictions. Specifically, EU sanctions were imposed on JSC "Grodno Azot" as a legal entity. This allows Grodno Azot to circumvent European sanctions by using intermediary firms.

Over the last 30 years, Belarus has been among the top five leading countries in the world in the production of potash fertilizers. Fertilizer exports account for 70% of the total exports of the chemical industry.

In the EU in 2020, Belarus exported 474,300 tons of potash fertilizers worth \$195.8 million. The main deliveries were to Poland, Belgium, Italy, and Lithuania. The EU's share in the total volume of supplies in natural terms was only 6.6%, and in monetary terms, about 8%<sup>41</sup>. In 2020, the largest markets for Belarusian potash were Brazil, China, and India.

In June 2021, the EU imposed a ban on trading potash with Belarus<sup>42</sup>. However, the restrictions introduced at that time did not significantly hinder Belaruskali, as the ban covered fertilizers with a certain potassium content (and the Belarusian product with about 58% content did not fall into this range).

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<sup>38</sup> <https://ofac.treasury.gov/recent-actions/20210419>

<sup>39</sup> <https://ofac.treasury.gov/recent-actions/20210809>

<sup>40</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006R0765-20211202>

<sup>41</sup> <https://www.vedomosti.ru/business/articles/2022/05/04/920938-sanktsii-kaliinih-udobrenii>

<sup>42</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006R0765-20210625>

In August 2021, the United Kingdom and Canada also introduced sectoral sanctions against Belarus, implying a ban on trading in potash fertilizers, and the US included Belaruskali in the SDN list (blacklist, with which American legal entities and citizens are prohibited from doing business).

On December 2, 2021, the US Treasury included the Belarusian Potash Company and Slavkali, which is building capacities for the production of potassium chloride in the country, in the sanctions list. The sanctions provide for the termination of relations with these companies by April 1, 2022, and the blocking of their assets in the US<sup>43</sup>.

In January, due to sanctions from the US and the EU, the Norwegian company Yara, a major buyer of Belarusian fertilizers in Europe, announced its refusal to use potash from Belarus by April 2022. The Lithuanian government terminated the contract of Lithuanian Railways for the transit of Belarusian fertilizers to the port of Klaipeda from February 1, 2022.

Potassium is one of the main sources of foreign currency income for the Lukashenko regime. This industry is closely linked to his "wallets" and allows financing both repressions within the country and the regime's complicity in Russia's aggression against Ukraine.

Moreover, mechanisms for circumventing these sanctions are quite problematic for the Lukashenko regime due to logistical restrictions. For example, most Russian ports through which Belarusian potash is transshipped are not equipped for the transshipment of bulk fertilizers. The current capacities of Russian ports allow for a relatively quick increase in transshipment by only 3 million tons, mainly packing fertilizer in "big bags", which do not require specialized terminals<sup>44</sup>.

However, for the effective transportation of large volumes of bulk fertilizers, the construction of additional specialized port terminals is required. But there are problems with this. The illegitimate authorities of Belarus announced the acquisition and modernization of the "Bronka" port near Saint Petersburg, as well as the modernization of the port in Murmansk. However, these projects remain at the level of vague plans and discussions.

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<sup>43</sup> <https://home.treasury.gov/news/press-releases/jy0512>

<sup>44</sup> <https://www.vedomosti.ru/business/articles/2022/07/10/930698-koridorov-eksporta-udobrenii>



The volume of transshipment of Belarusian potash through the "Bronka" port by the end of 2023 was supposed to be only about 1 million tons.<sup>45</sup> The total current capacity of this port for the transshipment of all types of cargo is no more than 3.2 million tons per year. And this is one of the main ports on the Baltic Sea through which Belarusian potash goes. The second large port on the Baltic through which fertilizers and petroleum products from Belarus are exported is Ust-Luga.

Both the capacities and the logistical costs in other directions are much more modest. First, it takes longer to transport by rail, which affects the cost (in general, sea shipments are traditionally cheaper than rail), and secondly, the carrying capacity of the ports is significantly less. The throughput capacity not only of Russian ports but also of the railway to third countries, for example, China, also has its physical limits.

Although Russian potash, which competes with Belarusian potash, is not under sanctions, its sale in the EU is limited by quotas. This does not allow Russia to either increase its own production or help the Lukashenko regime circumvent sanctions through the re-export of Belarusian potash raw materials.

As a result, according to the United States Geological Survey (USGS), in 2022, potash production in Belarus decreased by 60%<sup>46</sup>, under the impact of sanctions, while exports fell by 50%, according to Canadian company Nutrien<sup>47</sup>. By 2023, according to experts from the USGS, the production of potash fertilizers in Belarus fell by another 5% compared to the previous year (from 4 million to 3.8 million tons)<sup>48</sup>.

According to our information, there is no real threat to food security from sanctions on potash. Food prices, according to the same UN, which is used to lobby for the lifting of sanctions, are steadily decreasing<sup>49</sup>. Not increasing, but rather retail prices for potash fertilizers themselves are falling<sup>50</sup>.

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<sup>45</sup> <https://portnews.ru/comments/3381/>

<sup>46</sup> <https://www.usgs.gov/centers/national-minerals-information-center/mineral-commodity-summaries>

<sup>47</sup>

<https://www.nutrien.com/investors/news-releases/2022-nutrien-delivers-record-first-half-earnings-and-expects-strong-second>

<sup>48</sup> <https://pubs.usgs.gov/periodicals/mcs2024/mcs2024.pdf>

<sup>49</sup>

<https://www.fao.org/worldfoodsituation/foodpricesindex/en/#:~:text=During%20the%20past%20twelve%20months,of%20sugar%20and%20meat%20increased>

<sup>50</sup> <https://farmpolicynews.illinois.edu/2023/03/fertilizer-prices-continue-to-fall/>



The cost of all fertilizers is now double digits lower than a year ago. 10-34-0 is cheaper by 17%, DAP is down by 21%, MAP is cheaper by 23%, potash is down by 26%, UAN32 is cheaper by 28%, both anhydrous and UAN28 are cheaper by 33%, and urea is 39% cheaper than a year earlier<sup>51</sup>.

In general, according to experts, farmers can easily delay the application of potash fertilizers for a couple of years without significant losses in production. Their use is not as critical as that of phosphates or nitrogen fertilizers. Thus, there is no evidence that the productivity of the global agricultural sector has somehow decreased due to the reduction in potash supplies from Belarus.

It should be noted that Belarusian potash was not primarily sold to countries with low levels of food security (such as the African region). The main consumers were powerful agricultural countries like Brazil or China, whose agriculture is based on livestock. Their agricultural sector functions quite successfully and has not suffered any adverse effects.

Even African countries, where the share of Belarusian potash consumption is much lower, have, according to local experts, already adapted to the current situation. According to Africa Fertilizer Watch, an organization that monitors the impact of sanctions on the fertilizer market in Africa and other key indicators related to the price and availability of fertilizers, the region south of the Sahara (which is key for the proposed export of Belarusian potash) experienced a decrease in fertilizer prices on both the world and African markets, leading to increased availability of fertilizers for local farmers<sup>52</sup>.

The remaining fertilizer deficit, if any, can be addressed through initiatives such as the World Food Programme and other support programs for countries at high risk of food insecurity. Specifically, other initiatives include the International Finance Corporation's (IFC) Global Food Security Platform with a \$6 billion US fund, which provides access to loans for addressing liquidity issues in the private fertilizer supply chain, and the World Bank's food security and nutrition support package totaling \$30 billion US, aimed at developing countries.

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<sup>51</sup> <https://www.dtnpf.com/agriculture/web/ag/crops/article/2023/04/05/retail-fertilizer-prices-end-march>

<sup>52</sup> <https://africafertilizerwatch.org/#/en>

The IMF also offers an emergency financing channel to countries with urgent balance of payments needs related to food and fertilizers. The G7 and the World Bank are also engaged in significant partnerships, such as the Global Alliance for Food Security, to support countries in dire situations. Thus, the world has sufficient reserves to assist African countries.

Africa produces about 30 million tons of fertilizers each year, which is twice its consumption. However, about 90% of the fertilizers consumed in sub-Saharan countries are imported, mainly from outside the continent.<sup>53</sup> This reflects the inefficiency of local logistics and distribution chains. A major urea fertilizer plant was recently opened in Nigeria, but part of its production goes to subsidize inefficient Nigerian buyers, and a significant portion is exported to Latin America. As a result, farmers in Africa depend on suppliers outside their continent, which is irrational and inefficient.

In turn, in the EU and other countries that have joined the sanctions and are seeking their relaxation, there is no shortage of potash fertilizers at all. Overall, the EU's dependence on Belarusian potash is minimal: the EU previously depended on Belarusian potash for no more than 5% of its consumption.

A significant portion of the world's demand for potash fertilizers should be covered in the near future by producers from other countries. For example, in Canada alone, an additional 6 million tons of potash fertilizers will be produced by 2027.

Nutrien, K+S, and Mosaic – three companies producing potash in Canada – have activated and increased potash production. The Canadian mining company Millennial Potash recently acquired the Banio Potash Project in Gabon. Thanks to its large resource and strategic location, Millennial Potash's acquisition of the Banio Potash project could help the company become a major player in the global potash fertilizer market and provide a reliable source of potash fertilizers for countries around the world, especially in the Southern Hemisphere<sup>54</sup>.

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<sup>53</sup> <https://blogs.worldbank.org/voices/transformed-fertilizer-market-needed-response-food-crisis-africa>

<sup>54</sup>

<https://www.accesswire.com/753670/With-Russia-And-Belarus-Being-Among-The-Largest-Suppliers-Of-Potash-There-Is-A-Supply-Gap-For-It-Is-Millennial-Potash-OTCMKTS-MLPNF-The-Answer>

Thus, there is no urgent need to restart potash fertilizer exports from Belarus. Discussions about the threat of hunger and food security resemble the Russian propagandist narrative about the onset of an energy crisis in Europe without Russian hydrocarbons.

Therefore, there are no real grounds for easing sanctions on the Belarusian potash industry. As for sanctions on other fertilizer production enterprises, given the discovery of schemes to circumvent sanctions, it seems more appropriate to shift from blocking sanctions on individual enterprises (like Grodno Azot) to sectoral restrictions on commodity positions according to the established foreign economic activity commodity nomenclature.

In general, the following conclusions can be made. As a result of the sanctions imposed on the Belarusian potash industry, the export of Belarusian potash fertilizers has decreased by more than 50%, primarily due to the restriction on using EU territory for transit. Specifically, Lithuania ceased using its railway network to transport Belarusian potash to the port of Klaipeda, which typically handled nearly 90% of Belarusian exports. Logistical restrictions are a powerful sanction mechanism.

Belarus' share in the African potash fertilizer markets has significantly decreased. However, this did not lead to a drop in grain harvests in Africa and a sustainable increase in food prices. Initially increased global fertilizer prices also eventually fell. Potash fertilizer importers, who did not support the sanctions restrictions, partially refrain from purchases in Belarus due to additional costs and risks associated with doing business with sanctioned countries.

Among participants in the potash market and consuming industries regarding supplies of potash fertilizers from Belarus, there were no negative consequences for agricultural supply chains and food security. There was also no shortage of potash on the international market.

Sanctions on the Belarusian potash industry clearly demonstrate that this is a civilized and effective punitive measure by democratic countries, and that the regime and its wallets are the only ones suffering losses. There is also an increasing understanding that global food security, like

energy security, cannot be based on and dependent on undemocratic countries.

### 3. Wood Processing and the Issue of Circumventing Sanctions

The woodworking industry is one of the most important sectors of the Belarusian economy. The Republic of Belarus possesses a unique renewable resource. Belarus is rich in forest resources: forests cover 40.1% of the country's territory<sup>55</sup>.

The woodworking industry has traditionally been export-oriented. The share of this sector in exports had been steadily increasing until 2020.

The Belarusian woodworking industry is primarily represented by the Belarusian Production and Trade Concern of Forestry, Woodworking, and Pulp and Paper Industry "Bellesbumprom." The concern includes over 40 enterprises of various ownership forms. The key enterprises of the woodworking industry are: JSC "Vitebskdrev," JSC "Gomeldrev," JSC "Mostovdrev," JSC "Rechitsadrev," JSC "Borisovdrev," JSC "FanDOK," RUE "MozyrDOK." These enterprises are engaged in the production of particleboard, OSB, MDF, LDF, laminate, and various types of plywood.

The state owns the majority of woodworking enterprises. Until recently, woodworking companies had physically and morally obsolete assets and suffered losses due to inefficient production. Large volumes of forest resources were exported with little or no processing.

In 2007, an ambitious program was initiated to modernize the enterprises of the "Bellesbumprom" concern and create new productions, which was almost completely finished by 2015. The state invested more than 4 billion US dollars in this sector<sup>56</sup>.

Despite the inefficiency of the investment process (poor planning, schedule shifts, budget overruns), the enterprises are equipped with the most modern production lines. The modernized enterprises produce MDF, HDF, insulating MDF, particleboard, decorative panels, plywood, etc.

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<sup>55</sup> <https://president.gov.by/ru/belarus/economics/osnovnye-otrasli/promyshlennost/derevoobrabotka>

<sup>56</sup> <https://president.gov.by/ru/belarus/economics/osnovnye-otrasli/promyshlennost/derevoobrabotka>

Foreign investors entered the Belarusian woodworking industry in the early 2010s. In 2010, the company Kronospan signed an investment agreement with the Republic of Belarus. The construction cost of the wood board manufacturing plant is estimated at 120 million euros. In 2013, Kronospan began the construction of a second plant in the Mogilev Special Economic Zone (SEZ) with the support of EBRD loans.

In 2011, the VMG group invested in a woodworking complex in the Mogilev SEZ. The complex consists of plants for the production of particleboard, flat sections, plywood, synthetic resins, and a power station. For this project, the EBRD provided a loan of 26 million euros.

In recent years, Belarusian timber and woodworking products have been actively exported to European Union countries. To assess the scale of supplies, it is enough to look at the indicators of official statistics. For example, in 2021, the export to the EU of longitudinally sawn timber alone amounted to 690.7 million US dollars, and wood particle boards – 178.6 million US dollars<sup>57</sup>.

The domestic products were most actively purchased by such European Union countries as Poland, Lithuania, Latvia, Germany, the Netherlands, Belgium, Denmark, Estonia, and Romania. In total, in 2021, Belarus exported to the EU timber and timber products worth 1.7 billion US dollars.

Following the Russian military invasion of Ukraine, the Belarusian woodworking industry was among the first to be sanctioned by the West. The export to Europe of commodity products under the HS code 44 "wood and articles of wood; wood charcoal" was completely banned.

Despite this decision, in the first half of 2022, European countries continued to import Belarusian timber and woodworking products. This was because the restrictions did not apply to contracts signed before March 2, 2022, and could be executed until the beginning of June.

Thus, access to the markets of EU countries for this industry was definitively blocked in the summer of 2022. As a result, timber supplies to the EU from Belarus plummeted more than 30-fold, as evidenced by Eurostat data<sup>58</sup>.

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<sup>57</sup> <https://myfin.by/stati/view/belorussskaa-drevesina-potanuslas-na-vostok>

<sup>58</sup> <https://ec.europa.eu/eurostat>

Since then, Belarusian woodworking enterprises have started looking not only for new markets for their products but also for new schemes to circumvent the imposed sanctions. The priority became supplies to countries of the former USSR, as exporting to other states raised logistics issues.

As soon as sanctions against Belarusian timber came into effect, exports from Kazakhstan to the EU increased 74-fold, and from Kyrgyzstan - almost 18 thousand times compared to the same period in 2021. The schemes of such supplies were revealed by the Belarusian Investigative Center<sup>59</sup>.

According to Mikhail Kasko, the chairman of the "Bellesbumprom" concern, sanctions affected 46% of the woodworking enterprises' products<sup>60</sup>. Europe has always been a high-margin market, meaning it was profitable to sell there. Considering transportation expenses, the profit from supplies to, for example, China became simply incomparable with the previous exports to the EU. Overall, since 2022, there has been a cost increase in supplies from the Republic of Belarus in the eastern direction: timber went to Uzbekistan, Georgia, Turkey, China, and other countries.

At the same time, plans to increase exports to Central Asia and the Caucasus touched on the interests of Russian companies, which had long been present in this region. Understandably, occupying a niche was not easy.

With the onset of the war, the loss of the Ukrainian market significantly affected the Belarusian forestry industry. Although the volume of supplies to this country was less than the export to the EU, sales in Ukraine had been continuously growing in the last pre-war years. The highest demand there was for particleboard, sawn timber, and plywood.

If for other commodity groups the Lukashenko regime managed to partially restore the lost exports to the EU by the end of 2023, including through schemes to circumvent restrictions, Belarus did not find a replacement for the EU market in the implementation of, for example,

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<sup>59</sup> <https://investigatebel.org/investigations/belaruski-les-abyhodzic-sankcyi-pa-falshyvyh-dokumentah>

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<https://myfin.by/stati/view/sankcii-zastavili-boleznenno-perestroitsa-kak-pereraspredelilis-rynki-sbyta-v-derevo-obrabotke>

fuel pellets, as stated by the head of the Ministry of Forestry, Alexander Kulik, in August 2023<sup>61</sup>.

It should be noted that circumventing sanctions through Russia also revealed a number of problems for the Lukashenko regime related to the existing prohibitive measures in Russian legislation. In particular, truckers faced certain problems.

To resolve these issues, the Russian government adopted Resolution No. 2552 on December 30, 2022, which allowed the transportation of timber products with HS codes: 4403 (with some exceptions), 4404, 4406, 4407, by cargo road transport from Belarus through designated border checkpoints on the Russian border.

However, the resolution did not solve the problem with the processing of electronic accompanying documents, which could only be obtained by residents of the Russian Federation. As a solution, the Russian authorities, accommodating the Lukashenko regime, authorized the use of navigation seals for the transit of goods through Russia with Belarusian timber materials. Also, to solve the problems with transit through Russia, the illegitimate Belarusian authorities decided to create a legal entity in Russia, subordinate to the Belarusian Ministry of Forestry.

Thus, for various reasons, traders of products from the Belarusian woodworking industry also faced a number of difficulties on the Russian market, which did not allow for a quick reorientation of transport flows to the east, bypassing the restrictions imposed by the EU and other Western countries.

For a long time, the issuance of international certificates to Belarusian enterprises for trading in the EU market remained a significant issue in strengthening the sanctions regime in the woodworking sector. If the products of HS code group 44 were denied access to the EU market by sectoral sanctions, furniture still had such opportunities thanks to the presence of these certificates.

International certificates like FSC, PEFC, RSPO are issued to an enterprise engaged in logging or wood processing. This is one of the

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<https://sputnik.by/20230825/minsk-ne-nashel-zamenu-rynku-es-dlya-realizatsii-toplivnykhpellet--kulik-1078835682.html>

conditions, after fulfilling which an enterprise can sell its products in the EU, for example, to large chains such as IKEA, Lutz, Hoffner. Certificates are issued based on the conclusion of experts in specialized centers. In Belarus, such conclusions are provided by employees of companies like Preferred by Nature, SCS, and others.

On March 8, 2022, the FSC International Board of Directors (an international organization responsible for maintaining standards in forest management) decided to suspend the certification for the export of wood processing and forestry products from Belarus and Russia. This decision came into effect on March 14, 2022. The basis for this decision was the aggression of Russia and Belarus against Ukraine and the repression against workers in this sector in Belarus.

After an analysis, it was decided to temporarily suspend certification in Belarus. This decision will have the effect of canceling the current certification of enterprises in Belarus without the possibility of obtaining new certificates, which halts the export of forestry industry products. This measure further impacted the Belarusian woodworking industry.

It should be noted that many intermediaries advertise their services for circumventing sanctions through third countries, i.e., sending prohibited goods to the EU from the former Soviet Central Asia. The cargoes transiting through Belarus are not actually supplied from the Central Asian region. Therefore, imposing sanctions on intermediaries is largely futile, as they are disposable and interchangeable.

Relabeling goods produced in Belarus as products manufactured in other CIS countries and "exported from there in transit through Belarus" is one of the main ways to circumvent sanctions. In principle, a similar scheme is used for the illegal import of goods into Belarus, which are supposedly directed, for example, to Georgia or Armenia, but in reality do not leave the Belarusian territory.

Detecting such schemes is quite difficult. Third countries have very few tools to control such "counterparties" as this activity often leaves almost no trace in the countries of registration. The activity of intermediaries at first glance appears entirely legal, unless the inspecting authority reaches the black accounting or internal correspondence of the



organizers evading restrictions. Therefore, more creative solutions are needed.

Often, the transit of sanctioned goods through Belarus does not make economic sense due to the low cost of the goods combined with long delivery distances and, consequently, the high price of logistics expenses. However, overall, it is better to use a quota mechanism. Any large-scale smuggling leads to a multiple increase: the volumes of EU trade in, for example, timber with some CIS countries have increased by 10-20 times, and in some places by thousands of times.

This problem can be solved by establishing trade or transport quotas based on the pre-war level of trade with these countries. The quota can have an annual increase of 20-30% to accommodate any organic growth, but at the same time effectively prevent smuggling. Thus, to prevent circumvention of sanctions in the woodworking sector, it is advisable to introduce quotas for commodity products of HS code group 44, coming, for example, from Kyrgyzstan or Kazakhstan. Only by establishing such quotas, for instance, based on double or triple the pre-war trade level with third countries, can the problem be solved. This practice can later be extended to other commodity positions.

## **4. The Tobacco Industry and the Smuggling Problem**

The tobacco market is traditionally considered one of the most conservative, barely affected by even crisis phenomena. Before the sanctions were introduced, cigarette production volumes were constantly increasing. This dynamic was achieved through the organization of the production of international brands on Belarusian platforms, as well as by increasing exports, including through smuggling schemes.

The tobacco industry is important for the Belarusian state in terms of budget revenue. In total, this sector brings in more than 1.2 billion rubles a year through various taxes and fees, said Finance Minister Maxim Yermolovich at the end of 2019.

Currently, there are three major cigarette manufacturers in Belarus. Besides the Grodno factory "Neman" (hereinafter – GTF), there are

"Tabak-Invest" by Pavel Topuzidis and "Inter-Tabacco" by Alexey Oleksin (the latter owns the "Tabakerka" kiosk network, exclusive rights to sell GTF products, and exclusive rights to import tobacco raw materials).

GTF traditionally occupied the lower price segment, as initially, this enterprise was not capable of producing high-quality products. More than half of the production volume in the first half of the 2000s was accounted for by non-filtered products. However, due to this, the enterprise started to lose its position significantly because the population's increasing wealth reoriented consumers towards more expensive brands.

As a result, UNA faced the need to produce its own expensive cigarettes. But this required a lot of time and effort, investments in marketing, and distribution development. Therefore, GTF, besides cigarettes of its own brands, started to produce tobacco products within the framework of contract manufacturing jointly with British American Tobacco, Japan Tobacco International, and Tobacco International Enterprises Ltd.

The Minsk LLC "Tabak-Invest" was allocated the niche of mid-priced segment filter cigarettes. Under a licensing agreement with Japan Tobacco International (JTI), LLC "Tabak-Invest" produced cigarette brands such as Winston, Monte Carlo, Camel, Magna, and Mild Seven; under a licensing agreement with the Imperial Tobacco Group, it produced cigarette brands such as West, Golden Gate, Stile, and Imperial Classic. The factory also produces its own cigarette brands "Corona" and "Fort".

Cigarette production in the Republic of Belarus is carried out in accordance with government-approved quotas for the coming year. Moreover, the quotas allocated have always been much more than what was needed for the Belarusian domestic market. Nevertheless, curiously, the market periodically experienced a problem of a shortage of domestic quotas for production. Usually, this problem was solved by adjusting the quotas for the current year.

In general, in the pre-sanction period, there was significant growth in the official export of tobacco products abroad. A significant increase in exports occurred under conditions of increased production volumes while domestic consumption decreased. Besides the EU, the main

markets for Belarusian tobacco products traditionally included Ukraine and Moldova.

Starting from the summer of 2021, the European Union, the United States, and the United Kingdom successively introduced sanctions against the Belarusian tobacco industry. Thus, the fourth package of sanctions adopted by the EU on June 25, 2021, included goods for the production of tobacco products, as well as the owner of tobacco kiosks and Lukashenko's "wallet," businessman Alexey Oleksin<sup>62</sup>. On June 3, 2022, the Grodno Tobacco Factory (GTF), LLC "Inter Tobacco" owned by Oleksin and his sons, also fell under the EU's blocking sanctions. Oleksin and his second company, CJSC "Energo-Oil," fell under the US blocking sanctions in August 2021, just like the state-owned GTF<sup>63</sup>. On June 3, 2022, the Grodno Tobacco Factory (GTF), LLC "Inter Tabacco" owned by Oleksin and his sons fell under the EU blocking sanctions. Oleksin and his second company, CJSC "Energo-Oil," came under US blocking sanctions in August 2021, as did the state-owned GTF.

In December 2023, Viktor Petrovich and Pavel Topuzidis – co-owners of another large tobacco company, "Tabak-Invest," came under US blocking sanctions. In spring 2022, Lukashenko signed a decree regulating the import of tobacco products. According to it, the exclusive right of the state to import tobacco raw materials would be exercised by GTF and "Tabak-Invest," while "Belarustorg" would handle the import of tobacco products.

Notably, the decree lacks two legal entities that were also involved in the production and sales of tobacco products: "Inter Tobacco" and "Energo-Oil". It can be assumed that this is a direct consequence of the sanctions. The regime decided to exclude Oleksin's companies from the list of importers, precisely because he himself and his companies fell under sanctions lists.

After the introduction of Western restrictions, British American Tobacco (BAT) announced the suspension of its product production at GTF (it was manufacturing cigarettes under contract for the Belarusian division of BAT). Previously, the British company was the largest investor in the tobacco industry of Belarus.

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<sup>62</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006R0765-20210625>

<sup>63</sup> <https://ofac.treasury.gov/recent-actions/20210809>

The BAT group of companies, including its representation in Belarus, announced that it is conducting a legal analysis due to the imposed sanctions. This included determining a business model that would comply with Belarusian national legislation and applicable international law.

In October 2022, it was revealed that the BAT representation in Belarus, “British American Tobacco Trading Company,” notified partners about the started reorganization. The new name of the company is LLC “International Tobacco Marketing Services BY” (“ITMS BY”).

It was previously reported that this legal entity would become the legal successor to the rights and obligations of the “British American Tobacco Trading Company.” It was also specified that BAT would continue its presence in the Belarusian market in various organizational and legal forms, and the changes initiated by BAT in Belarus would not affect the high standards the company adheres to in its operations.

Recently, BAT concluded an agreement to sell its business in Belarus and Russia to a consortium led by members of the management team of “BAT Russia”. This consortium, after completing the transaction, will fully own both enterprises. Together, these enterprises will be called the ITMS Group<sup>64</sup>.

As a result of the sanctions and the departure of Western partners from the Belarusian market, some cigarette brands began to disappear from retail outlets in Belarus. Smokers in Belarus already in 2023 encountered a significantly reduced assortment of tobacco products in stores. Other cigarettes, after a brief disappearance, reappeared on the shelves, but their quality had significantly deteriorated<sup>65</sup>.

The sanctions restrictions became a serious blow to the tobacco production, as 70-80% of the market belonged to GTF (Grodno Tobacco Factory). For this reason, the factory was forced to look for new raw material suppliers, as it previously purchased them in the EU. Non-tobacco materials such as cigarette paper, cardboard, aluminum foil, glue, and cardboard labels were bought in the Czech Republic, Austria,

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<sup>64</sup> <https://news.zerkalo.io/economics/48306.html?c>

<sup>65</sup>

<https://belsat.eu/ru/news/13-05-2022-iz-za-sanktsij-zapada-belorusskij-tabachnyj-rynok-priostanavlivaetsya-na-perekur/>

Germany, Italy, France, Lithuania, Greece, and Hungary. The equipment for the factory was supplied from Germany and Italy. In search of raw materials, GTF had to look for new partners in Russia and Asia.

One of the important components of the tobacco business in Belarus has traditionally been smuggling. This is evidenced, among other things, by unaccounted cigarette exports. According to the estimates of the State Customs Committee, in 2012, the volume of exports, including the unaccounted, amounted to about 6 billion pieces, compared to 1.2 billion pieces according to official data<sup>66</sup>.

In 2013, this situation persisted: according to official statistics, the export amounted to 5.9 billion pieces, while the total volume of exported tobacco products reached 8.9 billion pieces. However, in 2014, according to official statistics, exports amounted to 10.2 million pieces, while the total volume of exported tobacco products was only 4.7% higher<sup>67</sup>.

In 2013, the share of smuggled cigarettes in the total consumption in Latvia almost reached 30%. This was the year when Belarusian cigarettes accounted for 60% of the illegal turnover, surpassing Russian products for the first time. Following the efforts of Latvian customs and border guards, the volume of illegal cigarette trade decreased, and in 2019 it reached a decade low of 14.1% according to KPMG (16.8% according to Nielsen)<sup>68</sup>.

However, in 2020, the share of smuggling soared again to 20.4% of the total market volume. Belarusian cigarettes accounted for 67.2% of the illegal turnover, with GTF products making up 61%<sup>69</sup>. In Lithuania, customs also seized twice as many undeclared tobacco products as in 2019. One in every four cigarettes smoked there in 2020 was smuggled. This spike can be linked to the increase in excise taxes and the ban on menthol cigarettes in Europe, as well as the drop in personal incomes during the pandemic.

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<sup>66</sup> <https://investinbelarus.by/docs/Tabak.pdf>

<sup>67</sup> <https://investinbelarus.by/docs/Tabak.pdf>

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<https://www.svoboda.org/a/tabachnyy-korolj-belarusi-rezhim-lukashenko-i-kontrabanda-sigaret/31323722.htm>

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<https://www.svoboda.org/a/tabachnyy-korolj-belarusi-rezhim-lukashenko-i-kontrabanda-sigaret/31323722.htm>

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At the same time, with the onset of extensive Western sanctions, the impact was felt not only on the legal export of tobacco products from Belarus but also on smuggling. Given that cigarette smuggling to Europe occurred through both private trips by individuals and cargo road and rail transport, the reduction in transport traffic due to sanctions, as well as the closure of certain border checkpoints, led to a decrease in smuggling volumes.

In 2022, according to Lithuanian customs, there was a sharp decline in the flow of smuggled cigarettes from Belarus. The department believed this was related to the restrictive measures introduced against Belarus and Russia. This decline continued into 2023. While Lithuanian services intercepted 4.4 million packs of cigarettes in 2022, in 2023, only 2.5 million packs were intercepted, or 41% less. 95% of the smuggled cigarettes were brought from Belarus<sup>70</sup>.

The Lithuanian Border Guard Service believes that the reduction in smuggling is primarily due to the closure of the "Stasylas" ("Benyakoni") railway crossing in February 2023. As a result, illegal cigarette shipments by rail dropped from nearly 3 million packs a year to 240,000 packs a year<sup>71</sup>.

With the onset of the full-scale war in Ukraine, the Belarusian-Ukrainian border was effectively completely closed, which was another strong blow to smuggling flows. According to the Monitoring of Illegal Trade of Tobacco Products in neighboring Ukraine, its structure changed. The share of tobacco products from Belarusian factories decreased from 45% in 2021 to 10% in 2022<sup>72</sup>.

Thus, sanctions have become a significant factor in the growing problems of Belarus's shadow economy, associated both with the tobacco business and with the Lukashenko regime itself, which effectively provided state-level protection for these processes. Smuggling brought significant income to the dictator and his circle. Sanctions and the closure of borders contributed to the collapse of this illegal regime business.

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<sup>70</sup> <https://reform.by/kontrabanda-sigaret-v-litvu-znachitelno-sokratilas-v-2023-godu>

<sup>71</sup> <https://reform.by/kontrabanda-sigaret-v-litvu-znachitelno-sokratilas-v-2023-godu>

<sup>72</sup> <https://www.epravda.com.ua/rus/news/2023/02/1/696589/>

In this context, maintaining physical restrictions on the movement of goods across the border with the EU, including by rail and road transport, is an important factor in reducing the volumes of smuggling, which is largely controlled by the Lukashenko regime and is a source of its enrichment.

## 5. Sanctions in the Financial Sector and Options for Their Improvement

The financial sector plays a very important role in the Belarusian economy. It is represented by key parts such as banking, insurance, and leasing.

The main part of Belarus's financial system is undoubtedly the banking sector. The cumulative share of state banks in 2022 accounted for 66.1% of the total assets. Thus, the state still occupies a large part of the financial sector. In 2022, the share of state banks in the charter fund of all Belarusian banking institutions was 86.4%, and in regulatory capital – 63.9%<sup>73</sup>.

Russian capital is the most represented among foreign investments, dominating in private commercial banks such as JSC "Sberbank" (the largest private bank by asset size), Bank BelVEB, Belgazprombank, Alfa-Bank, etc. The Austrian Raiffeisen Bank is the only international bank operating in Belarus (it is part of Priorbank's capital).

Despite the fact that most Belarusian banks were established with the participation of formally foreign capital (in 14 banks, the share of foreign investors in the charter fund exceeds half, with three banks being entirely foreign), the de facto participation of foreign capital, as well as private capital in general in the banking sector remains insignificant. The share of private banks in the total charter fund of Belarusian banks in 2022 was 0.8%, and in regulatory capital – 1.8%<sup>74</sup>.

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<sup>73</sup> <https://www.nbrb.by/publications/report/report2022.pdf>

<sup>74</sup>

<https://select.by/news/kolichestvo-bankovskikh-otdelenii-i-finansovykh-22111#:~:text=%D0%92%20%D1%80%D0%B5%D0%B7%D1%83%D0%BB%D1%8C%D1%82%D0%B0%D1%82%D0%B5%20%D0%B2%202022%20%D0%B3%D0%BE%D0%B4%D1%83,%25%20%D0%B4%D0%BE%2066%2C1%25>.

Thus, the banking sector in Belarus is dominated by the state, and foreign capital is represented mainly by Russian rather than Western investors. Nevertheless, before the start of sanctions, the financial sector of Belarus, compared to many others, was quite integrated into the international financial system.

International financial institutions directly through the state or indirectly through Belarusian banks were involved in lending to programs for the development of small businesses and infrastructure facilities.

*The total volume of financial resources provided to Belarus by the European Bank for Reconstruction and Development (EBRD) from 1992 to 2019 amounted to about 2.9 billion euros<sup>75</sup>. In 2019 alone, the Republic of Belarus and the EBRD signed agreements worth approximately 390 million euros. As part of a joint direction of work with the EBRD to increase the resilience and quality of state infrastructure services, a number of investment projects in the housing and communal services and transport infrastructure were implemented. In 2019, three loan agreements were concluded. The EBRD also opened a credit line through a number of Belarusian banks (Belgazprombank, MTBank, BNB-Bank) for lending to small and medium-sized enterprises. The EBRD assisted Bank Dabrabyt and Belinvestbank in preparing for privatization.*

*The total amount of credit funds allocated by the European Investment Bank (EIB) during the period of 2018 – 2019 amounted to 530.0 million euros<sup>76</sup>. In 2019, agreements were concluded with the EIB for the implementation of infrastructure projects in the public sector, with a total volume of financing provided to the Republic of Belarus amounting to 266 million euros. The EIB allocated loans to Belarusbank and Belagroprombank.*

After the events of 2020, the financial sector became one of the key directions for sanctions against the Lukashenko regime. In particular, a number of leading financial institutions (EBRD, World Bank, EIB) froze their cooperation with the Belarusian public sector.

On March 1, 2022, the European Bank for Reconstruction and Development indefinitely halted access for the Russian Federation and

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<sup>75</sup> [https://economy.gov.by/ru/obschaja\\_info\\_mfo-ru/](https://economy.gov.by/ru/obschaja_info_mfo-ru/)

<sup>76</sup> [https://economy.gov.by/ru/obschaja\\_info\\_mfo-ru/](https://economy.gov.by/ru/obschaja_info_mfo-ru/)



the Republic of Belarus to its finances. However, for Belarus, the freezing of relations with the EBRD effectively occurred already in 2020, initially for new projects in the public sector and then in the private sector as well. On March 3, 2022, the World Bank also halted all its programs in Russia and Belarus.

Many international financial markets were closed to the new placement of Belarusian securities. On June 24, 2021, the Council of Ministers of the European Union:

- Prohibited access to EU financial markets for the Belarusian government, state financial institutions, and bodies;
- Suspended financing of projects in the public sector by the European Investment Bank;
- Prohibited the participation of EU banks in Belarusian state projects<sup>77</sup>.

Shortly afterwards, in March 2022, the Council of the EU approved:

- A ban on transactions with the National Bank of Belarus and the financing of trade and investments;
- A significant restriction on the inflow of financial resources from Belarus to the EU, which includes a prohibition on accepting deposits over 100,000 euros from citizens or residents of Belarus;
- A ban on export of euro banknotes to the Republic of Belarus<sup>78</sup>.

Additionally, several sanctions directly targeted the Belarusian banking sector. For instance, specific Belarusian banks were disconnected from SWIFT, the international interbank information transmission and payment system.

On June 25, 2021, the EU approved the first substantial sectoral sanctions against the Belarusian financial system, affecting the three largest Belarusian banks (Belarusbank, Belinvestbank, and Belagroprombank)<sup>79</sup>. On February 18, 2022, the EU expanded financial sanctions to include the Development Bank and Bank Dabrabyt. For

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<sup>77</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006R0765-20210625>

<sup>78</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006R0765-20210625>

<sup>79</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L:2022:082:TOC>

these banks, as well as those previously listed, the possibility of attracting loans with a term of more than 90 days and conducting operations with securities with a circulation period of more than 90 days was closed.

By early March 2022, Belagroprombank, Bank Dabrabyt, the Development Bank, and their subsidiaries were disconnected from SWIFT. On June 2, 2022, the Council of the EU decided to disconnect Belinvestbank from SWIFT. Overall, EU sanctions were imposed on five commercial Belarusian banks (Belarusbank, Belinvestbank, Belagroprombank, Bank Dabrabyt, and the Development Bank), as well as the National Bank of Belarus<sup>80</sup>.

On June 21, 2021, CJSC "ABSOLUTBANK" fell under US sanctions as being owned or controlled by the "Interservice" holding, which is associated with Lukashenko's "wallet" Nikolai Vorobyov. Then, with the onset of the full-scale war in Ukraine on March 2, 2022, two state banks – Belinvestbank and Bank Dabrabyt, as well as companies owned by Belinvestbank – Belinvest-Engineering and Belbusinessleasing, were added to the US sanctions list<sup>81</sup>.

On April 6, 2022, the United States announced full blocking sanctions against Russian Sberbank and Alfa-Bank. This action froze any assets of these banks related to the US financial system and prohibited US citizens from doing business with them. Among the 42 companies associated with Russian Sberbank and subject to restrictions was the Belarusian OJSC "SberBank." In addition to commercial banks and leasing companies, US sanctions also targeted the Ministry of Finance of the Republic of Belarus.

Table 1. Blocking sanctions against Belarusian banks by country:

	EU	US	Canada	UK	Switzerland	Japan	Ukraine	New Zealand
National Bank	+		+					

<sup>80</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022R0877&from=EN>

<sup>81</sup> <https://home.treasury.gov/news/press-releases/jy0607>

Bank of Development	+		+		+	+	+	+
Belarusbank	+		+		+		+	
Belagriprombank	+		+		+		+	
Priorbank			+					
Sber Bank		+						+
Belinvestbank	+	+	+		+	+	+	+
Alfa Bank			+					
Bank BelVEB		+	+					
Belgazprombank			+				+	
MTBank			+					
VTB		+	+					+
Bank Dabrabyt	+	+	+	+	+	+	+	+
BNB-Bank			+					
Paritetbank			+					
Technobank								
BSB-Bank								

RRB-Bank								
Bank BTA								
Bank Reshenie								
TK Bank								
Zepter Bank								
StatusBank			+					

Thus, sanctions in the financial sector, and in the banking sector in particular, have become quite significant in recent years. The largest banks in Belarus by asset size, as well as key state and financial institutions of the republic – the National Bank and the Ministry of Finance, have been subjected to sanctions by the EU, the US, and a number of other democratic countries around the world. Moreover, financing programs and credit lines from international financial institutions have been rolled back.

However, since the sanctions were stretched over time, the Belarusian financial system has largely adapted to the already implemented restrictive measures. The most characteristic example in this case was the disconnection of several Belarusian banks from SWIFT. Initially, the Belarusian democratic forces considered this measure as one of the most effective and operational, which could critically affect the financial system of Belarus. However, since the first Belarusian banks were only disconnected from SWIFT in 2022 (more than two years after discussions about this measure began), the Lukashenko regime was able to prepare for this event. In particular, Belarusian banks switched to using the Russian equivalent of SWIFT – the Bank of Russia's System for Transfer of Financial Messages (SPFS).

It should be noted that Russian banks circumvent financial restrictions through Belarus. Thus, most Russian banks excluded from SWIFT have subsidiary structures in Belarus. International transfers can be made using the STFM from the Russian parent company to its Belarusian subsidiary, and then using SWIFT to European manufacturers or intermediaries. Most EU banks have not imposed a complete ban on payments from Belarus.

Furthermore, the SPFS can be used to make payments to intermediaries in Central Asia and the Middle East, where several banks are connected to the Russian equivalent of SWIFT. Asian intermediaries then make payments from their accounts in local banks using the SWIFT network. Thus, both Russian and Belarusian banks engage in circumventing the already imposed sanctions.

The issue of circumventing sanctions remains one of the key challenges. This situation is primarily caused by the difference in the restrictive measures adopted against the Lukashenko regime and Russia. Although this was most evident in trade, this problem, as we see, has also affected the financial sector. For example, a significant number of Russians come to Belarus to open bank accounts and obtain bank cards. So-called "banking tourism" is widely advertised, through which up to 20% of all cards issued in Belarus are given to Russian citizens (through Belarusian banks, Russians can circumvent VISA/MC restrictions).

An effective measure to combat circumvention of restrictions could be the more active use of secondary sanctions against violators of the already adopted measures. To make the prospect of being included in the sanctions lists more realistic for potential and existing evasion participants, European and primarily American partners should use their secondary sanctions tool and conduct demonstrative application against organizations that provide significant and invaluable support to participants on the sanctions lists.

In particular, in the Belarusian financial sector, the primary target for US secondary sanctions could be the largest state-owned commercial bank – Belarusbank, which serves most companies under US and EU blocking sanctions.

It should be noted that due to the threat of secondary sanctions, there are known examples where financial institutions ceased cooperation with Belarusian sanctioned companies. Specifically, due to the threat of secondary sanctions, a Chinese credit line for the Slavkaliy company, which was implementing the Nezhinsky Mining and Processing Plant project near Lyuban, was suspended. Also, fearing sanctions on its European structures, the Austrian banking group Raiffeisen Bank International announced in May 2023 that it would terminate all correspondent relationships with Belarusian banks from July 31 of that year.

Despite significant sanctions in the financial sector, there is still room for improvement. In this regard, the following measures are proposed:

1. Freezing of dollar-denominated assets of the National Bank of Belarus;

Currently, the assets of the Central Bank of Russia are frozen by both the EU and the USA. Unlike Belarus, whose assets are only frozen by the EU. The asset portfolio of the National Bank of Belarus is skewed towards dollar assets. Thus, the National Bank retains the ability to use its reserves to stabilize the exchange rate. Moreover, freezing assets will prevent the illegitimate Lukashenko regime from spending the reserves.

2. Blocking correspondent accounts of Belarusian banks in the EU, USA, and other democratic countries.

Some Belarusian banks are currently disconnected from the SWIFT system. However, disconnecting Belarusian banks from SWIFT now will not have the effect it might have had a few years ago. The Belarusian banking system has already fully transitioned to the SPFS (System for Transfer of Financial Messages, the Russian equivalent of SWIFT). Therefore, the only effective tool remains the closure of Belarusian banks' correspondent accounts in banks in the EU and the USA. These accounts are necessary for transaction settlements regardless of the messaging exchange used (SWIFT/SPFS, etc.). It is also necessary to increase pressure on Asian and other banks to disconnect from SPFS, making the flow of money to and from Russia and Belarus more controllable.

3. Prohibition on the import of dollar banknotes into Belarus.

Exporting dollar bills to Russia is prohibited, but not to Belarus. All major Russian banks have branches in Belarus. They will be able to circumvent this restriction—not in the interest of the general population due to the volume, but in the interest of a few privileged clients—the worst type of sanctions. Similarly, the SWIFT exclusion can be circumvented. Additionally, the EU has banned the import of euro banknotes into Belarus, a measure that the United Kingdom has also adopted. Therefore, it remains important to ban the import of dollar bills into Belarus, as well as into Russia.

#### 4. Freezing the assets of individuals and companies under sanctions.

Sanctions entail the freezing of assets of individuals and legal entities that fall under them. Therefore, it is important to apply this measure in practice.

## 6. Oil refining industry and logistics difficulties

Despite not having extensive oil reserves, Belarus has always been actively processing and exporting oil products. Previously, Belarus processed approximately the same volume of oil as Hungary, Austria, or Croatia. However, between 2015-2020, oil processing in Belarus decreased from 23 million tons to 16.3 million tons per year (or from 32.9 million tons of conditional fuel to 23.3 million tons of conditional fuel per year)<sup>82</sup>.

Oil products traditionally are one of the main export items of Belarus: over 50% of oil products produced by Belarusian refineries were exported<sup>83</sup>. For example, in 2020, Belarus exported 56% of the produced gasoline, 52% of diesel fuel, and 76% of fuel oil<sup>84</sup>. In total, up to 30% of exports in the Republic of Belarus traditionally accounted for the supply of oil products. It is worth noting that the oil refining industry is one of the largest taxpayers in the country.

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<sup>82</sup> <https://www.belstat.gov.by/upload/iblock/b65/b65315f91d76adb70baef67c3afb8d9e.pdf>

<sup>83</sup> <https://www.belta.by/society/view/z-gonaram-u-sertsy-belorusskie-neftepererabatyvajuschie-zavody-vhodiat-v-top-10-predpriyatij-sng-397875-2020/>

<sup>84</sup> <https://www.belstat.gov.by/upload/iblock/b65/b65315f91d76adb70baef67c3afb8d9e.pdf>

In this industry, the main market player is the concern "Belneftekhim," which controls almost all petrochemical and chemical enterprises of the republic. The concern includes two key Belarusian oil refineries – OJSC "Mozyr Oil Refinery" and OJSC "Naftan". State capital is predominant: OJSC "Naftan" is entirely owned by the state, and OJSC "Mozyr Oil Refinery" is half-owned (the second half is Russian private capital). Mainly, they produce three basic types of products: motor oils, fuel, and residual fuel.

Before sanctions were implemented, the export of Belarusian petroleum products was quite diversified, being shipped to more than 40 countries worldwide. Russia serves as the main supplier of oil to Belarus. For instance, in 2020, Belarus extracted 1.7 million tons of oil and imported approximately 16 million tons from abroad (including gas condensate), primarily using Russian oil as the main raw material for its oil refining enterprises. Belarusian refineries are specifically configured to process the Russian Urals oil grade. Even before the sanctions, from 2015 to 2020, the import of oil had significantly decreased<sup>85</sup>.

To maintain their competitiveness, Belarusian oil refining enterprises need continuous updates to their production capacities. For this purpose, they implement investment programs for modernization and reconstruction. This process occurs regularly within the industry. Thus, the strengthening of Belarusian oil refining's position in the global market was achieved through improving the quality of products to meet European standards. For instance, in 2014 alone, six Belarusian enterprises implemented innovations worth approximately 309 million US dollars<sup>86</sup>.

On April 19, 2021, the United States prohibited any transactions with nine Belarusian state-owned enterprises of the petrochemical complex (sanctions came into effect on June 3, 2021)<sup>87</sup>. In June 2021, the EU introduced the first sectoral sanctions against the Belarusian oil refining industry. Specifically, the Council of the EU decided to ban the import of petroleum products with HS codes 2710, 2711, 2712, 2713, 2715 into the EU if they originate from Belarus or were exported from Belarus; to purchase petroleum products that are located in or originated in Belarus;

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<sup>85</sup> <https://isans.org/wp-content/uploads/2021/12/energy-fin-small.pdf>

<sup>86</sup> <https://www.uniter.by/upload/iblock/c8d/c8d38c0d30e65139d6aa1dbe6fd2e636.pdf>

<sup>87</sup> <https://ofac.treasury.gov/recent-actions/20210419>



to transport petroleum products if they originate from Belarus or are exported from Belarus to any other country; to provide, directly or indirectly, technical assistance, brokerage services, financing or financial assistance, including financial derivatives, as well as insurance and reinsurance<sup>88</sup>. At the same time, the main Belarusian oil trader – "New Oil Company" – fell under the EU's blocking sanctions<sup>89</sup>.

A ban on the import and transit of the majority of the industry's products was effectively established. However, the restrictions only began to apply after the completion of old contracts, mainly starting in 2022.

By the end of 2021, the losses of the oil refining industry due to sanctions were estimated by officials at \$80 million USD<sup>90</sup>. Considering that the EU was a major market for Belarusian oil products, this seriously impacted the industry. In 2021, the state production association "Belorusneft" also fell under the EU's blocking sanctions<sup>91</sup>.

Despite the sanctions, at the end of 2021, the illegitimate authorities reported plans for domestic refineries to process 12.5 million tons of oil in 2022<sup>92</sup>. This was noticeably less than the industry usually processed (about 18 million tons per year) but still a significant volume for a country under sanctions. Officials likely counted on the Ukrainian market, which supported the industry in 2021 when Western countries began to refuse imports. According to Ukrainian statistics, in 2021, the import of oil and oil products from Belarus exceeded \$2.86 billion USD, nearly doubling from 2020<sup>93</sup>.

However, in 2022, due to Belarusian authorities providing territory for Russia's military aggression against Ukraine, sanction pressure significantly increased. In addition to industry restrictions, the sanctions list included the refineries themselves, and any cooperation with them by many Western countries was banned. For example, the "Naftan" refinery fell under the EU's blocking sanctions in June 2022<sup>94</sup>. For obvious reasons, the Ukrainian market also closed to Belarusian raw materials.

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<sup>88</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006R0765-20210625>

<sup>89</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006R0765-20210625>

<sup>90</sup> <https://sputnik.by/20211028/beloruskie-np-z-za-sanktsiy-poteryali-80-millionov-dollarov-1057511011.html>

<sup>91</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006R0765-20211202>

<sup>92</sup> <https://www.youtube.com/watch?v=X7sb-J8xYRI>

<sup>93</sup> [https://ukrstat.gov.ua/operativ/operativ2021/zd/kr\\_tstr/arh\\_kr\\_2021.htm](https://ukrstat.gov.ua/operativ/operativ2021/zd/kr_tstr/arh_kr_2021.htm)

<sup>94</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006R0765-20220604>

The spring of 2022 proved to be the most challenging period for the industry, likely due to disrupted supply chains, which led to the Mozyr Oil Refinery being taken offline for maintenance. However, gradually, as indicated by officials' statements and as reported by the employees, the refinery's operations began to recover. According to Andrey Soyko, the General Director of "Naftan", by November-December 2022, the refinery reached a processing rate of 18,000 tons of oil per day<sup>95</sup>.

In the second half of 2022, Belarus managed to establish export deliveries of oil products, which, according to BEROc data, was indirectly evidenced by the recovery of industrial production in the Vitebsk and Gomel regions<sup>96</sup>. At the same time, the construction of the new 207-kilometer Gomel-Gorki oil pipeline was completed, allowing the connection of the two Belarusian oil refineries in Mozyr and Novopolotsk. Belarusian oil product shipments were carried out through the territory of Russia. In total, based on indirect public data, Belarusian refineries were able to process about 12 million tons of oil and export approximately 5.5–5.6 million tons of oil products in 2022<sup>97</sup>.

According to BEROc analysts, Belarus became a beneficiary of sanctions on the Russian oil industry in the short term by the end of 2022. The benefit for the oil refining industry in 2022, thanks to the import of cheap Russian oil (i.e., due to the Urals price discount to Brent), was estimated by BEROc experts at about 1.7 billion US dollars (i.e., 2.3% of GDP)<sup>98</sup>.

However, by the autumn of 2023, a clear trend of decreasing exports of both Russian and Belarusian oil products began to emerge. In August 2023, the "Belneftekhim" concern was entirely placed under the EU's blocking sanctions<sup>99</sup>. At the same time, at the end of the summer, a fuel shortage began to be observed in the Russian domestic market. As a result, according to Bloomberg, diesel fuel shipments from Russian ports in the Black and Baltic Seas, including batches from Belarus, were set at 1.87 million tons in September 2023, which was almost 25% less than the plan for the previous month<sup>100</sup>.

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<sup>95</sup> <https://ilex.by/pochemu-belorusskij-eksport-prosel-v-obeme-no-uderzhalsya-v-dollarah/>

<sup>96</sup> <https://beroc.org/upload/medialibrary/80f/80f56c66da22aada7f8fe3dcc7b068a4.pdf>

<sup>97</sup> <https://beroc.org/upload/medialibrary/80f/80f56c66da22aada7f8fe3dcc7b068a4.pdf>

<sup>98</sup> <https://beroc.org/upload/medialibrary/80f/80f56c66da22aada7f8fe3dcc7b068a4.pdf>

<sup>99</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02006R0765-20230805>

<sup>100</sup> <https://www.bloomberg.com/news/articles/2023-09-08/russia-plans-to-cut-sea-diesel-exports-by-a-quarter-in-september>

It should be noted that Western sanctions affected not only the export of Belarusian oil products but also the import of Western technologies for the needs of the petrochemical industry. In particular, critically important technological equipment fell under the sanctions. However, the industry began to partially solve this problem thanks to the support of the Lukashenko regime by the Kremlin. For example, an agreement was reached on the supply to Belarus from Bashkiria (Ishimbai Chemical Plant of Catalysts) of 12.6 thousand tons of oil hydrocracking catalyst. The contract with the Mozyr Oil Refinery amounted to more than 200 million euros for three years<sup>101</sup>.

Regarding the transit of crude oil through the "Druzhba" pipeline, after the beginning of Russia's aggression against Ukraine, due to imposed restrictions, the pumping of Russian oil through "Druzhba" to the EU significantly decreased (Russian oil in limited volumes is only transported through Ukraine by the southern branch to Hungary, Czech Republic, and Slovakia).

The situation was partially changed by Kazakhstan: fossil raw materials began to be supplied to Europe via the northern branch of the "Druzhba" pipeline. As a result, at the end of winter 2023, supplies of 1.2 million tons of Kazakh oil to Germany began through "Druzhba". In 2022, the production of "black gold" became record-breaking for Belarus over the last 20 years and amounted to 1.81 million tons of crude oil<sup>102</sup>.

Thus, as we can see, the illegitimate authorities are trying to compensate for the loss of oil revenues by increasing the volumes of oil extraction and processing. Moreover, they are attempting to replace traditional sources of income, such as combustible fuel that fell under the sectoral sanctions of Western countries, with other types of products by planning to create new capacities for their production.

In particular, the Deputy Chairman of "Belneftekhim," Vladimir Sizov, reported that "Naftan" plans to modernize its pyrolysis capacities and establish the synthesis of polycarbonates and ABS plastic, while the Mozyr Oil Refinery would like to organize the production of polypropylene<sup>103</sup>.

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<sup>101</sup> <https://ufa.rbc.ru/ufa/23/05/2023/646c7d5e9a7947dba771d97b>

<sup>102</sup> <https://www.belta.by/society/view/v-belarusi-v-2022-godu-dobyli-181-mln-tonn-nefti-548892-2023/>

<sup>103</sup> <https://oilcapital.ru/news/2023-09-05/belarus-rasshiraet-neftehimicheskie-proizvodstva-3032589>

One of the main problems hindering the increase in trade volumes of oil products, in addition to the sanctions imposed, are the existing logistical constraints. Although for Belarusian oil products, unlike, say, potash fertilizers, this problem is not as acute, significantly increasing their transshipment through Russia was also not straightforward.

In 2021, an intergovernmental agreement was signed in Moscow on organizing cooperation in the transportation and transshipment of Belarusian oil products intended for export to third countries through Russian seaports. The document envisioned the transshipment of more than 9.8 million tons of cargo by Belarusian enterprises in Russian Baltic ports in 2021-2023.

In 2022, when the Lukashenko regime faced obvious difficulties in selling oil products due to sanctions, Russia provided its port capacities for shipping products from Belarusian refineries to other markets. While contracts were being signed and logistics were being established, sales of Belarusian oil products on the Russian market increased.

Oil products from Belarusian refineries were primarily transported to ports of the Russian Federation by rail. Currently, they continue to go mainly through the respective terminals of the ports in the Leningrad region: the Big Port of Saint Petersburg and Ust-Luga. Thus, exports are carried out through already existing capacities, but they are also needed by Russian owners, which can create additional problems for Belarusian exporters.

In 2022, the task was set to transport by rail to Russian ports about 2.5 million tons of Belarusian oil products, and in fact, even more was delivered, about 3.5 million tons<sup>104</sup>. However, this was less than half of what Belarus exported in the pre-sanction period. As reported by the Minister of Transport of Russia, Vitaly Savelyev, at the session of the Parliamentary Assembly of the Union of Belarus and Russia, in 2023, about 6.5 million tons of oil products were supposed to be reloaded through Russian ports<sup>105</sup>.

In early October 2023, the head of the Ministry of Transport of Belarus, Lyakhnovich, reported that the volume of transshipment of all Belarusian

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<sup>104</sup> <https://ilex.by/belarus-podnyalas-v-reitinge-logistiki-udalos-perestroit-tseepochki-postavok/>

<sup>105</sup> <https://portnews.ru/comments/3381/>

export cargoes in Russian ports over eight months amounted to more than 8.5 million tons, compared to about 6.1 million tons in 2022. By the end of 2023, the total volume of all transshipment cargoes from Belarus reached 14.1 million tons, including 12.9 million tons through Russian ports on the Baltic Sea<sup>106</sup>.

However, despite the improvement in logistics in 2023, indirect data indicates that the total annual volume of oil product processing at the Mozyr and Novopolotsk refineries in 2023 did not return to the average pre-sanction level of more than 18 million tons per year<sup>107</sup>. To return to pre-sanction volumes of oil processing, the Lukashenko regime will need to not only expand transportation capabilities for delivering oil products to ports in the Leningrad region but also reduce the cost of delivery.

Under the conditions of ongoing sanctions, even with increased intensity of railway communication with Russian ports, for the Lukashenko regime to return to pre-sanction trade volumes of oil products at an acceptable cost level, it will be necessary either to build a new oil product pipeline or to convert one of the "Druzhba" pipeline threads for pumping diesel fuel – the main type of oil product produced by Belarusian refineries.

The first option requires more capital investment at the start but will have the shortest length (with access to ports in the Leningrad region). The second has lower costs but greater length, and therefore higher operating costs. Obviously, the Lukashenko regime lacks extra funds for such expensive and large-scale projects in the near future.

Thus, sectoral or trade-economic sanctions, despite the possibilities for their circumvention, remain a relatively, yet still palpable and accordingly still effective tool for pressure on the Lukashenko regime.

## Summary

Sanctions are a form of response to ongoing violations of international law, as well as a tool for enforcing compliance.

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<sup>106</sup> <https://tass.ru/ekonomika/19954489>

<sup>107</sup>

[https://eurasia.expert/energeticheskiy-soyuz-belorussiya-pereorientirovala-postavki-nefti-v-rossiyskie-porty/?utm\\_source=google.ru&utm\\_medium=organic&utm\\_campaign=google.ru&utm\\_referrer=google.ru](https://eurasia.expert/energeticheskiy-soyuz-belorussiya-pereorientirovala-postavki-nefti-v-rossiyskie-porty/?utm_source=google.ru&utm_medium=organic&utm_campaign=google.ru&utm_referrer=google.ru)

From 2020 to 2023, democratic states introduced sanctions against the Lukashenko regime in stages, typically timed to coincide with another egregious violation of international law by the regime. However, there was never a specific link between each package of sanctions and any one reason for their imposition. For example, sanctions for human rights violations within Belarus are present in almost all sanction packages.

Western democratic countries intensified sanctions as violations of international law norms by the Lukashenko regime extended beyond the territory and jurisdiction of Belarus. Following the election falsification and the onset of mass repression within Belarus, sanctions were applied narrowly (primarily personal restrictions) and did not affect Belarus's economy.

The first broad sectoral sanctions were adopted after the forced landing of a Ryanair plane in 2021, and the most significant ones were implemented following Lukashenko's regime's complicity in Russia's aggression against Ukraine in 2022. Democratic forces have consistently advocated for tightening sanctions against the Lukashenko regime, initially viewing them primarily as a means of pressuring and forcing concessions from the illegitimate authorities before the society and democratic forces, and increasingly as a tool for holding the regime accountable for violations of international law in general and human rights in particular.

The Lukashenko regime, in turn, has always had a dual view of sanctions. On the one hand, for propaganda purposes, it claimed their weak impact on the economy, and on the other hand, harshly criticized them as an unfair and unconstructive tool. Nonetheless, regular attempts to somehow mitigate the impact of sanctions indirectly indicate the effectiveness of the restrictive measures imposed on the Lukashenko regime.

For example, under the guise of global problems with food security, representatives and lobbyists of the Lukashenko regime constantly tried to achieve a relaxation of sanctions on Belarusian fertilizers, particularly potash. However, potash prices are decreasing, and fertilizer availability is increasing both globally and in regions sensitive to food security issues, making the argument that sanctions on potash should be eased for global food security unconvincing.

Russia has been the main source of compensatory effects for the Lukashenko regime throughout the period considered (2020-2023). However, contrary to popular belief, sanctions do not push the Lukashenko regime towards Russia. It was Lukashenko himself who constantly brought the Belarusian economy closer to the Russian one. Most Belarusian industries are non-competitive without subsidized energy from Russia. Each day that the Belarusian dictator remains in power, this "disease" progresses further.

For instance, Belarus lost its largest non-Russian trading partner, Ukraine, not due to sanctions but due to the Lukashenko regime's participation in Russian aggression. Also, indices measuring trade concentration do not show an increase in this concentration in Belarus after the imposition of sanctions, meaning its trade remains quite diversified.

The architecture of sanctions against Belarus, even though sectoral sanctions are applied, was still designed to have a lesser impact on people. This is related to the structure of the Belarusian economy under the existing regime, which essentially owns and profits from the most lucrative sectors. This is why we can say that sanctions are primarily aimed against the "wallets" of the regime, the raw export controlled by the dictator, and the import of military and dual-use goods and technologies, also often directly controlled by his circle.

Sanctions have hit virtually all key export sectors of the economy controlled by the regime (fertilizers, oil refining, woodworking, tobacco industry, defense industry), the financial system, as well as more than 400 individuals responsible for crimes. In this context, the Lukashenko regime is facing significant difficulties. Russia, through which sanctions are circumvented, as demonstrated by available statistics, does not fully compensate the Lukashenko regime for its losses.

Throughout the period under consideration (2020-2023), there was a difference in sanctions measures between Belarus and Russia, allowing both the Lukashenko regime and the Putin regime to benefit from this discrepancy by exploiting loopholes to circumvent existing restrictions.

This oversight not only allows Lukashenko to continue supporting Putin's aggression but also undermines the effectiveness of sanctions against Russia, allowing widespread sanctions evasion. At the same time, by

repressing the Belarusian people, the Lukashenko regime simultaneously suppresses their ability to resist violence and dictatorial rule, support Ukraine, advocate for democratic changes in Belarus, and fight for its independence.

Lukashenko's role in supporting the Putin economy through illegal means, such as smuggling, is more effective than any military support Belarus could offer. Although sanctions have imposed certain economic costs on Russia, their impact needs to be further intensified. In an economic war of attrition, every loophole undermines targeted efforts. To maintain pressure, measures must be tightened; otherwise, the pressure weakens. To refine the sanctions regime, the Lukashenko regime loophole must be closed, and this solution could offer significant strategic advantages with minimal costs.

For example, sectoral sanctions against Russia and the Lukashenko regime differ. The lists of banned goods (in terms of Harmonized System codes) for Russia and the Lukashenko regime vary for both exports and imports, making the current restrictions less effective than expected. According to the Castellum.Ai project, there are 12 times fewer restrictions on Belarus than on Russia<sup>108</sup>. Such a discrepancy allows sanctions to be circumvented more easily (due to open borders) and even gives logistics companies associated with the Lukashenko regime a chance to profit.

By studying trade data from Lithuania, Poland, and Germany for 2022 and 2023, Corisk experts calculated that goods worth about 10 billion euros passed through Belarus to Russia<sup>109</sup>. The only way to prevent the exploitation of this loophole is to fully harmonize the list of prohibited goods between Russia and the Lukashenko regime, especially in imports, to prevent the use of imported components and equipment for military and auxiliary purposes. Moreover, the need for harmonization of sanctions against the Lukashenko regime and Russia is highlighted in the European Parliament resolution of July 31, 2023<sup>110</sup>.

Overall, we believe that sectoral trade sanctions are more effective than blocking sanctions imposed on individual companies. Sanctions against

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<sup>108</sup> <https://www.castellum.ai/russia-sanctions-dashboard>

<sup>109</sup> <https://corisk.no/en/home-english/>

<sup>110</sup> [https://www.europarl.europa.eu/doceo/document/A-9-2023-0258\\_EN.html](https://www.europarl.europa.eu/doceo/document/A-9-2023-0258_EN.html)



individual companies pave the way for the creation of many new shell companies that will trade goods produced by companies under sanctions. There is no point in fighting such fraudsters. Therefore, it is necessary to expand sectoral restrictions.

However, sanctions imposed on goods can also be circumvented through third countries by changing the labeling of goods subject to sanctions. Goods produced in Belarus cross the EU border as if they were produced in other CIS countries and transit through Belarus. Similarly, sanctioned goods are exported from the EU, supposedly headed for, say, Georgia or Armenia, but in reality, they do not leave Belarus. According to the Latvian Customs Service, less than half of the goods supplied by Belarus and Russia to third countries ultimately pass customs in the destination countries<sup>111</sup>.

Given that sanctions circumvention leads to a manifold increase in trade with third countries (for instance, the volume of EU "trade" in some goods with some CIS countries increased by 10-20 times, and in some cases by thousands of times), we propose using a mechanism of commodity and transport quotas based on the pre-war level of trade.

Furthermore, further restrictions on banks are crucial in combating sanctions evasion since, regardless of how prohibited goods are directed, they need to be paid for. Banks can circumvent restrictions in two ways:

- Through the Russian Bank's Financial Message Transfer System (SPFS) - the Russian equivalent of SWIFT, which can be used to transfer payments to intermediaries in Central Asia and the Middle East, where several banks are connected to SPFS. Then Asian intermediaries make payments from their accounts in local banks using the SWIFT network.
- Most Russian banks excluded from SWIFT also have subsidiaries in Belarus. International transfers can be directed using SPFS from the Russian parent company to its Belarusian subsidiary, and then using SWIFT to European or American manufacturers or

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<https://www.occrp.org/ru/investigations/in-false-transit-loophole-russias-war-machine-is-supplied-through-kazakh-companies-and-belarusian-warehouses>

intermediaries. Most Western banks have not adopted a full ban on payments from Belarus.

As a result, continued pressure on banks will become the most effective method to curtail sanctions evasion. These efforts can be focused on:

- exerting pressure on Asian and other banks to disconnect from the SPFS, which complicates the flow of money to and from Russia and Belarus;
- increasing pressure on Russian and Belarusian banks by closing or freezing correspondent accounts in EU and US banks. These accounts are necessary for conducting transactions regardless of the messaging exchange used (SWIFT/SPFS/etc.).

Despite the issues with current sanctions, they generally retain their effectiveness. Moreover, the effectiveness of sanctions should not be judged solely by their immediate, visible consequences. Sanctions also play an extremely important deterrent function. We do not know what the world would be like if democracies did not combat violations of international law with their help.