



INTERNATIONAL SUPPORT FOR THE DEMOCRATIC FUTURE OF BELARUS: TIME SHOULD NOT BE WASTED

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*A 2011 Report by the Working Group on Investments
of the Committee on International Control
over the Human Rights Situation in Belarus*

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EXECUTIVE SUMMARY

During the year that has passed since the violent crackdown on December 19 the situation with human rights and the rule of law in Belarus has significantly deteriorated and continues to worsen. Repressions are mounting, and the systemic human rights crisis is deepening.

Over the course of 2011 the international community has repeatedly voiced its concerns about the situation in Belarus. All international organizations have passed numerous statements and resolutions. However, Lukashenka's actions showed his open disdain for this criticism. It has become obvious by now that the international community has proven to be powerless in preventing further deterioration of the situation in Belarus.

To a great disappointment of the Belarussian and international civil society, the European Union has failed to take decisive action in 2011. Limited EU sanctions – imposition of travel restrictions on Belarussian officials and freezing of their assets and those of a single businessman have played no more than a symbolic role, failing to bring about real change. Today the EU lacks a comprehensive understanding of the way the situation in Belarus could be effectively addressed. Almost all experts acknowledge that the policy of “critical engagement” pursued in 2008-2010 did not work and cannot be used in the present circumstances.

A need is ripe for more effective measures that would go beyond recommendations in reports and resolutions. Such measures should include the use of economic leverage as the only effective way to influence Lukashenka's policy. Merely “continuing to monitor the situation carefully” as the crackdown on human rights in Belarus intensifies is becoming increasingly inappropriate and immoral. At the same time, the EU member states do not have the political will and lack unity to apply effective action using economic leverage, in no small measure because some of them have business interests in Belarus.

Paradoxically, more economic support to the regime in 2011 has been coming not from the East, as most people believe, but from the West. At the time when politicians and officials condemn the Lukashenka regime, European banks and companies continue to do good business with the dictatorship, working inside Belarus (e.g. the Raiffeisen Bank, the Deutsche Bank, BNP Paribas, etc.) and trading with the regime, bringing it profits and increasing its survival chances. At the same time Belarussian businessmen, Lukashenka's proxies nicknamed “the regime's bagmen,” continue doing business in Europe unhampered, opening branch companies and freely using bank accounts.

In 2011 Belarussian exports to the EU countries have more than doubled (221% to 2010). The EU, not Russia or China, is the largest trade partner of the Republic of Belarus, with 38% of all exports going to the EU. The export revenues make approximately one third of Belarus's official state budget.

By refraining from economic sanctions, the EU continues to foster and rescue the very same dictatorship that it criticizes. In 2011 the trade surplus between Belarus and the EU amounted to nearly USD 6 billion, far exceeding Russia's aid.

The time for action has come now while the Lukashenka regime has not fully recovered from the economic crisis. It is very important that the regime receives no new lifelines from the West in the form of loans, investments, and export revenues until concrete demands in human rights are met.

What specific measures should be taken?

- 1) Firstly, smart and targeted sanctions must be instituted against a number of the regime's "bagmen" that figure prominently as sources of its financial support. These are, first of all, companies that are engaged in foreign trade, providing the regime with hard currency. In order to facilitate a decision on targeted sanctions against such businesses civil society experts are prepared to provide a list of such companies, Lukashenka's "bagmen," that may become subject to sanctions.
- 2) Secondly, issuing any new loans must be stopped. The US and the EU member states should use their political weight in the IMF to oppose the allocation of new loans by the IMF, restructuring of the existing loans, and deferment of payments.
- 3) Thirdly, the EU leaders have to firmly recommend to European businesses and banks to refrain from investing into business in Belarus and participating in privatization there since in the current climate any investment will become an investment into the regime.
- 4) Fourthly, the EU must begin putting in place sanctions against the main export sectors of Belarus, gradually increasing their number and volume. One could begin by sanctioning steel product exports from Belarus; further on, if the demands are not met, sanctions might expand to potassium products, while the oil embargo should be reserved as the main threat.

Economic sanctions should be aimed at concrete and measurable demands in the area of human rights and the rule of law. Any dialogue with the Belarussian authorities is possible only after all political prisoners are released and cleared of all charges. However, this is definitely not enough since meeting this demand cannot, in and of itself, create the conditions for putting an end to repression and restoring the rule of law. It is necessary to serve the government of Belarus with a package of concrete systemic demands in the area of human rights and the rule of law. Meeting these demands should become the condition of a gradual lifting of economic sanctions, renewal of international dialogue and economic cooperation with the Belarussian authorities.

Such conditions could be formulated in a strategic document of a "roadmap" type. The document should include, on the one hand, demands regarding reforms in the Republic of Belarus, and, on the other hand, a description of what the European Union could provide in return. The latter refers both to a gradual decrease of the "stick" policies with a corresponding increase in the "carrot" activities.

Civil society is ready to fully contribute to developing such a roadmap and organizing the monitoring of implementation of demands of the international community. This report contains concrete proposals on what kind of demands could be included in a road map document.

To sum it up, the EU must develop, without delay, a revised strategy towards Belarus which should include introduction of smart targeted economic sanctions, a set of concrete demands to the Belarussian authorities and a "road map" for steering Belarus back to the path of democratic development and the rule of law. Progress along such road map must be the sole criterion in making decisions about lifting sanctions, resuming economic cooperation and providing new loans. Unless these requirements are met, no efforts should be undertaken to "draw" Belarus into the European space unconditionally through mere dialogue with the regime in a hope for gradual weakening of repression and possible reforms sometime in the future. Continuing economic cooperation and providing new loans at this stage without requiring systemic reform will only ensure preservation of the dictatorial regime and continued suffering of the Belarussian people.

INTRODUCTION

This report has been prepared by the Working Group on Investments of the Committee on International Control over the Human Rights Situation in Belarus based on a study of open sources, official documents, analytical studies and interviews with Belarussian and international experts in economics and social sciences and civil society activists in March-December 2011. The report aims is to inform stakeholders and decision-makers on the current situation in Belarus and present potential future scenarios of its development, and also to offer the international community recommendations for action which may facilitate systemic improvement of the human rights situation and a democratic transition in Belarus.

The Committee on International Control was set up within days of the violent dispersal in Minsk of a peaceful protest against the rigged presidential election on 19 December 2010. Currently, the Committee has a membership of more than 50 nongovernmental organizations from more than 15 countries worldwide. The Committee is the only international human rights group with a permanent presence in Belarus over the past months, represented by its International Observation Mission. It conducts a continuous monitoring of the situation with fundamental human rights and the situation of non-governmental organizations, human rights defenders, journalists and lawyers in Belarus; prepares and circulates reports and makes recommendations to civil society, governments, and the international community towards aligning the situation in Belarus with the country's international obligations.

The Working Group on Investments of the Committee on International Control performs analysis of economic and political situation in Belarus in the context of human rights and the rule of law problems, develops recommendations on the application of economic instruments to influence the situation in the country, and interacts with civil society organizations, research institutes, governments and international organizations. This report summing up the results of 2011 has been prepared in January 2012 and represents a follow up to the intermediary report of the Working Group, released in September 2011.

SITUATION IN BELARUS: RESULTS OF 2011

December 2011 year marked an anniversary of presidential elections in Belarus. But contrary to the hopes of Europeans who saw this event as a possible starting point in the country's democratic transformation, this date marked the beginning of one of the harshest crackdowns in the history of Belorussian independence. Over the past year hundreds and thousands of people have suffered from beatings by the police, lawless arrests, administrative prosecution, illegal dismissals from their jobs, expulsion from universities, and other forms of harassment for their civic activism. Dozens of opposition leaders were subjected to criminal prosecution and faced torture, abuse, and unjust courts sentences. The year saw a record number of political prisoners in the history of the country. Even though in autumn some of these people were "pardoned" on the condition of "avoiding further conflicts with the law," all of them continue to see their rights stomped on and endure intimidation, including "preventative" arrests, threats, searches, and interrogations.

The fate of the people who remain behind bars is a cause of increasing concern. With the help of punishments and harsh conditions of detention they are being pressured into admitting their guilt and pleading for pardon. The pressure on them is growing; they live in virtually airtight isolation. Andrei Sannikov cannot see his lawyer; he is constantly being transferred from one prison camp to another, and

his inmates keep getting incited against him. Dmitry Dashkevich and Nikolai Statkevich are continually facing punitive sanctions. Dashkevich spends most of his term in a punishment cell. A new trial of Statkevich took place in the beginning of January resulting in his transfer to a strict regime prison for three years. This regime permits only one visitation and two parcels a year. The health of Dmitry Bondarenko who had a surgery in prison is deteriorating. He does not have access to adequate medical treatment and has lost all hope of surviving his imprisonment. Belarussian authorities did not allow representatives of the International Red Cross to visit the political prisoners, despite the poor condition of their health.

A fresh round of repression aimed at suppressing all the country's civil society was marked by politically motivated persecution and unjust sentencing of Ales Byalyatski, a prominent Belarussian human rights activist. The sentence was aimed at stopping legitimate human rights work of Ales and the Viasna Human Rights Center that he runs. Belarussian Helsinki Committee, the last remaining registered human rights organization, is on the verge of being closed by the authorities.

With a clear intention to "uproot any green shoots" of protest last autumn the Belarussian authorities passed several new repressive amendments to the laws on the freedom of assembly and NGOs that, by and large, criminalize all civic activism. Toughening of the laws on the KGB and the Bar has completed the list of the autumn legislative assault of the authorities. Thanks to the adoption of draconian laws, harsh repressions and imposing a climate of fear, the government was able to suppress the wave of protests that had taken off in the summer.

It is clear that during the year after the violent crackdown on the peaceful protests of December 19 the situation in Belarus has significantly deteriorated and continues to worsen. Repressions are mounting, and the systemic human rights crisis is deepening. All this is happening in the heart of Europe, next to the EU border.

At the same time, in 2011 the Belarussian regime has faced the most severe financial crisis in the 17 years of its existence. It was as a logical outcome of an inefficient, outdated since the Soviet era and corrupt economy, dependent almost entirely on external sources. According to experts, several factors had directly contributed to the current crisis and determined its timing in 2011. Among them - spending the previous 2009 IMF loan without conducting essential structural reforms; Russia's refusing in 2010-2011 to subsidize their oil sales to Belarus (in 2007-09, subsidies exceeded \$4 billion) which had supported the Belarus economy for years, enabling the country to earn big money by reselling crude oil and oil products to European countries; the overall impact of the 2008-2010 global financial crisis; and, finally, Lukashenka's populist decision to turn on the money printing press and dramatically raise the retirement pensions and salaries in state-run institutions a few months prior to the 2010 presidential election. No economy would have survived this without negative consequences. A new round of repression following December 19th understandably prompted most lenders to suspend their loans to Belarus, since the political risks increased dramatically.

Devaluation of the national currency, soaring prices, and a substantial decline in household incomes, caused a dramatic drop in Lukashenka's popularity and growth of public protests in the summer of 2011 which did not reach a revolutionary scale, however. Brutal suppression of protests, arrests and detention of dissenters, and reports of torture at the hands of security services contribute to an overall climate of fear, where an increasing number of people are forced to think of emigration as a personal survival

strategy. The former social contract no longer works: the government is perceived as brutal, unfair and incapable of coping with the economic crisis.

While refusing to reform the economy for fear of losing sole control over the country, Lukashenka has been desperately trying to raise funds to patch the holes in his budget and appease the public. For this goal he not only has been able to raise initial emergency loans from his authoritarian buddies in Azerbaijan, Turkmenistan and requested a new IMF loan but also resumed in the summer a new round of his traditional hostage trading game with the West, i.e. an exchange of political prisoners for ending of sanctions and new loans. As a thimblerrigger, he is sure that he always wins in this game. The "last European dictator" has a survival plan and hopes to emerge victorious once again. He intends to avoid any major changes to his course based on authoritarian rule and corruption, and he will hold on to power illegally obtained through rigged elections.

Unfortunately, certain forces in Europe are willing to play his game rather than pressure for change of the political system and respect for human rights in Belarus. Whether they are protecting their countries' businesses while relying on the dictator's assurances, whether they doubt the possibility of democratic development in Belarus, or whether they buy another game Lukashenka has traditionally been playing with the West, namely a false threat of being absorbed by Russia, the result is likely to be the same: the dictator will get hold of much-needed cash, buy his time, and preserve his regime indefinitely.

THE AUTUMN OFFENSIVE BY THE SECURITY FORCES

It is clear that the hope that international pressure and limited Western sanctions could make Lukashenka change his policies have proven futile. The country is facing further crackdowns and repression. The first sign of a new round of repression after "silent protests" last summer is arguably the arrest of the well-known human rights activist Ales Belyatsky on the charges of tax evasion. Experts believe that Ales Belyatsky was slated to become one more valuable hostage in "human trade" that the regime intended to launch at the beginning of autumn 2011. It was the exchange of hostages in return for financial aid from the West that became Lukashenka's main strategy during the summer and at the beginning of autumn when his special envoys started to frequent Europe and the U.S. and he conducted secret negotiations with Mr. Mladenov, Bulgaria's Minister of Foreign Affairs. After he freed the first batches of political prisoners, the dictator expected reciprocity from the West.

As moderately minded experts explain, the regime got infuriated because the West has refused to play the usual game of hostage exchange and continues to demand that all political prisoners be freed and cleared of all charges as a preliminary condition for any sort of dialogue. After 75% of political prisoners were freed, the dictator interpreted this lack of "reciprocal action" as a Western fraud. Since October the pressure on the remaining political prisoners has intensified.

However, the "special operation" against Belyatsky, as well as several other key members of Viasna is testimony to the fact that a campaign has been started to rout once and for all any civic activism in the country that remains. The regime has learned the lessons of the past years (presumably, taking a page of Turkmenistan's book) when it realized that human rights defenders cannot be silenced by threats or bargaining. They can only be "shut down;" furthermore, conditions should be created for any civic activism to be impossible. But it was the human rights activists who, after a collapse of political

opposition in the wake of the spring trials and court sentences, remained the only force capable of resisting the regime and providing its victims and their families with legal and material aid. The crackdown on civil society resulted in adopting several laws in October that criminalize civic activism and give wide-ranging powers to the country's security forces.

Our Belarussian colleagues believe the reasons for passing such "draconian" legislation to be as follows:

- the fear of potential social unrest due to a worsening economic situation. As our colleagues have noted, the political protests that the opposition promised to stage in autumn are not the only explanation. It is far more likely that the economic situation is much worse than it seems;
- laws are yet another bargaining chip in the negotiations with the West. This legislation could be repealed in exchange for loans;
- the intimidation of civil society, a kind of a Damocles sword that hangs above it. Civic activism may be suppressed by the mere threat that these laws could be put in action;
- a message to potential "renegades" among the elites. The message means that they will get no breaks or mercy.

It is important to understand that the adoption of such laws speaks to the regime's weakness and the fact that it realizes its own illegitimacy. It is little wonder that the dictator went hysterical after a number of polls came out, showing a sharp drop in his popularity. The authorities detained a sociologist Manayev and hastily staged a meeting of the dictator with a large group of Russian journalists.

The entire situation with intensifying repressions signifies a (possibly temporary) victory for the "security" part of the elite. One of the signs of such a development, apart from mounting crackdowns and the enacting of draconian laws, may be the dissolution of the Public Consultative Council under Vladimir Makei. However decorative was its function, it represented some a kind of platform for dialogue between the public and what could be tentatively called a "pro-Western" part of the Administration.

However, considering a new appointment of Natalia Petkevich to the post of the deputy chief of the administration, this development could be interpreted as a way to weaken Makei's positions. Both in the past and present Makei has served as a "bridge" between the regime and the West. However, some believe that this role could now go to Petkevich and her associates. Lukashenka likes to "reshuffle" his staff every once in a while. Moreover, he may perceive Makei's liaison with the West as a personal threat. Petkevich (taking into account Lukashenka's sexist worldview) may appear less threatening.

The growing influence exerted by the security forces could also be attributed to Lukashenka's fear of a possible regime change following the Arab or "orange" scenario. Without any doubt, his security analysts have been feeding into this fear by supplying him with doctored or biased information. Experts believe that security officials have virtually monopolized access to Lukashenka; he has been receiving all his information and advice only from them. Lukashenka's panic was obvious in his reaction to the proposals to use the armed forces of the Collective Security Treaty Organization (CSTO) to prevent "regime change" in its member states, as well as proposals concerning the regime's "struggle against the internet" as the main tool of protest. Obviously, the discussions of "post-Lukashenka" scenarios for Belarus's future that began in the international community had a role to play in this, as well as the offer he received (possibly, through Makei) from the West to step down in exchange for guarantees of personal safety. It is also possible that the Belarussian elites treated the offer of aid made public by Radislav Sikorsky at the meeting of the Eastern Partnership as a message calling for a regime change.

EUROPEAN UNION'S REACTION TO THE EVENTS IN BELARUS

Over the course of 2011 the international community has repeatedly voiced its concerns about the situation in Belarus. All international organizations, including the UN Human Rights Council, the European Union, the European Parliament, the Council of Europe, and the OSCE, have passed numerous statements and resolutions. However, Lukashenka's actions showed his open disdain both for the opinion of international organizations and meeting the Republic of Belarus's human rights obligations. The regime is stubbornly and consistently refusing to cooperate with international organizations, ignoring the resolution of the UN Human Rights Council and the OSCE Moscow Mechanism report and expelling the OSCE mission from the country while denying entry to the special OSCE Moscow Mechanism rapporteur, representatives of the European Parliament, the OSCE Parliamentary Assembly and the Parliamentary Assembly of the Council of Europe. In 2011 more than a dozen journalists and more than a dozen activists from international human rights organizations have been refused entry to or expelled from the country. We have to conclude that the government of Belarus has almost completely refused to cooperate with international institutions on human rights issues.

It has become obvious by now that the international community has proven to be powerless in stemming the worsening of the human rights situation in Belarus and realigning the situation with the international norms. There is an increasing realization both inside and outside Belarus that the need is ripe for more effective measures to influence the situation in the Republic of Belarus that would go beyond calls for action and recommendations in reports and resolutions.

As early as the beginning of 2011 representatives of the Belarussian civil society and international observers judged the situation in this country as calling for extraordinary measures, including smart and targeted economic sanctions. However, to a great disappointment of the Belarussian and international civil society, the European Union failed to take decisive action in 2011, aside from imposing some travel restrictions on and freezing the assets of Lukashenka's regime officials and a single businessman. The embittered families of political prisoners characterized these steps as merely symbolic since they did not bring any real change to the situation, but instead showed the impotence and unwillingness of the EU to undertake serious measures to tackle the regime.

A year has passed since December 19, but the European Union still lacks a comprehensive understanding of the way the situation in Belarus could be addressed in the future. Almost all experts acknowledge the fact that the policy of "critical engagement" pursued in 2008-2010 did not work and cannot continue to be used in the present circumstances. Nobody has any more hopes that further dialogue may change Lukashenka's behavior. Continuing the dialogue with the civil society and opposition is important, but does not have any impact on the country's authorities.

Nevertheless, it seems that the EU member countries do not have the political will and lack unity to apply effective action using economic leverage, in no small measure because some of them have business interests in Belarus. At the same time there is a growing realization in the EU that failure to act while "continuing to monitor the situation carefully" as the crackdown on human rights intensifies is becoming increasingly inappropriate and immoral.

Considering that the EU policies toward Belarus have come to a certain dead end and there exists a paralysis of political will, there is a pressing need for elaborating a new strategy or, at the very least, an

adjustment of the existing EU approaches to the situation in the country, and developing realistic, but at the same time effective measures.

We should point out that the US is more consistent in their policies towards Belarus. Sanctions adopted by the US in 2011 against the Lukashenka regime, include more Belarussian enterprises; US public position is more principled while the demands are more far-reaching than the release of political prisoners and include systemic changes in the area of human rights and democracy. In the very end of the year the US Congress adopted a new Belarus Democracy Act, confirming the policy of sanctions against the regime combined with assistance to civil society and independent media and at the same time expanding categories of the regime representatives which may be targeted by sanctions. However, real influence of the US on Lukashenka's behavior is rather limited because America has almost no economic leverage at its disposal: official trade turnover between the US and Belarus is very low. Setting an example to other members of the international community would be the main positive result of adoption of the new US sanctions. Probably this, along with blocking a decision on granting of a new IMF loan, is the main thing that the US can do: lead the way by adopting its sanctions and actively persuade its EU partners that they should put to the best use the key that they have in their hands – their trade relationships with the Lukashenka regime.

AN ECONOMIC PARADOX: MORE SUPPORT FROM THE WEST THAN FROM THE EAST

A paradox is that at the time when politicians and officials give angry speeches, European banks and companies continue to do good business with the dictatorship, working inside Belarus (e.g. the Raiffeisen Bank, the Deutsche Bank, BNP Paribas, etc.) and trading with the regime, which both profits it and increases its survival chances. At the same time Belarussian businessmen, Lukashenka's proxies nicknamed "the regime's bagmen," continue doing business in Europe unhampered, opening branch companies and using bank accounts.

Europeans are welcomed to participate in the controlled privatization in Belarus. While negotiations about a loan from EvrAzEs and a potential IMF loan were underway, privatization was widely talked about by Lukashenka, a lot of promises were made, and plans of privatization of enterprises were drafted. However, none of the really worthy asset, except the second half of Beltransgaz, has been sold into a "strangers' hands", and the "family heritage" was obviously overpriced (as in the case of Belaruskaliy and MTS) to prevent them from being bought.

A control package of shares should stay under control of the regime, and this is why no one who wants to buy a control package, besides the "bagmen," will be allowed to participate in the process of privatization. It is exactly why neither Russians, nor, most likely, Chinese, and no one in principle who would want to control enterprises, are treated by the regime seriously as buyers. Europeans are a whole different story. They are allowed to buy minority shares; they give loans to Belarussian enterprises for purchase of European equipment without getting hold of control of the companies. This is all very much in the spirit of decisions adopted in spring (not to let Russians in).

In addition to this, Europeans have to stereotypes that come quite useful to authoritarian regimes:

- they naively believe that Western companies will bring with them Western standards of work and through this will be "educating the regime";

- they also naively think that privatization as such will lead to independence of the business community and eventually to transformation of economic and political system.

The economy of the Belarus Republic is highly dependent on foreign trade. Approximately 30% of the state budget comes from export revenues. Other principal external sources of revenue are foreign investment, including foreign stockholdings in Belarussian enterprises that are being privatized, overseas loans, international financial institutions and private banks, and sales of government bonds abroad.

The irony of the situation consists in the fact that Europe, while publicly acknowledging its fears of Belarus falling into Russia's grip, in reality does everything to perpetuate Belarus's dependence on Russia. Belarus's main export into Europe is cheap oil products obtained from cheap oil that Belarus buys from Russia at a discount. By purchasing these oil products, the West increases Belarus's reliance on Russia.

In January-November 2011 (according to the data available in the public domain at the time of writing this report) Belarus's exports equaled 32 billion dollars. Over this period the exports into EU countries grew 2.3-times to 14,063.9 billion dollars. The trade surplus between Belarus and EU countries was at 6,315.8 billion dollars, boosted by a considerable increase in the exports of petrochemicals and a rise in their prices on the world market. All this money has been going directly to the coffers of the dictatorial regime.

These official data do not reflect the complete picture of the dependence that the Belarussian economy has developed on exports because one also has to consider shady sales schemes, joint ventures, revenues of Belarussian businesses obtained abroad whose structure lacks transparency.

The main foreign trade partners of Belarus are EU countries, rather than Russia, as it is commonly believed. EU countries maintained a 38.5% share of all exports from Belarus in January-February 2011, while the countries – members to the Customs Union headed by Russia chalked up only 35.9%.

Much is being said about the growing role of China and the threat of Belarus "falling into China's embrace." However, the facts suggest otherwise. In 2011 Belarus's volume of trade with the Netherlands, Germany, and Latvia taken separately was many times larger than with China, especially considering the amount of Belarussian exports into these countries. In 2011 Belarussian exports into China were relatively subdued, amounting to 459.626 million dollars. Among key Belarussian exports to China are potassium fertilizers and caprolactam, making up 52.7% and 25.2% of exports respectively.

The main buyers of Belarussian goods among EC countries are the Netherlands, Germany, Latvia, Lithuania, Poland, and Estonia. The share of oil products in Belarus's exports to the EU stands at 30.8%, while the sales to some EU countries, such as the Netherlands and Estonia, raise this share all the way to 95%.

The next significant export item is potassium fertilizers (8.4% of all exports). These are followed by trucks and tractors (6.8%). Milk products enjoy a 4.3% export share (practically of them are shipped to Russia). Ferrous metals and metal products take up another 3.1%.

In January-February the Netherlands, the principal buyer of Belarussian oil products, purchased Belarussian goods to the amount of 5,532.485 billion dollars (2.3 times more than in January-November

2010). This amounts to 14.7% of Belarus's exports to EU countries. A huge growth in Belarussian exports to Estonia and Latvia (4.6 and 3.5 times respectively) is equally impressive.

By and large, the Netherlands, as well as Latvia and Estonia, act not as end buyers, but as "transshipment points." Companies registered in the ports of Rotterdam (Holland), Venstpils (Estonia), and Muuga (Estonia) resell Belarussian goods to other countries. The same routes are also used to set up "shady" sales schemes. For example, according to some sources, tankers with crude declared as heating oil shuttle to the US from the Muuga seaport.

In January-November 2011 Germany spent 1,678.193 billion dollars buying Belarussian goods (a fourfold increase compared to 2010). This amounts to 4.6% of all Belarussian exports to the EU. In contrast to the four "seaport countries," the fourfold growth in Belarussian exports to Germany cannot be explained by further reselling, but must have occurred because of German domestic demand. Thus, Germany stays firmly in the lead among the countries that buy Belarussian goods and invest in the country.

Exports to Poland during the same period ran at 1,041.381 billion dollars (a 31.1% increase compared to 2010), adding up to 2.9% of Belarus's exports to the EU. Lithuania purchased 880 million worth of goods (2%). Exports to Latvia grew 3.5 times to 2,859.160 billion dollars (7.7% of exports to the EU).

Estonia — 543,475 million (1.6% of exports to the EU)

The UK — 402,455 million (1.2%)

Italy — 452,679 million (1.2%)

The growth in export volumes measured in dollar amounts in 2011 can be explained both by an increase in world prices and a growth in the physical volume of deliveries. In 2011 Belarus enjoyed favorable price arbitrage opportunities in foreign trade. Compared to January-November 2010, the average export prices shot up 25% while the prices of imports rose by 15.2%.

Compared to January-November 2010, the most significant average price growth and physical export volumes of energy materials (37.9% и 67.8% respectively). A noticeable increase in export prices was also noted for nitrogen fertilizers (by 70%), tires (by 44.6%), oil products (by 36.9%), potassium fertilizers (by 4.8%), and ferrous metals (by 31.9%).

Energy materials yielded 49.3% of all export revenues worldwide. In January-October 2011 the dollar value of exports reached 11.393 billion, which is 2.3 times more than export revenues registered in January-October 2010.

It is the people who control "export" industries and companies managing "export" holdings that provide the regime with the greatest profits and participate in an obscure system of contributions to Lukashenka's personal funds. Thus, above all, "smart" economic sanctions ought to focus on the exporting sectors.

BELARUS AND RUSSIA

One often hears an opinion that if the West puts too much pressure on Lukashenka, he will end up in Russia's embrace.

However, his entire rule speaks to the contrary: all these years the regime has managed to successfully maneuver between the European Union and Russia, leaving both "partners" duped. The secret is simple: Lukashenka cannot decide because making a final choice will deprive him of office in any scenario. If he were to meet all European demands, he would have to start on the path of democratic reforms, which would bring an end to his authoritarian rule. If his final choice favors Russia, the coming Russian capital will begin by buying up the most profitable Belarussian companies, negating the "kickbacks" and shady contribution schemes to presidential funds that lack transparency, and then go on to ruin his political basis. If the same group of individuals stays in power in Russia, they will just initiate "Belarus governor" change. Lukashenka understands the situation well. He has been putting the brakes on takeovers of the key companies by Russian investors and will continue to do so. According to our sources, the participants of the 2011 conference of large businesses agreed to "take the last stand and not yield to Russia."

Reportedly, the Belarussian government is preparing a capital amnesty (experts estimate that off-the-book economy contributes as much as 60% to Belarus's GDP). According to the experts, such an amnesty will help a few select oligarchs to legalize their financial assets and purchase stock in major companies. This will keep these companies in the hands of people controlled by the regime. A list of 54 such companies is part and parcel of Lukashenka's Decree #7 issued on January 5, 2012 and titled "On certain issues in transforming republican unitary enterprises into open joint stock companies" that bans selling company stock to its workers for the sake of "attracting larger investment."

Even now, after Russian policies toward Belarus have temporarily returned to the pattern "oil (and gas) in exchange for kisses," we can see that even the expected deals involving the sale of Belarussian companies to Russian businesses are being slowed down. One of the most desired targets for Russia is MAZ (Minsk Automobile Plant). As far back as March 2011 Vladimir Putin made a trip in person to court MAZ in order to push for its merger with Russia's KAMAZ (Kamski Automobile Plant). However, according to the latest reports, the deal has still not taken place, the reason being objections on the part of the Belarussian side. Another last year's example is the story of Russia's attempts to acquire "Belaruskaliy," a potassium products company. In that case Lukashenka was unhappy about the amount of money offered for it. No agreement has been reached on transit tariffs through Belarus despite considerable discounts on Russian oil reinstated in 2012. The regime demands a 20% increase in the tariffs. The debt to Gazprom for natural gas deliveries remains unpaid.

Experts believe that the Kremlin is not going to put additional pressure on Belarus to demand that it meet its obligations, including those assumed by the country within the framework of the Common Economic Space (CES), to avoid adding a factor of potential instability to Russian politics. Yet, after Vladimir Putin officially returns to the Kremlin and Moscow steps up the pressure, Lukashenka will be forced to recommence his maneuvers and return to dialogue with the West.

At any rate, Belarus cannot afford severing its links with the West since the West is its principal export destination (38% of the country's mainstay exports are oil and chemical products, potassium fertilizers, and ferrous metals). Petrochemical products of the Belarussian origin obtained from cheap Russian oil, as

well as oil purchased from Azerbaijan and Venezuela and Russian crude (sold as heating oil through shady channels to avoid export duties) have virtually no other buyers. Therefore, West help translates Russian perks into cash that is sorely needed by the regime.

Export revenues constitute approximately one third of Belarus's annual budget. Experts believe that Belarus can overcome the economic crisis either by selling "family silver," or by relying on foreign trade. For the moment, judging by the latest privatization trends, the latter looks to be far more likely.

There is much talk about the financial support for the regime coming from Russia. However, the funds made available in 2011 by the Russian side in the form of loans (800+400 billion from EurAsEC and 4.7 billion from Sberbank), with an addition of 2.5 billion raised by selling Beltransgas, amount to 4.7 billion. At the same time, the surplus of trade with the EC in 2011 reached at least 5.7 billion.

Invisible to the public eye remain unofficial revenues, investments, and loans. According to expert estimates, the Belarussian authorities receive substantial revenues from selling Russian crude oil as heating oil through shady oil deals. Likewise, no exact figures on Western investments into Belarus's economy are available. As far as Russian investments are concerned, Rosstat mentions funds to the effect of 2,930 billion dollars pumped into the Belarussian economy by the end of 2011.

Also, one ought to mention a Russian 10-year loan to build a nuclear power station in Belarus that will add 2 billion dollars to the regime's coffers out of 10 billion, and only 8 billion will be allotted for the construction proper. Experts differ in opinion as to how to calculate the profits of the regime from Russian oil and gas perks. The maximum figure that has been made public is 3-4 billion. In any case, to reiterate, converting these perks into cash is only possible through trade with the West.

A second point of political instability that will require the regime to make additional expenses is the parliamentary election scheduled for September. Following the 2010 scenario, Lukashenka is most likely going to resort to populist measures, which means that Russian loans and advances will be "eaten through" in much the same fashion as the IMF loan. Since the regime is unlikely to follow through on all the promises it has given to Moscow, it is not worth counting on new financial infusions from Russia. Therefore, it is very important that Lukashenka does not receive support from the West in the form of loans, investments, and export revenues until certain conditions are met.

"LUKANOMICS": HOW IT IS SET UP

As it has been already mentioned, the regime intends to keep control over the Belarussian economy. When looking at the mass media materials published over 17 years of Mr. Lukashenka's rule, it becomes apparent how he gradually subjugated practically all profitable sectors – oil, tobacco, vodka and fish markets. The President personally approves the list of companies permitted to import oil from Russia. By the mid-2000s, he could control practically the whole economy of the country. Gradually, there has formed a group of businesspersons having close relations with Mr. Lukashenka and promptly paying kickbacks to the regime from their profits, letting it use the foreign bank accounts of their companies, and providing other services.

People, once close to the regime, but forced to emigrate, could slightly lift the curtain over the ways the

regime has formed its “gray” proceeds. Initially, Mr. Lukashenka’s capital was formed by sales of arms in the late 1990s; these proceeds amounted to billions of US dollars. This money flowed neither in the budget, nor in the economy of the country. Beltechexport, a company owned by Mr. Peftiyev, played the key role in this process.

The next source of the regime’s proceeds is the customs business, which is still flourishing because of the lack of the control on the border with Russia, and because all governmental structures important in terms of success of this business starting with the Border Committee, are controlled by the “family”. The business on the border includes re-export, sales of merchandize seized by the customs, and smuggling of tobacco products. “Gray” schemes of resale of crude oil deserve particular attention. According to experts, crude oil is sold under the guise of fuel oil (due to difference in tariffs) as well as under the guise of solvents. Sales of “solvents” in 2011 only to Latvia have amounted to almost a million dollar, according to sources. Swap schemes also raise suspicion, likely used for sales of Russian oil as well as purchasing Iranian oil under the guise of Azerbaijani.

Svetlana Boykova, an investigator of the General Prosecutor’s Office, who exposed a part of a corrupt smuggling chain, was sentenced to two years of custodial restraint without being sent to a penal colony in August of 2011. According to Tamara Vinnikova, a former Chairperson of the Central Bank, who had to emigrate, the money has and probably is still flowing into the accounts of foreign firms controlled by the regime. Ms. Vinnikova believes that the money vaults can be identified by tracking the most frequent visits of Mr. Lukashenka himself and his closest entourage. There were indicated the Republic of San Marino and United Arab Emirates. Qatar, where Mr. Lukashenka has some personal contacts, should be also mentioned. It is probable that some accounts can be found even much nearer – in Lithuania, Latvia and Austria – taking into account the close bank relations of Belarus with the two latter countries. In this context, recent news that cars belonging to the President’s Administrative Department were noticed in Lithuania is of interest.

Ms. Vinnikova has also told that in the cases where large quantities of merchandize are purchased, or tenders are organized abroad, the agents representing the government are paid commissions making about 10 per cent of the respective transaction amount. It remains unknown, where these 10 per cent flow – this issue is not regulated by the legislation. It is also unknown, for instance, what is the amount of kickbacks paid by Yuri Chizh for the right to be the largest private holder of the quota of Russian oil to be refined, as well as it is unknown how much Pavel Topuzidis is paying to be the only private manufacturer of tobacco products.

Yet another way the authorities use to control money flows is to make certain businesses to keep their financial resources in certain banks. According to our sources in Belarus, all gambling businesses transfer payments via only one bank – Priorbank, which is controlled by the “family” through Mr. Kostyuchenko and Mr. Peftiyev. It should be also reminded that Priorbank is a subsidiary of Raiffeisen bank.

A substantial portion of financial resources is accumulated in the mysterious reserve Presidential fund, which is out of any control, even of the imitational Parliament. Since 2007, a line of the state budget provides that profitable enterprises should make additional annual payments to the reserve fund alongside with the usual taxes. For instance, in the election year these payments made US \$ 927 million and in 2012 these payments amounted only to US \$ 237 million. On the whole, over these years the amount of payments made US \$ 1.5 billion. According to the Budget Code of the Republic of Belarus, this

money should be spent only on the base of the President's decisions, similarly to the financial resources of regional reserve funds. However, experts believe that officially published figures are only the tip of the iceberg and Mr. Lukashenka may solely control from US \$ 6 to US \$ 8 billion.

Alongside with money relations, there exists such a phenomenon as "swapping". A number of businesspersons having close relations with Mr. Lukashenka own development businesses, including Triple of Yuri Chizh and Tabak Invest of Pavel Topuzidis. For instance, Tabak Invest has transferred an ice rink built by the company in the town of Raubichi into the ownership of the Republic free of charge. Triple should soon transfer into the state ownership an ice rink in Dzerzhinsky Prospekt of Minsk. In exchange, the President permitted the main shareholders in these companies – Yuri Chizh and Pavel Topuzidis – to obtain desirable plots of land along the main street of the country – Prospekt Pobeditelei in Minsk – to develop their construction businesses.

Experts and our sources indicate yet another cover for various financial operations carried out by the "family" and its entourage, including money laundering and circumvention, if necessary, of foreign sanctions such as visa restrictions, etc., which is the National Olympic Committee of Belarus. To illustrate this it would suffice to recall the scandal, which broke out in 2002, when Mr. Lukashenka spent his vacations in the Austrian Alps under the cover of this organization. Among the Belarussian NOC members, alongside Alexander and Dmitry Lukashenka, are the following persons:

- Leonid Semenovitch Maltsev – the Head of the Belarussian Shooting Sport Federation, the State Secretary of the Security Council;
- Yuri Victorovich Zhadobin – the Head of the Belarussian Biathlon Federation, the Minister of Defense;
- Victor Grigoryevich Golovanov – the Head of the Belarussian Table Tennis Federation, the Minister of Justice;
- Vladimir Nikolayevich Konoplev – the Head of the Belarussian Handball Federation, the Chairman of the Chamber of Representatives of the National Assembly;
- Aleksander Frantsevich Shpilevsky – the Head of the Belarussian Weight-Lifting Union, the Chairman of the State Customs Committee;
- Yuri Aleksandrovich Chizh – the Head of the Belarussian Wrestling Federation, the CEO of the Triple holding;
- Natalia Vladimirovna Petkevich – the Head of the Belarussian Ski Union and the Belarussian Alpine Skiing and Snowboard Federation, the First Deputy Head of the Administration of the President of the Republic of Belarus;
- Vladimir Pavlovich Peftiyev – the Head of the Belarussian Tennis Federation, the CEO of the ZAO Beltechexport;
- Igor Anatolyevich Rachkovsky – the Head of the Belarussian Sailing Federation, the Chairman of the State Border Committee.

It calls attention that this list includes, alongside with the heads of defense and law enforcement agencies, being the backbone of the regime, and other bodies of state power, two businesspersons close to Mr. Lukashenka – Mr. Peftiyev and Mr. Chizh. The full list of Belarussian NOC members can be found at: <http://www.noc.by/about/structure/list/>.

Profitable businesses abroad generating foreign cash are also strictly controlled; the "overseer" of this sector is Victor Sheiman, for many years an advisor and liegeman of Mr. Lukashenka. At the moment he is a Presidential Aide for special commissions; however, over the last two decades he has taken all key posts

– from the Head of Administration to the State Secretary of the Security Council. He has and most probably continues to supervise arms supplies to the third world countries, carries out “special commissions” in the oil rich Arab countries. Since autumn of 2008 he has been a cochairman of a high level Belorussian – Venezuelan joint commission. This appointment was not by chance, since Venezuela is a key vector of the economic expansion of the regime. At the moment Belorussian construction firms are building in this country residential housing ordered by the Venezuelan government, machinery manufacturers, including Amkodor owned by Mr. Shakutin, launch assembly enterprises, whereas Belarusneft provides its services and extracts oil in this country. It should be mentioned that a joint Belorussian – Venezuelan venture BelVenezolana sells oil to the USA. Exactly after Mr. Sheiman’s visit to Venezuela in the autumn of 2011 Victor Shevtsov, a Belorussian oligarch heading some development projects in that country, was arrested.

It is apparent that the economic system created by Mr. Lukashenka leaves no place for large Russian oligarchic structures, which could be interested in purchase of controlling interests in profitable Belorussian enterprises. An advent of large Russian businesses will not only squeeze out “local” proto-oligarchs, but also demolish the economic backbone of the regime based on the system of its “bagmen”. Nevertheless, the crisis of the “lukanomics”, which broke out in 2011, forces the regime to agree to sell some part of its assets. In fact, at the moment there is underway the redistribution of property accumulated by the regime (it should be reminded that in the middle of the time of his rule, Mr. Lukashenka expressed his wish to eliminate private businesses by 2005; true, at that time the share of private enterprises in the volumes of production declined from 60 per cent registered prior to Mr. Lukashenka took up the post to 7.2 per cent. At the moment this figure makes about 35 per cent and practically all private businesses still in existence are controlled by the regime). According to our sources, in the spring of 2011 at a meeting between Lukashenka’s administration and representatives of large businesses it was decided “not to surrender to Russia”.

One of the key objectives of the regime is to prevent the purchase of controlling interests in the most valuable and profitable enterprises by the outside, especially foreign investors, in the process of privatization. A tool used to achieve this objective is the significant overpricing of assets.

Experts believe that in reality the process of privatization of the important profitable assets will most probably take the shape of so called “nomenclature privatization”, i.e. the redistribution of assets among 40 – 50 representatives of the top echelon political and economic bureaucracy supporting the regime in exchange for access to profitable business sectors and assets in the course of privatization. They are interested in the legalization of their offshore capitals, whereas Mr. Lukashenka is going to transfer assets in their ownership on informal terms permitting him to remain in control. However, no money sufficient to cope with the financial crisis will flow into the budget as a result of this process of the distribution of assets among “insiders”, since the proto-oligarchs just have no sufficient financial resources.

However, at this stage the objective is not to attract cash, but to retain control over assets and imitate real privatization to meet the conditions, on which IMF and EvrAzEs / Russia are ready to provide credits. Yet another goal is to “put money in different purses” to be on the safe side in the case of various emergencies, including Western sanctions. The sanctions freezing Mr. Lukashenka’s accounts brought practically no results exactly because in the West he uses the accounts belonging to the regime’s “bagmen”.

So, at the second stage of the nomenclature privatization the new owners (in fact, the “overseers” appointed by Mr. Lukashenka) will sell minority blocks of shares to foreign investors with big money. It is well known that there are many those wishing to take part in the slicing of this cake, including those from Europe. It is expected that this money will suffice to improve the economic situation and uphold the schedule of payments related to the return of earlier credits.

However, as it has been said above, this two-stage operation requires time, among other things, to select confidants and reach agreements with them. Proceeds from the sale of Beltransgaz and credits, including the Russian EvrAzEs credit and a possible IMF credit, are intended not only to stabilize the exchange rate, but also to organize a transitional period in the framework of realization of the nomenclature privatization scheme. The threat of advent of the Russian business is again used as a scare for the West; however, in fact practically no real negotiations concerning the privatization of Belorussian enterprises by Russian businesses are underway because, among other factors, the assets are overpriced and Belorussia is not ready to sell controlling interests to outside investors, the condition Russia insists upon.

The main conclusion to be drawn is that the regime is able to create the appearance of economic reforms while retaining the essence of power relations and the political system on the whole. It may turn out that the international community will again pay for the conservation and strengthening of a dictatorship in the center of Europe falling for promises, threats and maneuvers of Mr. Lukashenka, what includes the granting of yet another IMF credit “taking into account the successful implantation of reforms”. This is precisely why the changes in the political situation, human rights and the civil society status should be included in the package of preliminary requirements (alongside with the economic ones) to be met in order to launch negotiations on provision of financial aid.

This spring, the regime’s experts in the sphere of economy offered the idea of creation of private – public holdings bringing together different enterprises in a sector under the management of the most profitable enterprise as a way to avoid control on the part of Russia and increase the efficiency of these enterprises. Since autumn, this scheme has been launched. In a number of cases, representatives of businesses close to the authorities have been appointed as managers. For instance, Anatoly Kapsky, the CEO and a minority shareholder in OAO BATE, a largest CIS manufacturer of starters for motor vehicles, was given control over a newly created Autokomponenty holding company, where BATE is the managing company, by a Lukashenka’s special decree. The blocks of shares in the enterprises included in the holding are transferred in the management of the parent company. A similar scheme, in the framework of which shares in the beer manufacturer Krinitza were transferred in the management of Priorbank, was earlier lobbied by Mr. Peftiyev.

A new machine building holding with OAO MAZ as a parent enterprise is in the process of creation – it is the most probable reason that the Belorussian authorities are not satisfied with the price of MAZ indicated by foreign experts and are not in a hurry to permit its merger with Russian KaMAZ lobbied personally by Vladimir Putin. At the end of the year the main exporter of metal products – the Belorussian Metallurgical Plant – was converted into a joint stock company, which should become the parent company of a new metallurgical holding.

It is needless to say that no transparent and based on fair tenders privatization of profitable enterprises being converted into joint stock companies should be expected, and that respective shares will be sold or transferred under special arrangements to the structures (Belorussian or formally Austrian) controlled by

the regime. Mr. Lukashenka's decree No. 7 of January 5, 2012, "On certain issues related to the conversion of Republican unitary enterprises into open joint stock companies" lists 54 enterprises, shares in which will not be sold to the workers of these enterprises and persons having the similar status. The formal explanation is the necessity to attract large investments and the fact that these enterprises, being of economic significance for the Republic, ensure the functioning of strategically important sectors of the economy and meet other substantial needs of the government. Therefore, in this or that way the regime will retain control over such enterprises.

So, by the end of 2011 the nomenclature privatization, i.e. the distribution of profitable assets among persons close to the regime, which was intensively discussed by experts throughout the year, has taken its actual shape. Judging by the persons heading the holdings it will be possible to assess how close the respective business is to the regime.

SCENARIOS OF THE FUTURE: YET ANOTHER AUTOCRATIC CONSERVATION OR A DEMOCRATIC TRANSITION?

Based on expert assessments, it is possible to outline several possible scenarios in the development of events and appraise them in respect to their feasibility, as well as their impact on the prospect of democratisation in Belarus.

Bureaucratic Privatisation

Experts believe that the scenario described above regarding the bureaucratic privatisation, aimed at conserving the regime and protecting the political and economic systems in a practically unaltered form, is completely realistic and is already implemented full steam. Both Lukashenka and proto-oligarchs have an interest in its implementation, and European businesses have a strong interest in acquiring assets at the second stage of the sale. However, this scenario requires time and, correspondingly, money – to stop the decline of the economic and to tide it over until the inflow of funds at the second stage. At this stage Russia has partially saved the regime by giving loans and oil and gas subsidies in the framework of implementation of Putin's electoral plan. These subsidies will be turned into hard cash through trade with the West. However, in exchange of money Russia will demand controlling stakes in businesses, which Lukashenka categorically does not want. This is precisely why he has no other option than dialogue with the West to receive credit from that side. Thanks to this, there is a possibility to place specific conditions in the sphere of human rights and ultimately not allow this scenario to be realised in full measure.

Bureaucratic coup-de-tat by the technocrats

Such a coup-de-tat (with the support of Russia and/or the West) could be aimed at "technocrats" removing Lukashenka and making transition to "managed democracy" based on the Russian model. At present it already appears unrealistic because the situation in the country has temporarily stabilized. One of the main questions the West is confronted by is who to talk to and who should they put their bets on. Some experts have directly stated in open sources that the West has become completely disappointed by the opposition and is putting its bets on the counter-elite growing among the bureaucrats.

In addition it is considered that precisely the "technocrats" have a plan on the transition to a "managed democracy" based on a model between Russia and Ukraine and pro-European in orientation. For this group not only economic but reputational risks are important because in the future they see themselves

actively interacting with the West. For this group not only economic but also reputational risks are important, as in the future they see themselves in active cooperation with the West. The proposals of certain experts regarding the policy of maximum involvement in general European economic processes, namely the middle sector of bureaucrats and businesses, are based precisely on this. However, other experts also propose the policy of not only the carrot but also the stick – organising several international processes against those who actively encouraged repression and suppression of civil society, including freezing accounts. It is possible that Myasnikovich and Makey could become subject to such pressure.

The fact that the scenario of a revolution was possible is indirectly hinted at in Lukashenka's calls to CSTO countries for help in preventing Arab-style or “Colour” revolutions. In addition, the recently adopted restrictive laws could have a hidden message to potential renegades. Obviously, a proposal to step down in exchange for security guarantees, allegedly made by the US through a trusted messenger, made Lukashenka quite nervous.

All this lead to a decrease of “technocrats” influence in autumn and virtually complete domination of the “siloviki faction” headed by Viktor Lukashenka. It must be admitted that now the “technocrats” will more likely be focused on not letting go their piece in the process of distribution of the “Belarussian pie” during the bureaucratic privatization. This does not mean, however, that a split will not happen in the future, in the case of another deterioration of economic situation and as a result of tightening of visa bans and economic sanctions which might deprive this part of the elite access to Europe.

A Siloviki-Controlled Junta and Self-Isolation of Belarus

One cannot rule out a scenario of a coup-de-tat organised by another clan and emergence of a junta formed by the *siloviki*, who have actually already once stopped the process of modest liberalisation in the country. This scenario today is evaluated as unlikely, but it is impossible to exclude it if the threat for the *siloviki* group increases. Such a development of events is extremely undesired. However, a long-term self-isolation of the country, similar to that of North Korean is impossible, as the economy of Belarus is strongly tied to external connections. According to experts, the *siloviki* can be the most interested in dialogue with Russia in the event of such scenario, as they will unlikely be in a condition to hold power themselves. To prevent the realisation of this scenario it is necessary to weaken as much as possible the political and economic capabilities of this group; smart sanctions, including bank-related sanctions, can be most useful here.

At the moment we may conclude that a creeping takeover by the *siloviki* has already happened: if not of the power, than of a sphere of influence and not only on decisions made by Lukashenka but in economics as well. Our experts testify that the *siloviki* are putting their people in boards of directors as enterprises are being privatized. However, sooner or later Lukashenka will have to restore the balance because the *siloviki* know how to provide “security control” to a business but don’t know how to run it. The ongoing “milking of business” cannot go on indefinitely without negative consequences to economy; the country needs cash, including for maintaining the apparatus of repressions.

Absorption by Russia

Many people love to talk about the scenario of the establishment of Russian control over Belarus, firstly economic and then political, right up to absorption. European politicians are especially worried about this prospect, using it to justify their compromises and “dialogues” with the Lukashenka regime, aimed at “tearing” Belarus away from Russia and “engaging” it with the European zone without any real change to

the character of the political and economic system set up by Lukashenka. Lukashenka himself constantly uses this threat as part of his long-term strategy of finding a way between the West and East. This also works vice versa, the prospect of closer ties with the West and refusing the integration process to the East frightens Russia.

Processes going on in the framework of realization of Putin's electoral program of establishment of a Common Economic Space are interpreted by many pro-Western experts exactly as already ongoing absorption of Belarus by Russia. Part of them may be quite sincere in their comments but some experts, to our mind, are frightening both the West and the Belarussian society by a "Lukashenka-traitor" of independence of Belarus just as a way to promote their personal projects.

And yet the scenario of absorption by Russia appears to us unrealistic, as nobody in Belarus is interested in being subordinate to Russia and losing its independence. Current elites with Lukashenka at the top will not be able to compete with Russia's business and political class and will end up losing their positions. For the political opposition and the independent civil society, the issue of protecting the independence of Belarus is principled on ideological reasoning; at the same time the majority of them do not see Russia and Russians as the enemy, more likely as the opposite.

A "Colour" Revolution

All experts consider the scenario of a non-violent democratic revolution based on the "Arab Spring" model or the "Colour" revolutions in countries of the former Soviet Union to be completely unrealistic. If during the summer protests and before Lukashenka's ratings reached their bottom, one could have certain illusions, now when the situation has temporarily stabilized and harsh laws have been adopted, mass protests should be forgotten, for now. Unfortunately, Belarussians are "voting" mostly with their feet, leaving for Russia or the EU countries for jobs.

Too many conditions necessary for a successful democratic transition of this type are lacking. The *siloviki* are too well taken care by the regime and are ready for tough measures, the climate of fear is too great in the society, no part of the elite is ready yet to split from the regime, there are practically no independent channels of mass communication and information and, most importantly, the opposition is divided, does not have a clear programme attractive to a wide sector of society or a clear charismatic leader who everybody could get behind.

The situation in the opposition is rather difficult. Independent experts view the possibilities of the opposition to firstly agree amongst themselves and secondly their election campaign for 2010 with complete scepticism. The opposition did not work with the electorate but with a Western audience. Therefore various opposition parties are regarded more as political and ideological projects than a real movement capable of taking responsibilities upon itself for the future of the country and its people.

Gradual "Europeanisation"

A scenario of the gradual, over the course of several years, engagement of Belarus into the European zone is preferred by many in Europe as a process not connected with disruption and the necessity to take risks. It envisages dialogue and cooperation with Belarussian authorities and at the same time creating wider opportunities for Belarussian public to travel to Europe to study, take part in joint projects and, under certain conditions, even work. It is even supported by certain experts inside Belarus, cautious of worse scenarios and hoping that gradual "intergrowth" of Belarus into the European cultural area and the

arrival of Western business will eventually soften the customs and change the political process. Of course in itself this scenario as a process is completely realistic, but at the same time it is not very effective and will most likely not lead to any serious change and will enable the conservation of the system. The regime established in Belarus by Lukashenka and supporting his group of *siloviki* and bureaucrats, extends back almost two decades of human rights violations, corruption and personal control of economics without fulfilling obligations or promises. It is impossible to suppose that suddenly under the influence of "engagement into dialogue" and economic relations that the essence of the regime will change, even if a certain "facelift" is carried out. In addition, the regime conceives any concession as the weakness of the opponent and its own victory. Any support of the international community will serve during such "unconditional" engagement as legitimatisation and conservation of the regime and becomes an additional political signal for foreign private business.

Precisely this scenario completely satisfies Western business and certain countries who are close partners of Belarus. Therefore the following question is rarely asked: why the regime would change if Europe accepts it, invites, cooperates and does business with it? If no obligations and conditions for cooperation are set and if only nice words are said, then there are no stimuli for change. The most interesting thing is that Europe has already tried this approach, the last time in 2009-2010, and this experience ended bitterly in the subsequent falsification of presidential elections and the carnage on Independence Square on 19 December.

Democratic transit through a system of changes prepared with the help of economic levers of cooperation

Despite the hope among some parts of the opposition, today it is difficult to imagine that the regime of Alexander Lukashenka for some reason will start to seriously hold negotiations with the opposition on the transfer of power and on holding fair and free elections. Today it seems that the conditions have not yet been created under which the balance of power would shift to the democratic forces and the regime would be forced to willingly give up power.

However, the scenario of non-revolutionary democratic transition becomes not only desired but also the most realistic under conditions of effective application of economic levers from outside, influencing the behaviour of the authorities, using both negative (sanctions) and positive (credit and investments) tools based on strict conditions to fulfil a whole range of specific requirements. This is a type of a "road map" and the fulfilment of each of its points will weaken the regime's grip and create the basis for changing the balance of power in favour of the democratic camp. If there was no economic crisis in Belarus, the chances of implementing such a scenario would be completely insignificant. However, Lukashenka with his own hands has prepared the conditions for implementing such an approach. A better present would be hard to imagine. Implementing this scenario will require a consolidated position of Western countries (especially the EU countries as the main economic partners of Belarus), firmness and resolution. This approach is set out in more details in the following sections.

THE TIME TO ACT: SMART AND TARGETED ECONOMIC SANCTIONS

The time for action has come now while the Lukashenka regime has not fully recovered from the economic crisis. Unfortunately, the time has been lost for decisive action during a full-blown economic crisis that unfolded in the summer and autumn of 2011, when economic measures would have proven the most effective and when the level of popular discontent with the authorities was at an all time high.

At present, sociological studies show that the Belarussian society is developing a sense that the lowest turning point in the crisis has been passed. A degree of imaginary stabilization along with the crackdowns is diminishing the protest sentiment. However, 2012 will see Belarus going through at least two moments of political and economic instability.

The first is the presidential election in Russia. Lukashenka has received generous advances from the Putin regime toward Russia's geopolitical project of Common Economic Space. However, even now he is not in a hurry to heed Russia's wishes, first and foremost on account of privatization. If Russia steps up the pressure after the election, Lukashenka will be forced to start a dialogue with the West because meeting all Putin's conditions will take him out of power.

The second moment of instability is parliamentary elections in Belarus. Following the 2010 scenario, Lukashenka will most likely resort to populism, which means that Russian loans and advances will soon run out as was the case with the IMF loan in 2010.

Therefore, it is very important that Lukashenka's regime receives no new lifelines from the West in the form of loans, investments, and export revenues until certain conditions are met. Such pressure could have been mounted by Europe in the autumn of 2011, but it is not too late to do it now, in early 2012. So, what specific measures can be taken?

1) Firstly, it is necessary to block the channels through which the regime is receiving its funding. For this purpose **targeted smart sanctions must be instituted against a number of the regime's "bagmen"** that figure prominently as sources of its financial support. This measure should primarily target the companies that are engaged in foreign trade, providing the regime with hard currency. It is necessary to understand that under the existing system of state-run corruption no one can do business abroad without a personal permission from Lukashenka, while those who "betray their loyalty" to the regime risk getting arrested, subjected to criminal prosecution, and forfeit their business.

In order to facilitate targeted action against such businesses our experts are prepared to provide a list of these so called Lukashenka's "bagmen" that may become subject to sanctions.

Special decrees about transfer of state property to a certain company signed personally by Lukashenka could serve one of the signs of one's special relationships with the regime. According to the legislation of the Republic of Belarus assets of enterprises should be sold only at the stock exchange.

Foreign economic activity, i.e. doing business abroad, should be considered another indicator because this is a source of hard currency, and nobody can do business abroad without personal approval of Lukashenka himself.

Working with "strategic" export goods such as oil and oil products, weapons, tobacco, alcohol, fertilizers, metals, and possibly, wood products is also an important criteria.

In addition, some businessmen openly associate themselves with Lukashenka in the political field in this or that way – for example, acting as his authorized representative during elections.

2) Secondly, **issuing any new loans must be stopped**. The US and the EU member states should use their

political weight in the IMF to oppose the allocation of new loans by the IMF, restructuring of the existing loans, and deferment of payments. The game of giveaway with the dictator when loans are granted based solely on economic performance will do nothing to improve the situation, but will perpetuate the regime and boost its belief in its own impunity. On the contrary, setting tough systemic requirements may catalyze the desired change.

3) Thirdly, **the EU leaders have to firmly recommend to European businesses, and particularly banks, to refrain from investing into business in Belarus and participating in privatization** there since in the current climate any investment will become an investment into the regime. The plan of attracting foreign investment is personally approved by the head of the regime; that is why pretending that business and politics are separate in the case of Belarus is hypocritical, at the very least. The US could also announce to the European companies and banks that they have to choose between working on the American market and befriending Lukashenka's dictatorship. Such conditions have been effective in the past when the US confronted European banks with a choice between America and Iran.

4) Fourthly, **the European Union must begin putting in place sanctions against the main export sectors of Belarus**, gradually increasing their number and volume. One could begin by sanctioning steel product exports from Belarus; further on, if the demands are not met, sanctions might expand to include potassium products, while the oil embargo should be reserved as the main threat.

WHAT THE EU SHOULD DEMAND FROM BELARUSSIAN AUTHORITIES: A ROADMAP OF CHANGE

Opponents of economic sanctions maintain that they lead to suffering of the people. However, the people of Belarus are already suffering from political repression and ineffective and corrupt economic policies of the Lukashenka regime. A 65% devaluation of the national currency and more than a 100% inflation, alongside continuous crackdown, have led to a situation where Lukashenka has lost support of three fourths of the public, while even more people blame him for the crisis. The European Union must help the Belarussian society to put an end to its suffering and bring about change that it wants.

Another argument of the critics questioning economic sanctions is the assertion that they are generally ineffective as a foreign policy tool and rarely bring meaningful results. Admittedly, this has been the case on many occasions, and yet, as a rule, their failure can be attributed to two systemic mistakes. The first mistake is a lack of clear and well-formulated demands when sanctions are only used as a punitive measure for violations rather than a condition of concrete change. In the case of Belarus the individual sanctions introduced by the EU have produced exactly this impression. The second mistake is a lack of consistency in applying sanctions whereby economic considerations and military-strategic priorities of *Realpolitik* trump human rights principles and values. As a result, sanctions are often canceled after a few years without achieving results. For instance, this was the case in Uzbekistan when sanctions introduced in the wake of the Andijan massacre were lifted several years later when it became necessary to secure cooperation from the Karimov regime during the NATO-led military operation in Afghanistan. The sanctions ended without any progress in investigating this heinous crime and punishing its perpetrators.

Therefore, it is of key importance that concrete and measurable demands in the area of human rights and the rule of law are elaborated. What exactly should economic sanctions be aimed at and what should the EU demand of Belarus authorities?

Today there is a consensus that any dialogue with the Belarussian authorities is possible only after all political prisoners are released and cleared of all charges. However, this is definitely not enough since meeting this demand cannot, in and of itself, create the conditions for putting an end to repression and restoring the rule of law. It is necessary to serve the government of Belarus with a package of systemic demands in the area of human rights and the rule of law. Meeting these demands should become the condition of a gradual lifting of economic sanctions, renewal of international dialogue and economic cooperation with the Belarussian authorities. Such conditions could be formulated in a strategic document of a “roadmap” type but they need not necessarily include interconnected steps or stages of action by both parties. The document must include, on the one hand, demands regarding reforms in the Republic of Belarus, and, on the other hand, a description of what the European Union could provide in return. The latter refers both to a gradual decrease of the “stick” policies with a corresponding increase in the “carrot” activities.

In October 2010 the European Union drafted a document titled a Joint Interim Plan for Belarus that, as far as we know, was supposed to become a launch pad for negotiations with the government of the country, should the presidential election of 2010 been conducted without major violations. In essence, this document amounts to a roadmap and, quite possibly, could serve as a basis for developing a package of demands to the Belarussian government during the current stage. Reportedly, the document draft contains approximately 20 pages of demands that span a 3-5-year reform period in return for considerable economic aid from the EU and is similar in content and scale of the offers made by the EU to Georgia, Moldova, and Ukraine. This is a strategy of using economic stimulus (“carrot” in return for reform). However, the EU put this plan on hold after the events of December 2010. Nevertheless, this document seems to be the only one of strategic importance in the EU concerning Belarus.

Apparently, even though this document contains the notion “progress” on the human rights issues, it lacks the requisite concrete and measurable yardsticks of such progress. The civil society is ready to fully contribute to developing such a roadmap and organize the monitoring of the way in which international demands are being met.

Measurable progress by Belarussian authorities in meeting the following sets of conditions relating to human rights and freedoms must be a key requirement for renewal of dialogue with the international community after the mandatory first step – release and rehabilitation of all political prisoners:

- 1) putting an immediate end to persecution of participants of peaceful protests, members of opposition parties and movements, representatives of civil society, human rights defenders, lawyers, journalists, bloggers, students and anyone who defends them;
- 2) conducting investigation of the events of the last year and addressing all violations committed during that time, in particular:
 - thorough and impartial investigation of all incidents of disproportionate use of force by security forces during the crackdown on protests on 19 December 2010 and also during other peaceful assemblies in the following months, including the silent protests;
 - thorough and impartial investigation and legal assessment of incidents of ill-treatment, including torture and degrading conditions of those who were detained and imprisoned following a conviction in cases relating to the events of 19 December and other politically motivated cases, including allegations of denial of medical treatment, access to a lawyer and relatives and the right

- to correspondence;
- review of all decisions in cases relating to administrative offences against protesters, taking into account peaceful nature of demonstrations, grounds for restriction of the right to freedom of assembly and freedom of expression, the proportionality of penalties and whether they were based on consistent and reliable witness accounts; and rehabilitation of all individuals sentenced to short-term imprisonment in winter and spring 2011;
- putting an end to obstructing lawful work of representatives of inter-governmental organizations and members of international NGOs and journalists monitoring and reporting human rights situation in Belarus; eliminate arbitrary practice of their detention, deportation and adding them in the lists of persons whose “presence in Belarus is undesirable or prohibited”.

Implementation of these requirements can also be started rather quickly, within a few weeks. However, fulfilment of these requirements, while giving grounds to renewal of international dialogue with the government of Belarus, must not automatically lead to resuming economic cooperation and provision of financial support as it would only restore the situation to the point before 19 December while the situation with human rights and the rule of law had been systematically deteriorating for many years before that.

3) Implement a range of legal, institutional and policy changes aimed at meeting the main international obligations with regard to civil rights and freedoms based on decisions and recommendations of the United Nations, OSCE, PACE and the European Parliament, including freedom of association, freedom of assembly and freedom of expression; independence of the judiciary and defence lawyers; prohibition and elimination of torture; security of human rights defenders and journalists; and effective investigation of disappearances.

Meeting the third set of requirements will take more time. However, it is feasibly possible to achieve concrete and measurable progress in relatively short time in line with the set indicators, and this must be a prerequisite for continuing dialogue with international community and for provision of the first loan payments.

4) And last but not least, there must also be a requirement to prepare free and fair presidential and parliamentary elections – possibly, involving round table with the opposition and the scrutiny of international experts. It is crucial to understand that without implementation of the previous stages this step is impossible: no one can talk seriously about free and fair elections in the absence of independent media, fair courts, registration of political parties, changes in the electoral laws while repressions against civil society continue. Otherwise, “elections” and a round table will be a mere imitation, a Potemkin village used for yet another deception of the international community.

Meeting each of the requirements relating to fundamental rights and freedoms set out in the “road map” will weaken the authoritarian regime, empower people, help strengthen civil society and democratic opposition, and thus will create conditions for shift in the balance of power and make the authorities hold round table talks to address the main issue of free and fair elections.

Along with setting out demands for Belarussian government, the international community must fully support and protect Belarussian civil society, and prove in practice its solidarity with defenders of freedom and democracy in the country. International organisations and foreign governments must

cooperate and hold regular consultations with Belarussian human rights defenders and other civil society activists, while working on strategies to achieve change in Belarus. It is necessary to work out a vision for Belarus after Lukashenka already now, in consultations with civil society and independent economic experts, and prepare measures for smooth transition, make provisions for a “financial security cushion” in the form of international economic assistance to a new government.

To sum it up, the European Union must develop, without delay, a revised strategy towards Belarus which should include introduction of smart targeted economic sanctions, a set of concrete demands to the Belarussian authorities and a “road map” for steering Belarus back to the path of democratic development and the rule of law. Progress along such road map must be the sole criterion in making decisions about lifting sanctions, resuming economic cooperation and providing new loans. Unless these requirements are met, no efforts should be undertaken to “draw” Belarus into the European space unconditionally through mere dialogue with the regime in a hope for gradual weakening of repression and possible reforms sometime in the future. Continuing economic cooperation and providing new loans at this stage without requiring systemic reform will only ensure preservation of the dictatorial regime and continued suffering of the Belarussian people.

A stable European course for Belarus in the future can only be ensured by a transparent and legitimate system of governance based on the rule of law and having emerged from systemic reform and fair elections. That is why the West must not fear to set out stringent systemic requirements in human rights and political reform. This historic opportunity must not be missed.

Prominent political prisoners from the political opposition and the civil society have refused to make a deal with the government - partially in the hope of breaking the vicious circle of deals between the West and the Lukashenka regime, so the situation may finally change and the international community may take decisive steps. They are prepared to spend as much time behind bars as may be necessary to help the free world understand that they are right. Perhaps this is an idealistic outlook, but the sacrifice has already been made. It should not be wasted.

It is important to bear in mind that active, European-minded part of the Belarussian society still holds high expectations of an active response from the West. To fail these expectations would be to cast a heavy blow to the democratic aspirations of the Belarussian society and to undermine their belief in international solidarity.

From a pragmatic perspective, it should be understood in the West that Lukashenka cannot guarantee stability anymore in view of the public discontent described above and also because he finds it increasingly difficult to balance the political and economic interests of various groups.

APPENDIX 1

WHAT POLICY MAKERS SHOULD UNDERSTAND ABOUT BELARUS

An Autocratic Political System: Unpredictable Sovereign, the Two Clans and the State of Fear

Alexander Lukashenka was elected into office in 1994. He took the next 17 years to build a system of personal power, resembling a medieval fiefdom run by a capricious and unpredictable feudal lord. Under this system, he is the sole decision maker whereas the top officials are shuffled around like a pack of cards. They are appointed into office based not on their credentials and professional qualities, but on their personal loyalty and the ability to be “useful” in repressing the opposition and pushing through various financial schemes.

Over all these years the country has seen systematic attacks on civil and political freedoms and human rights. Not a single election or referendum has been recognized by international observers during this time. This contributes to the wide-spread doubts, both domestically and abroad, concerning the legitimacy of Alexander Lukashenka’s presidency. The dissolution of the last independent parliament ushered in the era of dependency for the legislative branch of power. Imprisonment on political grounds has become a regular occurrence in the country. Torture practices during pre-trial detention and in prisons are common. The year 1999 was marked by a number of disappearances among Lukashenka’s political opponents and critics. Their fate is still unknown. The court system has become fully subservient to the regime; lawyers who risk defending the critics of the powers that be are stripped off their licenses and expelled from the profession.

The freedoms of speech, assembly, and association which are central to democracy, are systematically abridged by laws, institutions, and practices while NGOs suffer from pressure and harassment. Practically all human rights organizations have seen their registration revoked. At the same time, the Criminal Code has been amended with Article 193-1 that introduces criminal liability for activities on behalf of an unregistered organization. Civil society institutions are unable to receive foreign financial support legally. Belarus has virtually no independent media. The state-run newspapers and television now function as powerful vehicles of government propaganda.

Belarus remains the only country in Europe with capital punishment. Along with systematic human rights violations, this was one of the chief reasons that prevented Belarus from becoming a member of the Council of Europe. The country’s relations with the OSCE remain strained whereas various UN bodies have continually and sharply criticized the Belarussian authorities for failing to fulfill their international human rights obligations.

Lukashenka’s authoritarian regime heavily relies on numerous security forces that carry out repressive crackdowns and promote a state of fear in the society. Among them is a special service with a Soviet-style name KGB, the police, Special Forces regimens, the public prosecution office, civil intelligence agencies and army intelligence, and others. Belarus leads Europe in the number of people wearing uniforms. Security officers are among the regime’s privileged elite, “the crème de la crème,” enjoying high and secure salaries. With the current economic crisis in full swing, they are receiving inflationary raises, unlike the rest of the population. Their well-being depends on Lukashenka, but he is also dependent on them, and they are well aware of this. Impunity gives the Belarussian security forces an opportunity to

perpetrate further crimes in an atmosphere of all-permissiveness.

Western analysts and policy makers often fail to take into account the inner workings of the corrupt autocratic rule in Belarus, emphasizing the standoff between the opposition and the government. They overlook the fact that the system is not monolithic. Not only has Lukashenka been able to strike a delicate balance between Russia and the West, but he has also succeeded in performing a balancing act between two different groups or clans of the Belarussian power elite.

Experts have designated the first group as the leadership of the security forces, or *siloviki*. Aside from their main job, *siloviki* control arms and oil trade, engage in shady arms deals, transactions involving oil products, and other business. It is these people that are interested in preserving the status quo, underpinning their control of the country. By the status quo we understand the situation that existed before the elections of 2010. Some experts believe that it was exactly this group that prepared and provoked the carnage on the Independence Square on the election night and further crackdowns. The group undertook these measures, fearing that even the slightest of threats may destabilize the system, and carried them out against the backdrop of token liberalization before the election and protests after the election was rigged.

According to some observers, Lukashenka cannot afford engaging the West in direct and open dialogue if he wishes to keep a tight rein on this group, because doing so would expose him as weak and lead to a coup attempt. Among the clan members are the KGB chief and a close friend of the president's son Victor Lukashenka, Vadim Zaitsev, Lukashenka's son Victor who is the presidential aide for national security and a member of the Security Council of Belarus, and the Defense Minister Yuri Zhadobin.

Some experts already liken the country's security forces to a junta. Part of members of this group has already been targeted by the US and EU sanctions. First of all, it is Vladimir Peftiev, who is among the people in control of Lukashenka's purse strings, and his business. It is worth mentioning the close connection between Peftiyev and Raiffeisen Bank and other Austrian businesses. Therefore, checking how closely Raiffeisen Bank and other banks comply with the sanctions regime may prove to be a worthwhile endeavor. Economists note that the sanctions against Peftiev have had a symbolic effect rather than served an economic purpose.

According to expert opinion, Belarus' arms and oil business is controlled by the security forces even though its management consists of "civilian" businesspeople. Redistribution of assets is underway now: state enterprises are being privatized, and the *siloviki* appoint their people in the boards of directors. According to experts, the *siloviki* do not want to act as "security cover" but want to make decisions. It is possible that oligarch Shvetsov, arrested in November, is one of the "victims" of this process, given the key role in this story of Viktor Sheiman, Lukashenka's close associate.

The second group (possibly, with two people in charge – Head of Presidential Administration Vladimir Makey and Prime-Minister Mikhail Myasnykovich) represents a more moderate clan of "technocrats," or government officials participating in influence peddling and existing in a symbiotic nepotistic relationship with big and medium-sized business. This group has a stake in maintaining economic openness and continuing to forge close ties with Europe. Besides, members of this group express strong concern about the state of affairs "after Lukashenka." They do not take kindly to the prospect of "having to go to court" for complicity in violent crackdowns, abductions, and suppression of civil society. Some experts even

believe that this part of the system secretly subverts the regime in order to precipitate its downfall. This group is also worried about the fate of their children, many of whom study in Europe. It is precisely this group that provides a fertile ground for a potential “counter-elite” that may be susceptible to influence through a carrot-and-stick approach. Such an approach may include disseminating materials headlined “the Hague Tribunal awaits you” and demonstrating future prospects under new authorities if they part ways with the current regime in a timely fashion. The latest news indicates a split in the midst of this group regarding economic policy of the country.

Some experts at the same time are quite skeptical about prospects of a split in the elites and “defection”, believing that at the moment there is nowhere to defect to because the opposition is weak, divided, and lacks programmatic vision, the niche of pro-Western dissent is already taken by the same opposition, and there is no credible scenario of transition to “life after Lukashenka”. Risks for potential deserters are too high at the moment. Majority of the former members of the elite, who were forced to flee Belarus at different times, live quiet life in Russia or the West, for example, in the UK.

In autumn of 2011, using Lukashenka’s anger about the failure in realizing his plan of exchanging hostages to Western credits and stirring up his anger as well as the dictator’s fear of the “Arab scenario,” the *siloviki* took over the “technocrats” and established full control over the country’s politics and economy. Nobody should be confused by the recent sacking in the higher echelons of the Ministry of Interior and the Ministry of Justice: the *siloviki* wing is getting consolidated under Viktor Lukashenka’s leadership, and the most trusted people are being installed in the key positions.

The Economy of Lukanomics: A Corrupted Post-Soviet Kolkhoz that Sucks Resources from East and West

Not unlike the political system, the economy of Belarus is based on unrestricted presidential power. Lukashenka makes almost every more or less important decision. Information available from open sources reveals that over the past 17 years of single-handed rule Lukashenka has built a system of total control over the economy. His commercial interests, as well as the business interests of his bureaucracy, extend far beyond the three companies that have been put under the EU sanctions.

Overall, Belarus’ economy lacks transparency and efficiency. With the exception of a couple dozen “flagship” enterprises nicknamed “family silver” by common Belarussians, most companies in the country are unprofitable, unmodernized, lag far behind in energy efficiency, receive state subsidies, and are forced to assume financial responsibility for the social benefits of their workers. Investors do not get any protection of their rights, unless they grease the right palms, of course. Over a long period of time, social stability and programs have relied on foreign loans, arbitrage in oil products sales to Europe thanks to subsidized prices on Russian oil, potash and chemical products trade (Belarus controls a 15% share of the world potash market, which supplies the crucial ingredient to be used in fertilizer production), oil and gas transportation charges, and arms trade, including shadow deals with the “bad guys” from rogue states and separatist militants.

With 70% of the country’s economy being state-run, all profitable companies are controlled by the dictator’s appointees. These are a group of 40-50 people, also known as “proto-oligarchs.” They make their money, transfer it offshore, and pay off the dictator. By and large, the country has no independent businesses. Starting from a certain level, every business makes personal payments to Lukashenka that go

to a legal Presidential Fund. The money in the Fund is not accounted for in the country's budget, and the transfers occur without any oversight. Experts cite the miraculous appearances of large sums of money before elections (which were not listed in the budget) as examples of the Fund's activities. In this sense, it is clear that any contacts with or investments into big or medium-sized business in Belarus will profit the regime and Lukashenka in person. Because of this, Western governments ought to recommend their business community to refrain from large-scale investments into the country's economy until it undergoes a systemic change.

The regime has several principal sources of income. Experts largely agree that the authorities employ both legitimate and shady schemes of profit making. Legal income is obtained from the exports of oil products from Belarussian refineries, potash fertilizers, the sales of trucks or other similar equipment, etc. These legal paths are often supplemented by other schemes, including deals that involve stolen Russian oil sold by Russian companies with Belarus acting as an intermediary.

Experts disagree about the share of arms trade in the overall profits of the regime. Some observers claim that the era of arms sales involving the leftover of Soviet materiel and targeting Africa, Latin America, and Asia has come to an end. At its height, in the 1990's and 2000's, Belarus ranked among the top ten arms sellers in the world. Others believe that Belarus, represented by the "Beltechexport" company controlled by Vladimir Peftiyev, continues to sell weaponry, sometimes in violation of international sanctions backed by the UN. The world community is regularly treated to documentary evidence that, supposedly, indicates the existence of arms deals with separatist and even terrorist groups carried out by Belarus. Yet, some experts tend to argue that the arms market is too serious an area for the Republic of Belarus to jeopardize its reputation. However, according to other reputable experts, many recent cases of arms trade and other activities of Belarussian military specialists abroad may be a part of growing involvement of Belarussian "private" firms, most likely used by the state-owned "Beltechexport" when it does not want to get exposed in a risky business.

In order to understand the meaning of the "Belarussian economic miracle" that lasted 17 years, we must remember that the history of the regime is a history of finding a middle ground between Russia and the West. Each step in this balancing act has been accompanied by giving and breaking promises in exchange for loans, subsidies, and staying in power.

APPENDIX 2

FOREIGN ECONOMIC TIES OF BELARUS

Belarus's main exports

Oil products

Of late, the Netherlands and the UK have been actively taking deliveries of Belarussian oil products (petrol, diesel fuel, and heating oil). Belarus operates two large refineries (the “Naftan” Open Joint Stock Company and the “Mozyrsky refinery” Open Joint Stock Company). Their products are exported in a centralized fashion through the “Belarussian Trade House” Unitary Enterprise and the “Belarus oil company” Closed Joint Stock Company (an integrated online trading platform at www.bntdtorg.by). Other products include polyacetal resins and polyethers, organosulfur compounds, ethelene polymers, acrylic polymers, and phosphates. Almost all chemical products in the republic are produced at factories affiliated with the Belarussian state petrochemical concern named “Belneftekhim.”

Potassium fertilizers

Belarus is one of the largest producers of potassium chloride in the world which is the most widely used potassium fertilizer. Potassium chloride is produced at the “Belaruskalii Industrial Group” Republican Unitary Enterprise.

Nitrogen fertilizers

Nitrogen fertilizers are produced and exported by a large chemical factory named the “Grodno Azot” Open Joint Stock Company. The company also manufactures gaseous and liquid nitrogen, oxygen, carbon dioxide, sulfuric acid, nitric acid, methanol, biodiesel, caprolactam, carbamide, other chemical products.

Metal products

The leading manufacturer of metal products is the “Belarussian steel mill” Industrial Group. The mill produces hot-rolled steel products, rebar, solid-drawn pipes, steel-wire cord, wire, and a large inventory of other steel products. Additionally, metalware is exported by the “Rechitski metalware plant” Republican Unitary Enterprise.

Mechanical engineering

The main exporters in this category are the “BelAZ” Open Joint Stock Company, the “MAZ” Open Joint Stock Company, the “MTZ” Republican Unitary Enterprise, the “Amkodor” Open Joint Stock Company, and the “Gomselmash” Company. Trucks, specialized vehicles, tractors, and agricultural machinery make up a third of all exports. They are supplied to the Customs Union member countries, the CIS, countries of the EU, Canada and Latin America. BelAZ is of the leading producers of open-pit mining machinery and earthmovers. These companies are represented in EU countries through a network of partnering dealerships and branches. MTZ, MAZ, and Amkodor have opened a number of assembly facilities outside Belarus. At present a mechanical engineering holding named BelavtoMAZ is being organized around MAZ.

Tires

The “Belshina” Open Joint Stock Company is one of the largest factories of this type in Europe producing over 200 kinds of tires for cars, trucks, heavy load vehicles, electric vehicles, buses, tractors, agricultural machinery, and mining equipment.

Sawmilling and woodworking

The inventory on offer includes timber, raw timber, cooper-ware, lengthwise-cut timber, plywood, chipboard, fiberboard, medium density fiberboard, wooden construction elements, and furniture. Belarus is a traditional supplier of timber and woodworking products to the European markets. It is not surprising, considering the fact that forests take up over 40% of Belarus's territory. The country's timber reserves are estimated at 1.47 million cubic meters. The annual growth in timber reserves amounts to more than 28.6 million cubic meters whereas only 15 million cubic meters are harvested yearly. Belarus processes approximately 70% of timber at the mills affiliated to the Belarussian production and trading concern of timber industry, sawmilling, woodworking, and paper milling ("Bellesbumprom"). The concern brings together 60 companies that represent all stages of woodworking, from cutting timber to end product manufacture. Sawmilling and woodworking is an industry populated by a large number of private companies, including joint stock ventures with foreign capital.

Textiles

At present the imports of Belarussian textiles to EU countries are subject to quotas. However, on 1 January 2009 quotas for 13 out of 33 categories of textile products were canceled. More than 100 large companies working in textiles are affiliated members in the "BelLegProm" concern. The textile business also attracts a large number of small and medium private companies including those with foreign participation.

Belarus-US Trade

The amount of trade between Belarus and the US is relatively small. 2010, a relatively peaceful year preceding an escalation of crackdowns in Belarus and new economic sanctions imposed by the US in response to human rights violations, ushered in a renaissance trend in bilateral trade with the US. Belarus's exports to this country reached 72.9 million dollars. Belarus's exports to the US include steel and oil products, timber and woodworking products, tires, flax fabrics, fiberglass, optical equipment, synthetic filaments, furniture, and food products. Bilateral trade has also increased to 512 million dollars.

Despite the additional sanctions imposed by the US in 2011, including economic sanctions against a number of Belarussian companies, Belarus's exports to the US in January-November 2011 showed some growth attaining a 80,195-million-dollar mark.

Reportedly, the joint venture of Venezuela and Belarus (BelVenezolana) is selling oil produced in Venezuela directly to the US while the Belarussian partner in this project (the "Belorusneft" Company) remains under American sanctions.

The amount of American investment into Belarus's economy for 2010 almost doubled compared to 2009, topping 70 million dollars. By 1 January 2010 registration had been granted to 327 joint ventures and foreign companies with a financial stake of American origin. Large American companies, such as Caterpillar, Honeywell, Sysco Systems, Navistar, ArvinMeritor, Microsoft, and Siguler Graff have been eager to demonstrate their interest in cooperating with Belarus and, jointly with Belarussian businessmen, created the Belarus-US Business Cooperation Council in spring 2010.

Belarussian trade with EU countries

The Netherlands, Germany, and Latvia are Belarus's leading trading partners.

According to the Ministry of Justice of the Belarussian Republic, more than 518 organizations were established in the country with foreign money. At the top of the investor list are such neighboring countries as Russia, Lithuania, Latvia, Poland, and Ukraine. Germany, followed by Italy, is at the top of the list of investor countries that do not have a common border with Belarus.

The Netherlands

Over the past years the Netherlands have been one of Belarus's main trading partners, purchasing large quantities of Belarussian oil products. 2011 saw Belarussian exports into the Netherlands reach record volumes.

In January-November 2011 the bilateral trade between the two countries was worth 5,719.528 billion US dollars (a 2.2 growth compared to January-November 2010). Belarus ran a trade surplus exceeding 985.441 million dollars.

Oil product exports are reported to make up more than 95% of this amount. Other main exports from Belarus to the Netherlands were solvents, saw blades, women's and men's clothes, textiles (polyamide fibers, flax fabrics), timber and woodworking products, unalloyed steel wire, fiberglass, unvulcanized rubber, casein, current-handling equipment parts, and tires.

In January-June 2011 the Netherlands invested 131.1 million dollars into Belarus's economy (38.2 million out of this amount were direct investments). By 1 January 2011 Belarus had registered 80 companies with foreign participation (31 joint ventures and 49 foreign companies). Overseas investors have contributed 167.6 million dollars into their statutory capital.

Joint ventures and businesses created with the assistance of Dutch companies are active in such areas as food production, pharmaceuticals, furniture making, and textile production using customer-furnished materials, agriculture, logistics, and computer, bank, and medical services.

Among the most significant investment projects carried out by Dutch investors in Belarus are breweries launched by Heineken, beverage factories built by Coca-Cola, strawberry farms operated by Vissers Arbeidsplanten, customer service centers run by Philips, apple tree orchards laid by Van Doorn Europe BV, medicines produced by the "Farmland" Open Joint Stock Company, and loan programs administered by the Netherlands Development Finance Company (FMO) for small and medium companies in Belarus through Belarus's Bank for Small Business.

According to official sources, "Bellesbumprom" have successfully negotiated an increase in the deliveries of Belarussian timber, woodworking products, and furniture to Dutch importers and diversified Belarussian exports to the Netherlands. The list of suppliers includes the "Bellesbumpromexport" Unitary Enterprise, the "Vitebskdrev" Open Joint Stock Company, the "Gomeldrev" Open Joint Stock Company, the "Mostodrev" Open Joint Stock Company, and the "Pinskhdrev Holding Company" Closed Joint Stock Company.

Additionally, “Belalko” and the Dutch side are negotiating direct deliveries of Belarussian alcoholic beverages.

Germany

Germany has traditionally been one of Belarus’s key economic partners and remains the main buyer of Belarussian oil products. Belarus’s exports to Germany include almost 400 items including products of heavy industry, agriculture, chemical products, timber and woodworking products, food, textiles, and construction materials.

In January-November of 2011 the overall volume of trade with Germany was 3,973.424 billion dollars, which constitutes a 158% increase on the same period in 2010. Exports stood at 1,678.193 billion dollars (a significant fourfold growth compared to the same period in 2010). There was a slight trade deficit of 617,038 million dollars.

Belarus’s trade with Germany has traditionally been marked by large volumes of investment imports from Germany to Belarus, mainly in the form of machinery, equipment, various vehicles, hardware, and tools. In 2010 Germany invested 71 million dollars in Belarus, including 58.8 million in direct investment. The first three months (January-March) of 2011 (according to the data made available in the public domain at the time of writing this report) saw Germany invest 50 million dollars into the Belarussian economy 46.8 million of which constituted direct investment.

If one believes official sources, Belarussian companies in various industrial sectors have been able to secure loans from German banks affiliated with the AKA Ausfuhrkredit-Gesellschaft mbH export consortium. These funds were made available both through the consortium and directly from such banks as BHF-BANK, Commerzbank, BHF Bank Ag, LBBW, Landesbank Berlin, DZ-Bank AG.

Germany’s leading Deutsche Bank has financed export-import transactions, trade, and provided medium-term financing within an export loan agency framework in Belarus for almost 20 years. According to a Deutsche Bank statement made in October 2011, the bank had stopped its cooperation with the government of Belarus on the Eurobonds program. However, no mention was made of its activities concerning making loans to small businesses, as well as preparing Belarussian companies for privatization and going public. Besides, on the very same day when the public announcement about stopping the bank’s cooperation with the Belarussian authorities was made, Deutsche Bank acknowledged its partnership with the Priorbank of Belarus and publicized future cooperation plans.

German capital is present in 352 companies chartered in Belarus, including 187 joint ventures. Additionally, German companies have 97 branch offices in the country. According to our sources, German businesses express the most interest in privatizing Belorussian companies. In turn, 7 Belarussian companies have representation in Germany.

Latvia

Latvia is not only one the leaders among those buying from Belarus, but have posted record import numbers from this country in 2011 (a 3.5-time growth compared to 2010). Latvian seaports process more than 60% of Belarus’s exports shipped by sea.

In January-November 2011 Belarus’s trade with Latvia was worth 2,962.660 billion dollars (a 3.3-time

increase compared to the corresponding period in 2010). Exports reached 2,859.160 billion dollars (a 3.5 time growth compared to the corresponding period in 2010). Imports grew to 103.500 million dollars (a 117% growth compared to the corresponding period in 2010). There was a trade surplus of 2,755.660 billion dollars.

Both countries sell more than 500 export items. The mainstays of Belarussian exports to Latvia are goods traditionally shipped to EU countries, such as oil products, ferrous metals and ferrous metal products, timber and woodworking products, paper, tractors, trucks, equipment, tools, food products and consumer goods, and construction materials.

Latvia supplies Belarus with pharmaceuticals, fish, equipment, tools, medical equipment, chemical products, and consumer goods.

Belarus's main focus in its cooperation with Latvian is on developing an independent sales network serving Belarussian businesses. At the moment three such dealer networks (the "Belpisheprom" Open Joint Stock Company, the "MTZ-Service" Joint Venture, and the "Belvest-Trade" Open Joint Stock Company) conduct operations in Latvia.

Over the past 5 years Belarus has attracted approximately 680 million US dollars of Latvian investment. Latvia remains one of the main investors on the Belarussian market, ranking among the top ten investor countries, such as Russia, Austria, Cyprus, the UK, the Netherlands, Switzerland, and Germany.

Poland

In January-November 2011 Belarus and Poland traded to the amount of 2,219.481 billion dollars (a 125.7% increase on the same period in 2010). Compared to the corresponding period in 2010, exports grew by 126.6% to 1,041.381 billion dollars. Imports amounted to 1,178.099 billion dollars (a 125% rise compared to the corresponding period in 2010). There was a trade deficit of 136.718 million dollars.

More than 400 companies with Polish capital are chartered in Belarus. Experts note that Polish businesses see Belarus as a springboard for accessing various markets in the CIS countries.

Belarussian exports to Poland have grown mainly due to an established dealership and promotion network. The list of dealerships and trading companies representing Belarussian businesses in Poland includes such companies as Belorusneft-Polska, «БНХ-Oil Polska (the "Neftekhim" Concern), Polmark-Kelze (BelAZ), BMZ-Poland, MAZ Auto Poland (MAZ), MTZ-Pronar Joint Venture (MTZ), branch offices of the "Belarusbank" Open Joint Stock Company, the "Belinvestbank" Open Joint Stock Company, the "Belpromstroibank" Open Joint Stock Company, Belarus Railways, Belavia, the "Belarus oil company" Closed Joint Stock Venture, and a store chain co-owned by the "Milavitsa" Company. In May 2009 a joint venture named "Kristal Polska" was chartered that partners with the "Trading house "Belgospisheprom" Republican Unitary Enterprise and the "Minsk-Kristall" Republican Unitary Enterprise to sell Belarussian alcoholic beverages and food products on the Polish market.

Among the banks funding Belarussian companies is a Polish branch of Reiffazbank, Kredit Bank S. A.

Italy

Italy has consistently ranked among Belarus's top ten trading partners. The volumes of trade between the two countries in January-November 2011 are estimated at 1,291.969 billion dollars (a growth of 155.1% compared to the corresponding period in 2010). Exports amounted to 452.679 million dollars (a 247.4% increase compared to the same period in 2010). Imports grew to 839.289 million dollars (a 129.2% increase compared to the same months in 2010). There was a trade deficit of 386.610 million dollars.

Belarussian exports to Italy include 165 items. The most common types of exports are oil products, potassium fertilizers, ferrous metal products, chemicals, and consumer goods, as well as timber and woodworking products.

Italian exports to Belarus come primarily in the form of capital investment. In 2011 Belarus was buying machine tools, industrial equipment, pipeline fittings, specialized machines and devices, and pharmaceuticals.

Italy ranks among the most active creators of joint ventures and foreign companies in Belarus. There are 193 companies with Italian stakes in them, including 98 joint ventures and 95 businesses where the statutory capital is 100% Italian.

A number of Belarussian banks, such as the "Belagroprombank" Open Joint Stock Company, the "ASB Belarusbank" Open Joint Stock Company, and the "Belvneshekonombank" Open Joint Stock Company, have been working to secure long-term loans from Italian citizens. A branch office of the "Belagroprombank" has been open in Milan since 2007. In May 2004 the "Belvneshekonombank" Open Joint Stock Company and Italia's Mediobank signed an agency line framework agreement to the amount of 20 million Euros. In April 2005 the line was increased to 70 million. In October 2010 a new agreement was signed to extend the line by 5 years.

In September 2010 SACE, an influential Italian insurer with a large government stake, decided to secure a guarantee fund to the amount of 80 million Euros, which is the largest deal of such kind in the entire history of financial cooperation between Belarus and Italy.

In November 2009 a memorandum of cooperation was signed between the Government of the Republic of Belarus and an Italian mechanical engineering holding called Finmeccanica S.p.A. The Italian government is the largest stockholder in the company (a 33.73% share).

On 22 January 2010 Adolfo Urso, Italia's Deputy Minister of Economic Development, visited Belarus with a delegation of businesspeople that included representatives of 70 Italian companies and organizations, including Italia's Institute of Foreign Trade, SACE Group, SIMEST STOCK CO., the Italian Association for Foreign Trade (ANCE), and representatives of large Italian banks (UniCredit, Intesa Sanpaolo, and Mediabank).

At present negotiations are underway on the Memorandum of Understanding on building an Italian business park in Brest region.

At the end of December 2011 reports came in that "Isse" JLLC (a virtually 100% Italian-owned company) is proposing a series of projects in Belarus to build transportation infrastructure, such as roads and

railways, metro, commuter train networks, etc., as well as other community projects with joint private and state funding. The total cost of the proposed projects is 26 billion US dollars.

Italy's foremost banks, such as Unicredit, Intesa Bank San Paolo, Banca Monte dei Paschi di Siena, issue loans to Belarussian companies.

In January-September 2011 Italian companies invested 165.8 billion dollars into the Belarussian economy, which is 9 times more than in all of 2010 (17.3 billion dollars). Direct investments also showed breathtaking growth compared to 2010, increasing tenfold to 155.2 million dollars.

UniCredit Group

The "Belagroprombank" Open Joint Stock Company, one of the main actors in expanding economic and financial cooperation between Belarus and Italy, is working closely with the UniCredit Group. In October 2011 the Belagroprombank signed a loan agreement with a Czech bank named UniCredit Bank Czech Republic to fund a project of modernizing a paper mill valued at almost 10 million Euros. This project was underwritten by a Czech car insurance agency called EGAP.

Earlier a loan agreement was signed with Austria's UniCredit Bank Austria AG to fund a purchase of an automated cheese-making line to manufacture semisoft and Mozzarella cheese, as well as milk processing equipment. Funds for this project valued at almost 4 million Euros are underwritten by an Austrian export loan agency called OEKB.

In addition, following the UniCredit Group strategic policies, the "Ukrsotsbank" Public Company and a Slovenian bank called UniCredit Banka Slovenija d.d. affiliated with the UniCredit Group have agreed to consider underwriting the loans issued by the "Belagroprombank" Open Joint Stock Company.

Lithuania

In January-November 2011 Belarus and Lithuania exchanged goods valued at 1,021.664 billion dollars (a 164% increase on the same period in 2010). Exports amounted to 753.880 million dollars (a growth of 186.2% to the same period in 2010). Imports increased to 267.784 million dollars (a 124.2% growth compared to the corresponding period in 2010). There was a trade surplus of 486.096 million dollars.

Belarus's exports to Lithuania include approximately 500 types of goods. Exports of oil products, electrical energy, unalloyed steel products, tractors, timber, potassium and mixed mineral fertilizers, tires, and complex synthetic fibers have been on the rise.

By 1 January 2010 Belarus had chartered 410 businesses with capital of the Lithuanian origin, including 207 joint ventures and 203 foreign companies whose charter capital amounted to 44.3 million dollars. More than 200 companies with Belarussian capital currently function in Lithuania.

Belarus is attempting to extend its sales and promote its goods and products in Lithuania. To this end the "Amkodor" Open Joint Stock Company is working on a project to build an assembly facility in Lithuania to produce road construction equipment and municipal vehicles for sales in the Baltic region and the EU.

Belarus's leading oil trading company called "Transskhema" has been present on Lithuania's market since 2006, promoting petrochemical products both within the country and other EU member states.

Estonia

In 2011 Estonia topped the list of world importers from Belarus. Its imports from this country posted a 4.6-times annual increase.

In January-November 2011 Belarus and Estonia traded to the amount of 609.462 million dollars (a 3.4-times increase on the same period in 2010). Exports grew to 543.475 million dollars (a 4.6-times growth to the corresponding period in 2010). There was a trade surplus of 477.488 million dollars.

Most of Belarus's oil products transit through Estonia's seaport Muuga.

In 2010 Belarus has augmented its exports to Estonia, selling more tractors, BelAZ earthmovers, MAZ buses, untreated cattle hides, glued plywood and fiberboard, paper and corrugated cardboard, flax fabrics, textiles, ferrous metal and unalloyed steel products, and lifting and hauling equipment.

The following Belarussian companies have a dealership network in Estonia: A.K.K. (a BelAZ dealership), Turi BEL-EST (an MTZ dealership), MAZ Eesti (a MAZ dealership), WestWard (a Minsk Bearings Plant dealer), Ottender and Valgmae Ltd (an Atlant Refrigerator Plant dealer), Hermor (a Neman Glass Plant dealer). Belarussian food product, including alcohol, are sold in Estonia through a branch of the "Belgospisheprom" State Concern in Riga.

Estonia has two Belarussian store chains: a company called BeLinOrTextile which is a trading firm representing the Orsha Linen Mill (the mill owns 51% of stock in this company) and Oil Logistic Eesti filial, a branch office of the Oil Logistic Company located in Riga and representing the "Belneftekhim" concern.

More than 100 companies with Estonian ownership or stakes have been chartered in the Republic of Belarus. Belarus also hosts more than 10 branch offices of Estonian companies.

One of Belarus's largest investment projects with Estonian participation is a recent acquisition of practically the entire stock portfolio in one of the largest breweries named Lidskoye Pivo by a famous Estonian company called AS A.Le Coq. Another project has focused on building a wood processing mill called Vitebskaya Lesopilka in Vitebsk Region. Another Estonian company called Silvano Investment Group owns shares in the "Milavitsa" Closed Joint Stock Company. A joint venture called "Olympic-Casino-Belarus" is yet more example of Estonian capital finding fertile ground in Belarus. An Estonian company named ESKARO AS, the largest producer of finishes and paints, has taken over a Belarussian company called Kondor. AS Kristond of Estonia has launched a facility to produce packaging, while another Estonian company called AS Interpap has begun producing hard packaging and building stores.

The UK

In January-November 2011 Belarus's exports to the UK amounted to 455.4 million dollars, which was 68% to the same period in 2010. There was a trade surplus of 91.369 million dollars.

Belarus's main export commodity to the UK is oil products (around 95%), primarily light oil. Apart from that, there were some deliveries of liquid fuel, petrol, kerosene, and lubricants.

Non-oil exports from Belarus to the UK consist mainly of ferrous metal products, textiles, optics and

measuring instruments, tires, nitrous fertilizers, woodworking products, and furniture.

In 2009 the UK invested 467.7 million US dollars into Belarus, including 50.8 million dollars of direct investment. More recent official data are unavailable.

In autumn 2011 a company called "Slavkalii" was chartered in Belarus that is 100% owned by Britain's GMC. GMC belongs to a Russian oligarch named Gutseriyev who has a long track record of doing business in Belarus.

France

In January-November 2011 Belarus and France exchanged goods to the amount of 451.028 million dollars (a 116.7% increase on the same period in 2010). Compared to the corresponding period in 2010, exports grew by 117.3% to 61.863 million dollars. Imports amounted to 389.165 million dollars (a 116.6% rise compared to the corresponding period in 2010). There was a trade deficit of 327.302 million dollars.

Belarus's principal exports to France are furniture and furniture parts, nitrous fertilizers, ferrous metal products, women's clothing, metalware products, and casein.

There are 41 companies in Belarus with French capital. 23 out of them are joint ventures and 18 are foreign-owned.

On 22 January 2010 an agreement was signed between Minsk City Council and a French company called Bouygues Batiment International to start a number of development projects in the city of Minsk.

Experts argue that after the parliamentary election of 2008, as sign of appreciation for "support in the constructive dialogue with the EU," Lukashenka made an offer to France's largest banking group Societe Generale to handle the sales transactions and modernization funds of Belarus's largest state companies.

A memorandum to that effect was signed at the beginning of 2009. At the moment a bank called "BelRosBank," which is an affiliate of Russia's Rosbank where Societe Generale has a controlling stake, serves a third of top-100 Belarussian companies and is expanding into other sectors of Belarus's financial market.

On 27 January 2009 the government of Belarus, Societe Generale, Rosbank, and Belrosbank signed a memorandum of cooperation in foreign economic activities. The plans include promoting economic development in communications, petrochemicals, power generation, mechanical engineering, metals, and transportation, as well as improving the road network. The named banks may also participate in structural reforms, including privatization.

Societe Generale's participation in privatization was also discussed during the official visit of Belarus's government delegation to France in January 2010.

Belgium

In January-November 2011 Belarus's trade with Belgium was worth 432m578 million dollars (137.2% to the corresponding period in 2010). Exports reached 159.471 million dollars (a 174.2% growth compared to the corresponding period in 2010). Imports grew to 273.107 million dollars (a 122% growth compared

to the corresponding period in 2010). There was a trade deficit of 113.636 million dollars.

A Belgian bank called KAC BANK NV is issuing loans to Belarussian companies.

Belarus's main export items in its trade with Belgium are potassium and nitrous fertilizers, tires, oil products, woodworking products, metal products, and textiles.

The Czech Republic

In January-November 2011 Belarus's trade with the Czech Republic amounted to 408,308.2 million dollars (a 116.6% increase compared to the corresponding period in 2010). Exports reached 101.159 million dollars (a 115.4% increase compared to the corresponding period in 2010). Imports grew to 248,224.3 million dollars (a 132.9% growth compared to the corresponding period in 2010). There was a trade deficit of 205.990 million dollars.

The mainstay of Belarus's exports to Czech Republic are oil products, potassium fertilizers, ferrous metal products, isolated electrical wires and cables, aluminum structures, complex synthetic fibers, tractors, automotive and tractor parts and accessories.

Belarus's main exporters to Czech Republic are the "Belaruskalii" Republican Unitary Enterprise, Production Group, the "Gomel Chemical Plant" Open Joint Stock Company, the "Grodno Potassium" Open Joint Stock Company, the "Grodno Chemical Fibers" Open Joint Stock Company, the "Polotsk Fiberglass" Open Joint Stock Company, the "BelTire" Open Joint Stock Company, the "The Belarussian steel works" Republican Unitary Enterprise, the "Rechitsk Metalware Plant" Republican Unitary Enterprise, the "Pinskdiv" Closed Joint Stock Company, the "Borisovdiv" Open Joint Stock Company, the "Orshansk Linen Mill" Republican Unitary Enterprise, the "Milavitsa" Closed Joint Stock Company – Join Venture, the "Svitanak" Open Joint Stock Company, the "GomelCable" Public Open Joint Stock Company, the "BelAZ" Republican Unitary Enterprise, the "Minsk Automobile Plant" Republican Unitary Enterprise, the "Minks Tractor Plant" Republican Unitary Enterprise, and the "Gomselmash" Production Group.

Belarus has more than 80 chartered companies with Czech participation, including 44 joint ventures and 36 foreign-owned. The charter capital of these companies is 15.8 million dollars.

Since 2009 r. Belarus and the Czech Republic have been working on a number of large business projects. For example based on the assets of the AO TRADO Holding company a joint venture named Bel-Czech Trade was launched whose mission is to conduct trade operations and organize exhibitions, as well as provide customer services and leasing solutions for Belarussian machinery and vehicle suppliers working on the Czech and Slovak markets, as well as in other EU countries. A cofounder on the Belarussian side is a state company called the "Promagroleasing" Open Joint Stock Company. The main mission of this joint venture is to promote the sales of Belarus-made machinery on the Czech market, as well as other EU countries using lease agreements.

In Brest region a Czech company called OKD Doprava partnered with the Brest City Council, the Ministry of Transportation, and Belarus railways to build a logistics complex.

The most active companies from the Czech republic on the Belarussian marker are AO ALTA,

Chemoprojekt a.s., and AO OKD, Doprava, a.s. A Czech company called MAVEL has won the tender to build a hydroelectric power station on the Neman River and has already signed a contract with the "Grodnoenergo" Republican Unitary Enterprise to take delivery of the main hydro-generating equipment for it. In the second half of November 2010 the "Grodnoenergo" Republican Unitary Enterprise and the Czech Export Bank have signed a loan agreement for 10.8 million Euros to fund this delivery.

In November-September 2010 Belarus received 12.8 million US dollars in Czech investments, including 2.8 million dollars as direct investment.

Austria

In January-November 2011 Belarus's trade with Austria amounted to 263.37 million dollars, or 142.1% to the corresponding period in 2010. Exports ran at 24.978 million dollars (or 86.5% of the corresponding period in 2010). Imports grew to 238.392 million dollars (a 152.4% growth compared to the corresponding period in 2010). There was a trade deficit of 213,413.7 million dollars.

Official sources cite Austrian capital as one of the main sources of investment into Belarus.

The connections between Austrian business and Lukashenka's regime became obvious during the scandal around the dictator's vacation in the Austrian Alps in 2002 when Lukashenka had already been banned from entry to the EU. It became known that in order to organize this vacation Austrians used a trick: Lukashenka was invited not as Belarus's president but as the chairman of the national Olympic committee (Olympic officials are exempt from sanctions). However, the Austrian national Olympic committee that purportedly issued an invitation for the Belarussian delegation headed by Alexander Lukashenka did not have anything to do with this visit. The invitation for the Belarussian officials was written by Leo Wallner, the former chairman of the Austrian Olympic committee and the owner of a casino chain called Casinos Austria. The Austrian authorities have launched an investigation into this matter.

The investigators also took a keen interest in the holiday expenses of Belarus's leader and his entourage to the tune of 200,000 Euros. According to the local media, payments were kept off the books or channeled through a secret bank account belonging to the Austrian Olympic committee. In reality all of the bills were paid by Casino Austria. Among other things, the expenses consisted of hotel charges, skiing lessons for 11 members of the Belarussian delegation, bus rental for 34 people, Lukashenka's gambling expenses at Austrian casinos, and numerous alcoholic beverages consumed by the Belarussian delegation. Apart from that, the bills include the price of a helicopter lift used to evacuate the president from the ski slope after an injury and medical bills.

Casinos Austria still declines to comment on the situation, and Leo Wallner himself has admitted that "the holiday was organized in the interests of Austrian businesses." However, he has refused to name the businesses that felt so passionate about "striking a close informal relationship with Belarus's leaders." Instead the revelation came from the Belarussian media. They exposed the fact that several large companies in the country, including a flagship mobile network operator called Velcom, the Belarussian steel works and Minsk bicycle works had fallen into the hands of Austrian businessmen.

Various branches of Austria's Reiffasbank regularly grant loans to Belarussian companies, such as the "Belarusneft" Industrial Group. Please see a separate addendum for an overview of Reiffasbank's active involvement in Belarus.

In the course of several years Austria's financial player UniCredit Bank Austria AG has been one of the main lenders for the The Belarussian steel works, the country's industrial giant. The mill's modernization program relies on approximately 500 million Euros in direct financing and loans over the next 4 years. The news of this deal became public at the meeting of the mill's managements with Austrian financiers that took place in October 2011. In addition to that, the mill has successfully negotiated similar deals with UniCredit Bank Austria AG FIS Finance ent Investment Servies GesmbH. The exact amount of a new injection of hard currency remains secret.

Apart from that, Unicredit Bank Austria provides loans to the Naftan OJSC refinery on a regular basis.

An Austrian company named Avonside Holdings GmbH is carrying out an investment project to install traffic violation cameras on Belarus's roads. The contract for this project has already been signed. The project is being carried out by the Austrian investor in conjunction with the Ministry of Internal Affairs and the Ministry of Transport and Communications as a partnership between the state and private business. The Austrian investor is planning not only to register traffic violations by collecting and processing this information in a data processing center, but also to organize a network of payment facilities where drives could pay their fines. According to the project conditions, the Austrian company will receive a percentage of the fines as royalties.

In autumn 2011 Richard Shenz, vice-president of the Austrian Federal Economic Chamber, confirmed the commitment of Austrian business community to participate in privatization or create joint ventures in Belarus.

An impressive delegation of Austrian business visited Minsk in November 2011, including representatives of 14 companies such as construction company STRABAG SE, which builds a facility for sorting solid waste and a wastewater treatment plant in Belarus, ALPINE, the second largest construction group in Austria, Pisec, which has offered to invest more than \$100 million in the finishing treatment of hot-rolled seamless pipes for the oil and gas industry, RABA Engines Group, which is considering setting up a joint venture company with Minsk Engine Plant and Minsk Automobile Plant, and Siemens VAI Metals Technologies, which has offered to supply high-tech equipment to Belarussian Steel Works. Also on the delegation were representatives of the Austrian banking sector, who are interested to get information about the current situation in Belarus' financial market and would like to discuss opportunities for financing projects involving Austrian companies.

In December 2011 a statutory meeting took place in the Gomel regional council where representative of the Belarussian steel works, DUFERCO S.A. (Switzerland) and Pisec Group GmbH (Austria) agreed to establish a joint venture as a limited liability company named "BMZ-TUBULARS." John B. Blomberg, vice-president of the Swiss company, Karl H. Pisec, director of the Austrian company, and Anatoly Savenok, director of the Belarussian steel works, signed a contract that launches a new project of increasing the output of the tube-rolling facility at the Belarussian mill. The share in the new enterprise belonging to the Belarussian steel works will be 51% payable in cash. It is being planned that "BMZ-TUBULARS" will be purchasing "green" tubes from the mill and finishing them to the European API 5CT standard.

Sweden

In January-November 2011 Belarus's trade with Sweden amounted to 255.145 million dollars, or 110.5% to the corresponding period in 2010. Exports amounted to 85.687 million dollars (a growth of 121.9% of

the corresponding period in 2010). Imports grew to 169.458 million dollars (a 105.5% growth compared to the corresponding period in 2010). There was a trade deficit of 83.770 million dollars.

Belarus's main exports to Sweden include potassium and nitrous fertilizers, salt, peat, tires, steel and oil products, round timber, clothing, flax fabrics, furniture and furniture parts, trailers and semitrailer.

Sweden's exports to Belarus include communications and milk processing equipment, electrical generator, dishwashers, fluid pumps, paper and cardboard, trailer and regular trucks.

Switzerland

In January-November 2011 Belarus's trade with Switzerland amounted to 254.481 million dollars, or 156.7% to the corresponding period in 2010. Exports amounted to 7.462 million dollars (63% to the corresponding period in 2010). Imports grew to 247.019 million dollars (a 164% growth compared to the corresponding period in 2010). There was a trade deficit of 239.557 million dollars.

Belarus's main export items in its trade with Switzerland include agricultural and food products, polymers, plastics and plastic items, chemicals, machinery and equipment, optical instruments, and medical equipment.

Imports from Switzerland are traditionally dominated by capital goods purchased by Belarussian companies to modernize their production facilities. In 2010 more than 30% of imports originating in Switzerland consisted of machinery and equipment.

On 1 April 2007 r. the Swiss Federal Council included Belarus in the group of countries enjoying trade preferences (Generalized System of Preferences). This move drastically reduced or lifted altogether customs duties on the Swiss imports originating in Belarus. This measure creates additional stimulus for exporting Belarussian goods to the Swiss market.

Belarus has 61 companies with Swiss participation, including 25 joint ventures and 35 companies in foreign ownership, as well as 12 branch offices of Swiss companies.

In 2010 Switzerland invested 103.6 million US dollars in Belarus, including 40.1 million US dollars in direct investments.

Belarus is running more than 10 investment projects with Swiss participation that involve such companies as Minsk watch factory, Belarussian railways, the "Belcommunmash" Open Joint Stock Company, etc.

On 19 March 2010 a Swiss company called Stadler Bussnang AG that won a government tender signed a contract to supply commuter trains to the Belarussian railways. According to the contract, by the end of 2012 the Belarussian railways will take delivery of 10 modern commuter trains. The first train sets have already been delivered. The contract is worth approximately 62 million Euros.

According to Belarussian media reports, in 2010 Alexander Lukashenka spent his holidays in the Swiss Alps under the guise of a government visit.

The "BelSwissBank" Closed Joint Stock Company is a joint Belarussian-Swiss bank founded in October

2002. Its entire authorized capital is Swiss. The main stockholders of the bank are 3 Swiss companies (Swiss Investment Century, Alpin Professional Investment, and Proinvest Professional and Financial Investment). The bank sponsors the National Olympic committee of the Republic of Belarus (the “home turf” of Lukashenka’s middle son Dmitry).

APPENDIX 3

WESTERN BANKS IN BELARUS: CASE STUDIES

Deutsche Bank

Deutsche Bank has been operating in Belarus for about 20 years in the sphere of export and import operations, financing of trade, medium term financing in the framework of export crediting agencies. Over the last years there have been opened other avenues of cooperation – investment banks, consultations related to a number of transactions.

At the moment under discussion is the potential of Deutsche Bank to provide consultative services to the Belorussian party as concerns the attraction of investment in the strategic sectors of the national economy, in particular, the spheres of oil refining, finance and insurance (according to the information about the meeting with Peter Tils, CEO for Central and Eastern Europe, end of 2010). Deutsche Bank plans to assist large Belorussian enterprises to find strategic investors and enter the IPO market. Negotiations with the Belorussian government as the owner of Belorussian blue chips are underway.

Belorussian OAO BPS Bank, a member of the Russian Sberbank Group, and Deutsche Bank are beginning to develop a joint investment and banking business in Belarus (unconfirmed reports cite the amount of contracts making US \$ 3 billion). OOO Deutsche Bank / Deutsche Bank Russia and BPS Bank signed a cooperation agreement in November of 2010. At the disposal of Deutsche Bank is a giant database of global investors, who are interested to invest their financial resources in various financing facilities. The banks hope to use this database as concerns investment and financing projects in Belarus. According to a statement made by a representative of BPS Bank in early February of 2011, the registration of an investment company founded by Deutsche Bank and Sberbank of Russia on the base of Belorussian BPS Bank is at its final stage in Belarus.

Deutsche Bank acted as financial advisor of Sberbank of Russia in the acquisition of Belorussian BPS-Bank. Deutsche Bank was also an organizer of the debut issue of Eurobonds by Belarus. Deutsche Bank also cooperated with Belorussian government, banks and enterprises as concerns the placement of Eurobonds. In October 2011 Deutsche Bank announced its withdrawal from programs of Belarus government Eurobonds.

On August 5, 2011, there was made a statement that Sberbank of Russia and Deutsche Bank will give a credit to Belaruskaliy amounting to US \$ 2 billion. As it turned out, in the case this operation is completed, the Belorussian authorities are going to include the US \$ 2 billion credit granted to Belaruskaliy in the composition of the gold and foreign reserve of the country.

Deutsche Bank is a potential administrator of BelAZ IPO. Deutsche Bank is discussing the ways for BelAZ to advance onto international capital markets and is part of a working group that handles the preparations on the part of BelAZ for the relevant transactions. OAO Belarusskiy avtomobilnyi zavod (BelAZ) was chosen by the Belorussian authorities as the first enterprise to make the initial public offer of depositary receipts representing shares. The Belorussian Ministry of Industry expects to prepare BelAZ for IPO in 12 to 18 months. It is planned to float a minority block of shares in BelAZ, which is a world leading manufacturer of mine dump trucks, via an additional issue of shares.

Citing an interview of Joerg Bongartz, Chairman of the Board, Deutsche Bank (February 10, 2011): Mr. Bongartz reminded about the successful placement of Belorussian sovereign Eurobonds amounting to US \$ 1 billion in July through August of 2010 and US \$ 800 million in January of 2011, of which Deutsche Bank was an organizer: “The successful placement of Eurobonds has been the best example yet,” he said commenting on the reaction of investors to the macroeconomic situation in Belarus. “Investors were clearly interested to invest their financial resources in Belorussian Eurobonds. Mainly, the database of investors was comprised of Western banks, insurance and investment funds,” Joerg Bongartz noted.

Nevertheless, he declined to comment on the growing political and reputational risks related to the sanctions imposed by the European Union on Belorussian officials. “I would not rather make comments on this topic. We review the economic opportunities to work in Belarus,” Joerg Bongartz said. Commenting on the worsening of the Belarus’ external liquidity and decrease in its gold and foreign exchange reserves the banker noted that “it is necessary to follow the development of the situation.”

BNP Paribas

BNP Paribas is one of the major creditors of suppliers of oil to the Belorussian market.

Apart from the current active crediting of deliveries of Russian oil in Belarus, BNP Paribas is ready to participate in privatization of Belorussian enterprises, development projects and operations aimed at the improvement of foreign exchange liquidity of the Belorussian economy.

The largest Belorussian commercial bank OAO ASB Belarusbank signed a framework agreement on a multilateral credit facility with BNP Paribas and BNP Paribas Fortis on September 9, 2010.

BNP Paribas was the first French bank to make a framework agreement with Belarusbank opening the prospects for attraction of French capital to Belarus on a long term basis. The agreement should become the basis for the making of credit agreements related to specific transactions in order to finance the import of French and Belgian equipment, the bank representatives noted.

A third party signing this agreement was Belgian Fortis Bank, which joined BNP Paribas Group in May of 2009 and currently operates as BNP Paribas Fortis.

In October 2011 BNP Paribas announced its withdrawal from programs of placement of Belarus government Eurobonds.

Raiffeisen Bank

Investment cooperation between Belarus and Raiffeisen International Bank-Holding AG started in 2002, when Raiffeisen Bank acquired the controlling interest in the Belorussian Priorbank OAO. The bulk of the investment flowing in the economy of Belarus was attracted exactly through this Belorussian bank.

Vladimir Peftiyev, an adviser for economic issues to President Lukashenka, has opened the door into Belarus for such companies as Telekom Austria и Raiffeisen International.

In 2010, Forbes magazine named Vladimir Peftiyev as the richest Belorussian. In the summer of 2011, EU imposed sanctions against Peftiyev, he was forbidden to enter the European Union and his accounts should be frozen.

These developments can make certain problems for Raiffeisen Bank International, since 8 years ago Peftiyev provided an opportunity for this company to buy into Belorussian Priorbank. Moreover, one of the Peftiyev's companies is a shareholder in Priorbank, which at the moment is completely integrated in Raiffeisen group.

Raiffeisen owns 87.07 per cent in Priorbank, whereas private investors own 4.68 per cent. Raiffeisen discloses no information about the amount of Peftiyev's share. The rest of the shares are in the hands of Belorussian state owned combines and enterprises. For instance, 2.04 per cent of shares belong to Belorusneft.

Belorusneft is yet another problematic partner of Raiffeisen. On March 29, the USA imposed sanctions on Belorusneft for its cooperation with NaftIran Intertrade, a state owned Iranian company. Since that time Belorusneft cannot transact in the USA. EU also can impose sanctions against Belorusneft in the case the human rights crisis aggravates or repressive measures are tightened further.

Priorbank, an Affiliate of Raiffeisen Bank

Priorbank is an affiliated company of Raiffeisen International Bank-Holding AG, a member of the RZB Group. The lead bank of the RZB Group is the Raiffeisen Zentralbank (RZB) located in Vienna, which is the third largest bank of Austria and the central unit of the Austrian banking group Raiffeisen (RBG).

The chief beneficiary owner of Priorbank is the Raiffeisen Landesbanken Holding AG, Austria. The structure of the bank owners is as follows: Raiffeisen International Bank-Holding AG, Austria – 87.74 per cent of the authorized capital, RUP PO Belorusneft – 2.04 per cent, the State Property Committee of the Republic of Belarus – 1.68 per cent, OAO MAZ – 1.28 per cent, other corporate entities – 2.35 per cent, individuals – 4.66 per cent, local government agencies and funds – 0.25 per cent.

On August 21, 2008, Raiffeisen International Bank Holding AG bought 10 million 883 thousand 484 shares in Priorbank from the European Bank for Reconstruction and Development (EBRD) for US \$ 50 million 173 thousand, the EBRD share in Priorbank making 13.5 per cent. The selling price of one share made Br 9 thousand 739, whereas its nominal price was Br 3 thousand 350. Therefore, the share of Raiffeisen International in Priorbank increased up to 76.55 per cent. "This transaction is a logical step towards the consolidation of the bank's capital on the part of its strategic investor, Raiffeisen International Bank Holding AG, which purchased the controlling interest in Priorbank in 2003," commented the Priorbank Public Relations Department.

Priorbank OAO is a member of the RZB Group and an affiliate of the Raiffeisen International Bank Holding AG (Raiffeisen International). Raiffeisen International is a fully consolidated subsidiary of the Raiffeisen Zentralbank Oesterreich AG (RZB), located in Vienna. RZB owns 68.5 per cent of shares in Raiffeisen International. The rest of the shares are freely floating and traded on the Vienna Stock Exchange.

SOOO Raiffeisen Leasing, its shareholders are Priorbank OAO (70 per cent) and Raiffeisen Leasing International GmbH, RZB Group, Austria (30 per cent) also operate in the Republic of Belarus.

Raiffeisen Leasing is engaged in leasing operations concerning all types of properties. The main avenues of the operations are: the leasing of motor vehicles, including specialty vehicles; leasing of equipment (including construction machinery and equipment); leasing of properties (offices, warehouses, floor and production spaces).

In the sphere of leasing of motor vehicles the company cooperates both with the Belorussian manufacturers of motor vehicles (MAZ, joint venture MAZ-MAN), and the leading dealers of Russian plants (GAZ, KAMAZ) and large Western manufacturers in the territory of Belarus (Volvo Truck Corporation, Scania AB, DaimlerChrysler AG, Schmitz Cargobull AG, Iveco Fiat S.p.A., Renault Trucks, etc.).

Raiffeisen Leasing operates on the Belorussian market of leasing services since 2005. Shareholders in the company are Priorbank (70 per cent) and the Austrian Raiffeisen Leasing International (30 per cent). The company is the successor of a leasing company Priorleasing and conducts its active operations with financial support of Priorbank and Raiffeisen Group.

Austrian Interests in Belarus: Chronicle of events

Belorussian export to Austria comprises the products of iron and steel industry, timber and related products, chemicals, woven glass.

In the mid-2000s, the banking group Raiffeisen entered the Belorussian financial market as a large-scale investor, what created incentives for an inflow of Austrian credit resources in the economy of Belarus. In 2005, the Belorussian Finance Ministry and the Austrian Raiffeisen Zentralbank signed an agreement in accordance to which the Republic of Belarus was for the first time granted a syndicated untied credit amounting to US \$ 32 million. On behalf of the Government of the Republic of Belarus the agreement was signed by Nikolai Korbut, the Finance Minister. The agreement was also signed by the executive director of the Austrian Raiffeisen Zentralbank for Central and East Europe Herbert Stepic and representatives of the banks being the members of the syndicate (Vneshtorgbank (Russia), Priorbank (Belarus), etc.). According to Belarus government trade representative in Austria, "it was a unique event in the international practice, when a credit for financing of budget programs was granted to a country without a credit rating. It was a serious signal for investors wishing to build their relations with Belarus on the basis of a pragmatic and rational approach." According to certain representatives of the Government, for the first time in history Western banks granted Belarus an untied credit and it was an important stage in the process of obtaining of a positive credit rating by the country, as well as the improving of the investment image of the Republic of Belarus.

On September 20, 2005, Raiffeisen Zentralbank Oesterreich AG (Austria) and IP LUKOIL-Belorussia signed a one-year loan agreement amounting to US \$ 20 million. According to the OAO Priorbank press service, the agreement was aimed at the financing of supply of raw hydrocarbons to Belorussian oil refineries from the Russian OAO NK Lukoil. The agreement has been signed at the OAO Priorbank, which is a member of the RZB Group and an affiliated company of Raiffeisen International Bank-Holding AG (Raiffeisen International).

Raiffeisen Zentralbank Oesterreich AG has actively invested in the Belorussian oil and natural gas industry. In 2003, the bank created direct credit facilities for financing of such projects as OAO Azot (US \$ 10 million), OAO Naftan (US \$ 30 million), OAO Mozyrsky NPZ (US \$ 10 million), RUP PO Belarusneft (US \$ 15 million). Besides, in 2004 the bank granted a credit in amount of US \$ 15 million to a Belorussian state-owned enterprise Gomel Transneft Druzhba for the technical re-equipment aimed at the ensuring of implementation of an international project of integration of oil pipe lines Druzhba and Adria. Also in 2004 the bank offered its services to the Government of Belorussia as a financial consultant for the sale of blocks of shares in two enterprises of the Belorussian petroleum chemistry – OAO Mogilevkhimvolokno and OAO Belshina.

By the end of 2006, Austria ranked fourth after the UK, Switzerland and Russia in terms of investments made in the economy of the Republic of Belarus. The amount of these investments exceeded US \$ 276 million, what was by 55 per cent more than in 2005.

According to the data for year 2007, over the preceding 10 years Austria invested in the Belorussian economy Euro 41.61 million in the framework of credit facilities.

On January 26, 2007, Alexander Lukashenka awarded the Order of Peoples' Friendship to Herbert Stepic, the Chairman of the Raiffeisen banking group. The Republic of Belarus was interested in a broader cooperation with the Raiffeisen banking group Alexander Lukashenka stated during the award ceremony.

In the course of the meeting between Prime Minister Sergei Sidorskiy and a member of the Raiffeisen Zentralbank Oesterreich Managing Board Patrick John Cyrus Butler, there was made a following statement: "Raiffeisen and Belarus have developed good relations", prime minister of Belarus Sergei Sidorskiy noted. In 2005, Belarus attracted first syndicated credit of Raiffeisen what gave an opportunity for other banks to work effectively in this sphere. In his turn, Mr. Patrick Butler said he was quite satisfied with the operation of the bank in Belarus. Four and a half years ago Raiffeisen bank bought shares of OAO Priorbank and thus became the owner of 63.04 per cent of shares. "These four and a half years show that the investments in Belarus were quite successful," Patrick John Cyrus Butler noted. Apart from that, the parties discussed an opportunity of further cooperation under projects other than Raiffeisen's capital in Priorbank. In particular, Raiffeisen Bank intended to use its potential, institutions and instruments to attract direct investments from abroad.

According to the data as on August 25, 2008, over the several last years the Austrian bank Raiffeisen International Bank Holding AG had invested about Euro 900 million in the Belorussian economy. These figures were announced by Herbert Stepic, the Chairman of the bank, during the grand opening of the "Days of economy and culture of Belorussia in Austria." According to Herbert Stepic, in the future RZB intended to continue to invest in the financing of projects implemented by Belorussian enterprises. In particular, these projects included modernization of oil refineries, energy enterprises. Besides, the head of RZB had made clear his interest in making investments in the Belorussian food industry and production of construction materials.

The information, as on September 24, 2008, demonstrated that the largest private leasing company of Belarus, Raiffeisen Leasing, supported by the Belorussian Priorbank, attracted long term credits backed by the Oesterreichische Kontrollbank AG in amount of US \$ 40 million and Euro 15 million. These resources were received on September 10, 2008 and invested in the financing of the leasing operations of

the company. The credits had been granted for a five year term. In January of 2008, Raiffeisen Leasing already attracted US \$ 50 million in the framework of credit facilities of Austrian banks. Therefore, the total amount of investments attracted since early 2008 exceeded US \$ 110 million.

On December 8, 2009, the head of the Belorussian Foreign Ministry held talks with the Federal Minister of the Republic of Austria for European and International Affairs Michael Spindelegger and Vice Chancellor- Federal Finance Minister Josef Proel. In the course of negotiations there were discussed the issues of further development of Belorussian – Austrian bilateral relations in the political, trade, economic and other spheres, as well as the problems of Belorussian – European relations, including the interaction in the framework of the EU initiative Eastern Partnership. Sergei Martynov also met with Christoph Leitl, the President of the Austrian Federal Economic Chamber. In the course of the meeting there were discussed the prospects of intensification of trade and economic cooperation between Belarus and Austria. The Austrian party expressed its readiness to intensify contacts between the Austrian Federal Economic Chamber and the Belorussian Chamber of Commerce and Industry, including organization of joint events aimed at the presentation of economic and investment potential of Belarus in Austria.

The issues of investment, trade and economic cooperation were also discussed in the course of the meetings with the top managers of Raiffeisen bank and the Oesterreichische Kontrollbank AG. The representatives of Austrian business community expressed their interest in an active use of emerging opportunities to expand the presence on the Belorussian market, including those related to the prospects of creation of the Customs Union.

APPENDIX 4

THE AUTHORITARIAN INTERNATIONAL: TRUE ALLIANCES AND BUGABOOS

Belarus buys most of its oil from Russia. However, they are currently working hard on diversifying the suppliers. Among the alternative oil sources are Azerbaijan, Iran, Venezuela, and possibly Kazakhstan.

The money paid for these oil products not only work to preserve the regime, but also increase Belarus' dependence on states belonging to the "antidemocratic" axis. Thus it support the union aimed at weakening international law and human rights protections.

Russia has always been a traditional bugaboo for the West. It has traditionally "threatened" to consume Belarus either economically or politically. China is also a good candidate for this role, with its growing economy that is ready to devour any and all resources, but not ready to overpay for them. Let us, however, examine what the West has overlooked behind the bugaboo image of Russia and China.

These countries are traditional, and not in the least democratic, allies and friends of Belarus' president. They were the first to congratulate him on his election into office after the carnage of December 19. Among other countries paying tribute to Belarus' president were Turkmenistan, Kazakhstan, Azerbaijan, and Iran. All these countries do not exactly enjoy a stellar reputation as far as democracy and human rights are concerned. Turkmenistan, along with North Korea, regularly wins the title of the most repressive regime in the world. It is these countries, as well as Venezuela, that Lukashenka was quick to thank for their support in difficult times.

The regimes in Kazakhstan, Azerbaijan, and Turkmenistan hunger for legitimacy and allies to the same extent as Belarus. This is not limited to economic support alone, but also includes mutual help in resisting international human rights agreements and procedures as well as coordinated attempts at weakening them.

Azerbaijan

Azerbaijan has already aided in financing Belarussian purchases of energy products and supplied crude oil. Lukashenka has also visited Turkmenistan and Kazakhstan to seek support and he is likely to get it in the form of finances and oil and gas shipments. Such aid could arrive through tested schemes that involve both joint ventures and banking systems. For example, Azerbaijan and Kazakhstan received an offer to participate in privatization in Belarus. In particular, Azerbaijan was negotiating to buy a stake in the Mozyr refinery and participate in oil shipments to Europe.

Azerbaijan also leads in official arms purchases from Belarus. The cooperation of the two countries in this area, including Azerbaijan's active purchases of Su-25 ground attack aircraft, tanks, and howitzers from Belarus, began in 2005 when president elect Ilham Aliyev launched an army modernization program. Prior to 2005 Belarus had not made any weapons sales to Azerbaijan.

Iran

Belarus and Iran have enjoyed a long-standing economic and political relationship. Arms trade and other military cooperation has always been a part of this relationship. It is difficult to say to what extent this cooperation conformed to the sanctions imposed on Iran.

The financial flows between Iran and Belarus are not easy to track. In 2001 the National Bank of the Republic of Belarus and the Central Bank of the Islamic Republic of Iran entered an agreement on banking activities and transactions. Iran is represented by such authorized banks as Melli, Mellat, Saderat and Sepah (these banks are now listed as sanctioned by the UN and the USA). Finally, in order to simplify transactions Belarus opened two banks with Iranian capital: TK Bank (2008) and Onerbank (2009). Payments are cleared circumventing the SWIFT network of interbank communications. Both banks are blacklisted in the US.

The official exports from Belarus to Iran include potash fertilizers, synthetic fibers, trucks, and tractors. The Belarusneft state company exploited Iran's Jofeir oilfield and was blacklisted in the U.S. as a result. Recently Belarusneft made an announcement about abandoning this project.

The politicians from both countries like to underscore the coincidence of vision in terms of opposing Western democracies. Thus, during his visit to Minsk in 2009 Mahmud Hashemi Shahroudi, head of Iran's judicial system, called on Belarus to give new definitions to such terms as human rights, freedom of speech, racism, discrimination, terrorism and war on terror, and in spring 2011 Iran's president Ahmadinejad stated that such countries as "the revolutionary Belarus" will enjoy full support from Iran.

Turkmenistan

Belarus has always maintained close ties with Turkmenistan. Of late, these connections have intensified. Compared to 2009, the year 2010 saw a 21.1% increase in trade between the two countries amounting to \$90.7 million. In January-February 2011 the mutual trade value hit \$16 million – a 3.1 times increase on the same period in 2010. Exports grew 3.2 times to surpass \$15 million. The most prominent joint project involves construction of the Garlyk ore dressing plant producing potash fertilizers supervised by Belarussian personnel. The cost of the project exceeds \$1 billion. Aside from that, Belarus may take part in the controversial projects of expanding the Turkmenbashi port and building the Avaza health resort. According to some sources, it was Turkmenistan that granted a loan of 1 billion dollars to Belarus in spring 2011.

The two countries are actively sharing military expertise and technology. Their regimes are proactive in supporting each other in such international organization as the UN and the OSCE. Lukashenka and Berdimuhamedow are often heard speaking of "strong male bonding" and mutual support.

As we can see, the West continues to be the main sponsor of Lukashenka's regime, paradoxical as it may sound. However, it is important that Belarus' leaders, even while courting the West, have remained staunch members of the unofficial, but nonetheless real "antidemocratic" club and are unlikely to resign their membership in the future, even if the West provides them with any credit imaginable and forgive all their sins. It is more likely that such actions will only boost their cynicism and sense of impunity.

The first lesson that must be learned from this situation is that democracy and human rights cannot be bought in exchange for credit lines. The same goes for a pro-western orientation. Sticking to the policy of bribing and appeasing dictators can only strengthen the antidemocratic coalition, breed cynicism, and undermine values.

APPENDIX 5

SOME COMPANIES INVOLVED IN THE MARKETING AND DISTRIBUTION NETWORKS FOR BELARUSSIAN GOODS IN EU COUNTRIES AND THE US

Byelorussian Steel Works (BMZ)

Lithuania

UAB "Prekybos namai BMZ-Baltija"
www.bmzbaltija.com

Germany

BELASTAHL Aussenhandel GmbH
www.belastahl.com

Austria

BELMET Handelsgesellschaft mbH
www.belmet.com

United States

BEL-KAP-STEEL, LLC
www.pisec.com

Minsk Tractor Works

Bulgaria

Belarus Agro Trade, E000
Pleven, Maniya Tauer Business Center, pl. Respublika No. 2, et. 1, office 8, Bulgaria. Tel.: +359 64 80 47 11,
Tel/Fax: +359 64 80 47 41. E-mail: agrotrade_by@abv.bg, URL: www.belarusagro.com

Great Britain

"Brown's of Liversedge" Limited
2 Listing Drive, Liversedge, West Yorkshire WF 15 6ER United Kingdom. Tel. +44 1924 404 534, fax +44
1924 404 062. E-mail: mail@belarus-tractors.co.uk

Hungary

BELARUS TRAKTOR Co. Ltd.
H-2120, Dunakeszi, Szekesdulo 135 Hungary. Tel.: +361-460-10-20, fax: +361-460-10-21. E-mail:
info@belarustraktor-mtz.hu, URL: www.belarustraktor-mtz.hu

Germany

Belimpex Handels GMBH
Grafestrasse 33, 04129 Leipzig. Tel. 8-10-49-341-919-25-14. E-mail: leipzig@belimpex.de, URL:
www.belimpex.de

Greece

"Kandis Belarus"

Krithia Lagadas, Thessaloniki 57200, Greece. Tel/Fax: +30 23 1073 2083, + 30 23 940 54 223. E-mail: kandis.n@tellas.gr

Ireland

"Minsk Tractor Plant Ltd"

Dublin Road, Kilmacow, Waterford, Ireland. Tel. +353 51 88 56 10/2, fax +353 51 88 56 11. E-mail: belarus1@eircom.net

Spain

JSC "Belarus-Agro-Tractor, S.L."

Code B16266272. CL Madrid, Valencia 80, Tarancon 16400 (Cuenca). Tel. +34 659 54 19 35. Tel/Fax +34 969 32 24 89. E-mail: denis.lapko@gmail.com. URL: www.belarustractor.es

Italy

"C.M. AGRI. s.a.s. di Castellini Lorenzo EC."

Via Postumia, 34/A, 15067 Tortona (AL), Italy. Tel.: +390 131 85 85 42, Fax: +390 131 89 54 39. E-mail: cm.agri@libero.it

Canada

MTZ EQUIPMENT LTD.

Head Office: 36 Renaissance Crt., Thornhill, Ontario, L4J 7W4, Canada

Warehouse: 2682 Highway 34, Hawkesbury, Ontario, K6A 2R2, Canada

President: Alexander Zevin, Vice-president: Arie Prilik, Technical director: Ian Higginson.

Tel: 1-855-2GO-4MTZ (1-855-246-4689) / 1-613-632-4747, Fax: 1-647-933-9066. E-mail:

info@mtzequipment.com, URL: www.mtzequipment.com

Latvia

Joint Venture "MTZ-Serviss"

Skieneri, p/n Staki, Gulbenes raj. LV-4400 Latvija. Tel/Fax: +371 644 97 811. E-mail: info@mtz-serviss.lv,

URL: www.mtz-serviss.lv

Lithuania

"Dzeirana"

Vereduva, LT-60291 Raseiniu raj. Lietuva. Tel.: +370 428 47 441; +370 428 51 602, fax: +370 428 75 256. E-mail: dzeiran@takas.lt

Norway

"LANDBRUKSENERET AS"

Lundsveien 1, 3053 Steinberg, Norway. Tel.: +47 32 27 03 33, Fax: +47 32 27 03 34. E-mail:

belnorge@online.no, belarus@online.no. URL: www.belarus.no

Poland

"Pronar" SP.Z.O.O.

17.210 Narew, ul. Mickiewicza 101A, Poland. Tel.: +48 85 68 16 429, fax: +48 85 68 27 246. E-mail:

pronar@pronar.pl, URL: www.pronar.pl

Romania

"Belarus Tractor SRL"

Galati, str. Rosiori 27 bl.B1 ap. 22, Romania. Tel/fax: 004 0236826388; 004 0336103873. E-mail: office@belarus-tractor.ro, URL: www.belarus-tractor.ro

Slovakia

"Belarus Traktor Slovakia s.r.o."

93101 Samorin Hlavna 11, Slovenska rep. Fax: 421 315 598 241. E-mail: traktor@belarus.sk, URL: www.mtz.sk

Finland

"Agri-Kymi OY"

Kaupinkatu 4, Fin-45130, Kouvola, Finland. Fax: +358 53 75 55 53. E-mail: info@agrikymi.fi, URL: www.agrikymi.fi

Czech Republic

"Bel-Czech Trade, s.r.o."

Prumyslová 154, 674 01 Trebíč. Tel.: +420 568 833 334; +420 602 578 961, fax:+420 568 833 350. E-mail: info@bel-czech.eu, URL: www.bel-czech.eu

Sweden

Nordisk Lantbruksimport AB

Box 165, 14723 Tumba, Vasterbottens lan, Skelleftea Rommun. Tel.: +468 530 60 488. E-mail: info@noli.se

Estonia

"Turi Bel-Est" OU

Kalevi 9a, Turi, 72212, Eesti/Estonia. Fax: +372 385 06 10. E-mail: info@beleest.ee, URL: www.beleest.ee

JSC "Amkodor"

Dealer Geotrading OOD

Contract territory: **Bulgaria**. Address 1303, Bulgaria, r. Sofia, ul. Strandzha, 4. Tel/Fax: (+359)2 930 70 50, (+359)2 987 28 87. E-Mail: www.geotrading.bg. Director Vutov Ivan

Dealer CJSC «AMKODOR BALTIC»

Contract territory: **Lithuania, Latvia, Estonia**. Address Republic of Lithuania, Vilnius, ul. Virsuliskiu, 16-18. Tel/Fax: (+370 5) 239 27 18, (+370) 611 00009. URL: www.amkodor.lt, e-mail: amkodor.baltic@gmail.com.
Director Andrus Bayarskis

Minsk Automobile Plant (MAZ)

Lithuania

"Agrotiekimas" 3AO

"Ziemgalos automobiliai" 3AO

Latvia

"Alkom Trans" SIA

Czech Republic and Slovakia

"Bel-Czech TRADE" S.R.O.

Poland

"MAZ AUTO POLAND Sp.z o.o."

Estonia

"MAZ Estee OU "

"EuroMAZ" ZAO

Romania

"MAZ TRUCK & BUS SRL"

Germany

"OWUS" LTD

Bulgaria

"BM Leasing Trade" AD

JSC "Belshina" (Belarus Tire Works)

Bulgaria

Geotrading EOOD

Territory: **Bulgaria, Greece, Macedonia**

Belgium

«Bedelco» SPRL Rue de l'Environnement

Territory: **Belgium, Netherlands, Luxembourg**

Switzerland

«Premar Services» AG

Territory: the coal mines «Bor» **Serbia**; «Banovici» **Bosnia and Herzegovina**; «Uglevik» **Republic of Serbia, Bosnia and Herzegovina**; «Gacko» **Republic of Serbia, Bosnia and Herzegovina**.

Mailing address: «Premar Services» AG Switzerland, Neudorfstrasse 22, 6313 Menzingen

Canada

Cantat Industrial Services, Inc. (Canada)

Territory: **Canada**

Mailing address: 506-1131 Steeles Ave. West Toronto, ON M2R 3W8 Canada

JSC "Byelarussian Autoworks" (BelAZ)

United States

Belaz Trucks Americas (BTA)

Territory: **Canada, Mexico, United States (excluding Hawaii)**

6346 Orchard Lake Road, Suite 103, West Bloomfield, Michigan, USA, MI 48322

Tel/Fax: 1-248-539-3482, www.belaztrucks.com

Company president: Semyon Brayman

Address in Belarus: SP "WESTERN TECHNOLOGIES", 220024, Minsk, ul. Pirogova, 2

Poland

PPUT «POLMARK-Kielce», Kielce

Territory: **Hungary, Germany, Holland, Spain, Poland, Portugal, France**

25-620 Republic of Poland, Kielce, ul. Kolberga, 4

Tel/Fax: +48-41-34-61-684, e-mail: polmark@polmark-kielce.pl, www.polmark-kielce.pl

Director: Marek Sverch

Estonia

JSC «A.K.A.», Marjamaa

Territory: **Latvia, Lithuania, Norway, Finland, Sweden, Estonia**

78301, Marjamaa, Rapla Maakond, Uus tn. 9, Republic of Estonia

Tel.: +372 48 21506, Fax: +372 48 21030, e-mail: as.akk@neti.ee, www.akk.ee

Director: Kuus Koyt

Switzerland

PREMAR Services AG

Territories: **countries of the former Yugoslavia**

c/o Treuver AG, Untermulli 6 6300 Zug, Switzerland

Director: Pero Tomich

Bulgaria

«Belaz Sofia» ЕООД, Sofia

Territory: **Bulgaria, Greece, Macedonia**

Sofia -1124, ul. Khan Omurtag №18, Bulgaria

Director: Stanoy Rangelov

Production Association "Gomselmash"

Lithuania

Agrofirma «Dzeirana»

Legal address: 4414, Republic of Lithuania, d. Vereduva, Raseiniai region

Tel.: +370 (428) 4-74-41, 7-52-56 (fax) Web-site: www.dzeirana.lt. Director: Jonas Matikovas

Bulgaria

EOOD «Belarus Argo-Trade»

Legal Address: 5800, Republic of Bulgaria, Pleven, "MANIYA TAUR" Business Center, pl. Respublika №2, et.1, office 8. Tel.: +359 (64) 807-711, 804-741 (fax). Director: Romankov Oleg Petrovich

Latvia

SP «MTZ-Service»

Legal address: Gulbenes nov., Stradu pag. Šķieneri, p.n. Stāķi, LV – 4417, Republic of Latvia, Tel.: +371

64497812, 64497811 (fax) e-mail: info@mtz_serviss.lv, web-site: www.mtz-serviss.lv Director: Zagoruyko Vasily Petrovich

Czech Republic

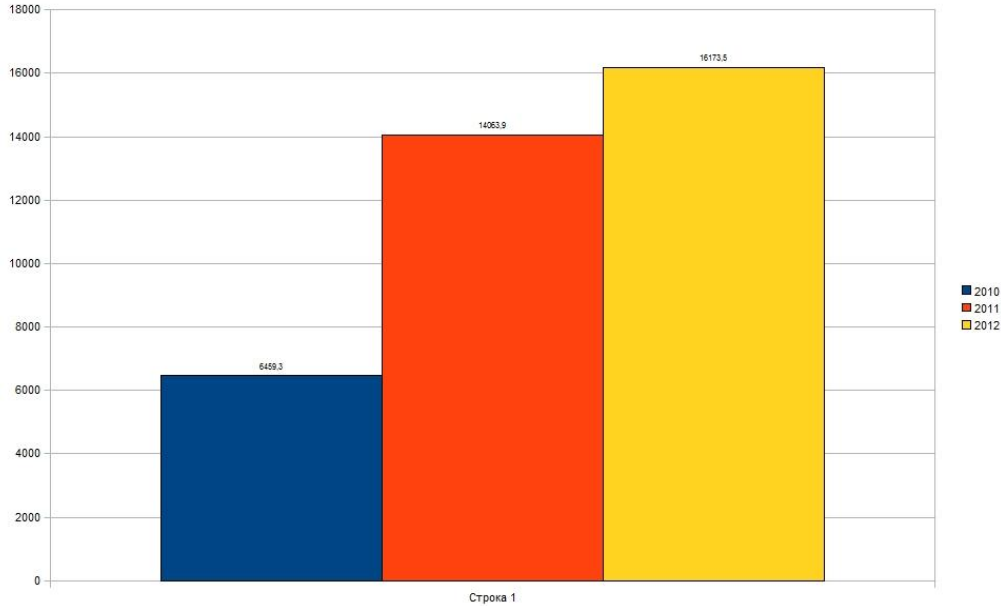
OOO «Bel-Czech TRADE, sr.o.»

Legal address: Průmyslová 154, 674 01 Třebíč, Česká republika Tel.: +420 (568) 833 350, e-mail: sermiazhka@gmail.com. Director: Mogilevchik Pavel Vladimirovich

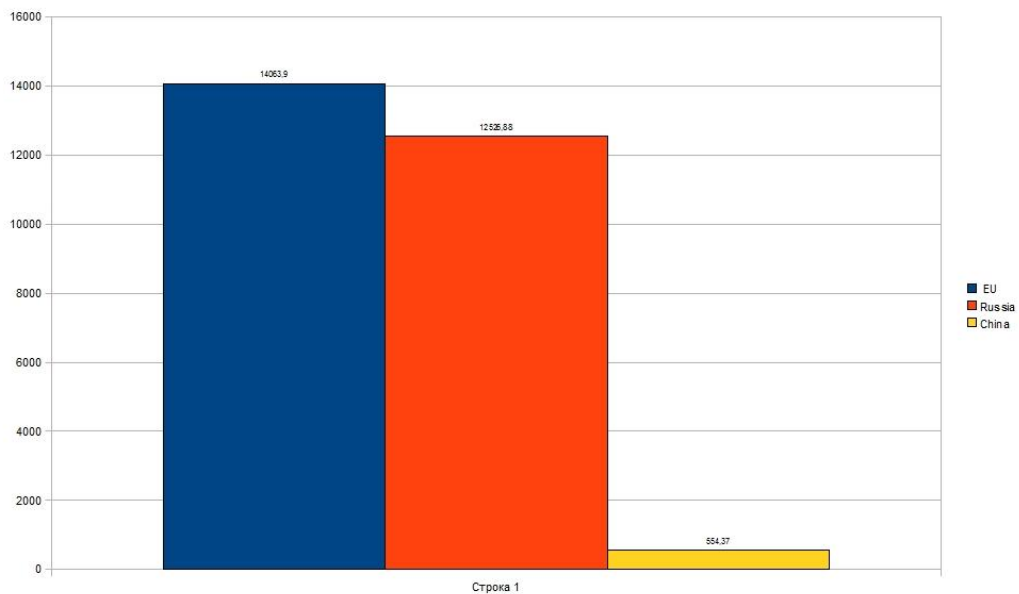
APPENDIX 5

ILLUSTRATIONS

Belarus Export to the EU in 2010, 2011 and plans for 2012 (as of Nov 2011, mln USD)

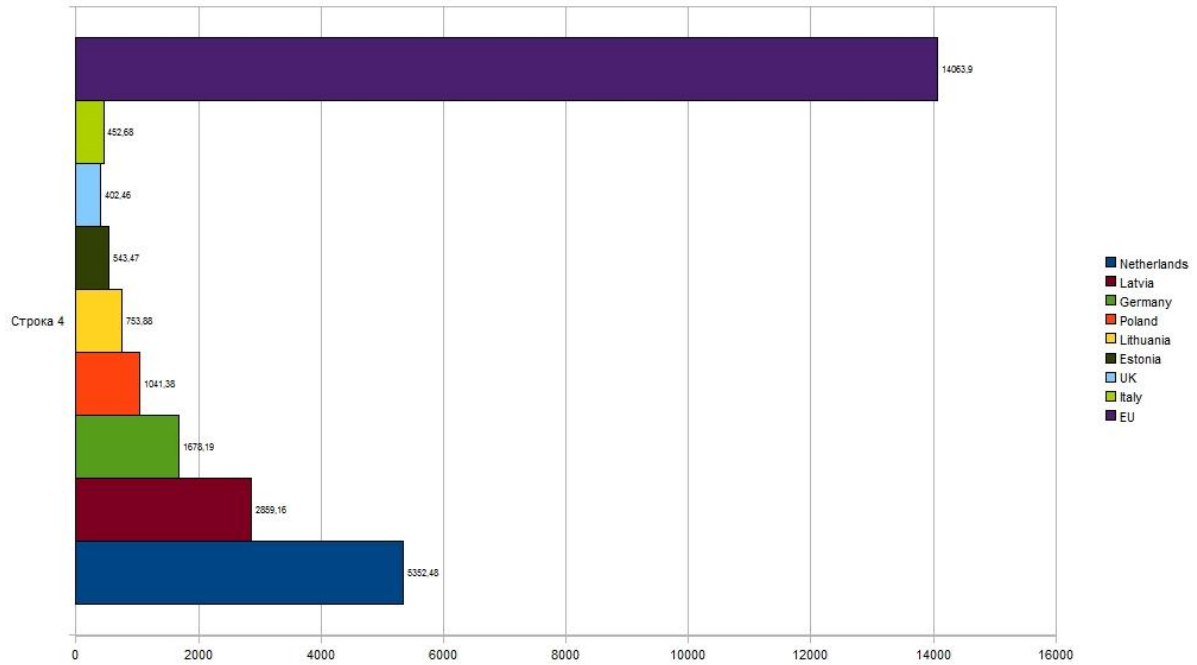


Belarus Export to the EU, Russia and China in 2011 (as of Nov 2011, mln USD)



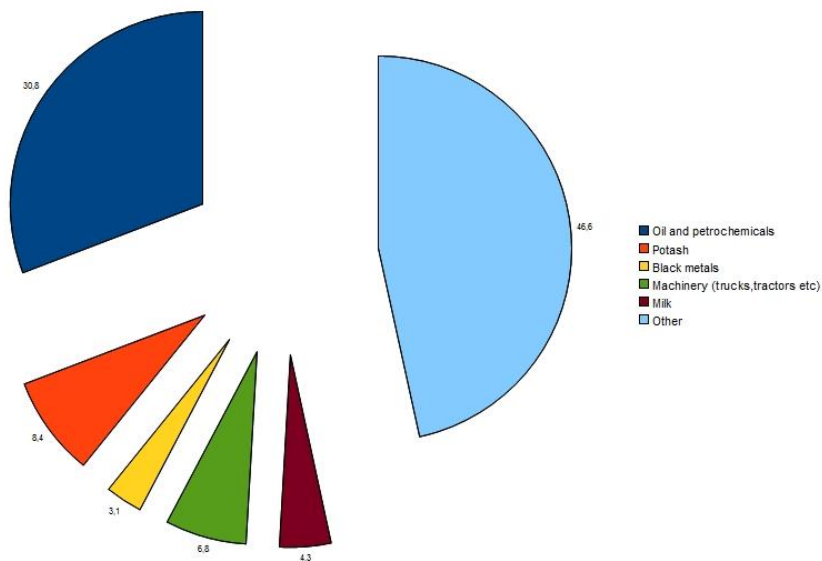
EU countries: leading importers from Belarus in 2011

(as of Nov 2011, mIn USD)



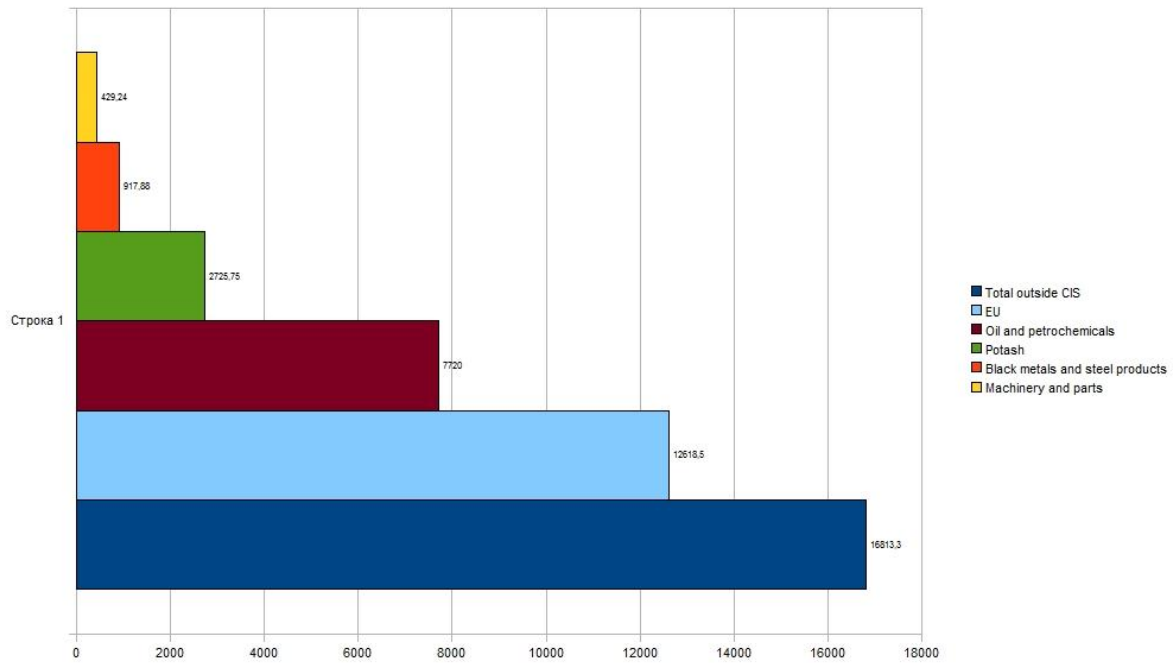
Belarus total export structure in 2011

(as of Nov 2011, mIn USD)



Belarus Export Structure Outside CIS, mln USD, 2011

(as of Oct 2011, mln USD)



APPENDIX 6

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