The Russia (Sanctions) (EU Exit) (Amendment) (No.8) Regulations 2022

Lead department	Foreign, Commonwealth and Development Office (FCDO)
Summary of proposal	Deepening trade sanctions on the Russian Federation to limit access to quantum computing and advanced materials goods and technology, prohibit exports of oil refining goods and technology, and certain luxury consumer goods; and prohibit the import of certain steel and iron products from Russia, following the Russian assault on Ukraine.
Submission type	Impact assessment (IA) – 14 April 2022
Legislation type	Secondary legislation
Implementation date	14 April 2022
Policy stage	Final
RPC reference	RPC-FCDO-5185(1)
Opinion type	Formal
Date of issue	5 May 2022

RPC opinion

Rating[1]	**RPC opinion**
Fit for purpose	The IA is proportionate and the assessment of direct impacts on business is sufficient to underpin these sanction regulations. To support the information provided on small and micro businesses (SMB), the IA would benefit from discussing why it continues not to be appropriate to exempt SMBs from these measures and where appropriate discuss any course of mitigation.

Business impact target assessment

	Department assessment	**RPC validated**
Classification	Qualifying regulatory provision	Qualifying regulatory provision
Equivalent annual net direct cost to business (EANDCB)	£116.0 million *(2019 prices, 2022 pv)*	£108.3 million *(2019 prices, 2020 pv)*
Business impact target (BIT) score	£580.2 million	£541.5 million
Business net present value	-£5,918.2 million	-£5,525.0 million
Overall net present value	-£5,918.2 million	

[1] The RPC opinion rating is based only on the robustness of the EANDCB and quality of the SaMBA, as set out in the Better Regulation Framework. RPC ratings are fit for purpose or not fit for purpose.

RPC summary

Category	Quality[2]	RPC comments
EANDCB	**Green**	The EANDCB calculation is fit for purpose. The IA sets out the methodology to derive estimates which uses Russia's import demand from the Global Trade Outlook (GTO) and applies suitable assumptions for the rate of return to calculate the foregone profit.
Small and micro business assessment (SaMBA)	**Green**	The IA provides data on the size and number of businesses that traded with Russia in 2014 and 2020, noting since the imposition of sanctions on Russia in 2014, SMBs have already experienced the greatest proportional reduction in number of businesses exporting to Russia. To support the information provided on SMBs, the IA would benefit from discussing why it continues not to be appropriate to exempt SMBs from these measures and where appropriate discuss any course of mitigation.
Rationale and options	**Good**	The IA clearly sets out the problem under consideration and rationale for intervention, citing appropriate market failure arguments. It also provides good detail about the sanctions measures and how these achieve the policy objectives. The IA appraises the preferred option against a suitable do-nothing option.
Cost-benefit analysis	**Satisfactory**	The data, assumptions and methodology are clearly outlined. The IA transparently discusses data limitations and uncertainties, employing appropriate scenario and sensitivity analysis to estimate impacts over a nine-year appraisal period. It would have been beneficial if some of the data tables presented, provided additional detail of the underlying components of the calculation to derive estimated impacts.
Wider impacts	**Good**	The IA considers several wider impacts affecting associated services such as maintenance services or insurance, displacement and potential business closure. The analysis identifies UK sectors that are most integrated into value chains with Russia and, therefore, those that are potentially vulnerable to disruption caused by export controls and ongoing conflict, including potential environmental effects.
Monitoring and evaluation plan	**Weak**	The IA notes the statutory requirement from the Sanctions and Anti-Money Laundering Act 2018 to review the sanctions measures annually has been removed. The IA states that sanctions are kept under continuous review and will be adapted when the context changes. The department should provide further detail on how it intends to monitor and evaluate the economic, regulatory and enforcement impacts on business.

[2] The RPC quality ratings are used to indicate the quality and robustness of the evidence used to support different analytical areas. Please find the definitions of the RPC quality ratings here.

Summary of proposal

Following the Russian assault on Ukraine, the UK government has introduced a package of trade, financial and transport measures to constrain economic activity with Russia. As part of deepening UK's Russia sanctions strategy, this proposal will implement a new and intensified set of trade measures to:

a. Prohibit export of quantum computing and advanced materials goods and technology;
b. Prohibit the export of oil refining goods and technology;
c. Prohibit the export of certain luxury consumer goods;
d. Prohibit the import of certain iron or steel products originating or consigned from Russia.

The IA notes that UK trade with Russia has been relatively volatile over the last 10 years. UK exports to Russia fell by over 25 per cent between 2014 and 2015, from just under £6.0 billion to £4.5 billion, when previous sanctions were implemented against Russia. At the end of Q3 2021, Russia was the UK's 26th largest export market accounting for 0.7 per cent of total UK exports of goods and services. In 2020, around 3,800 UK VAT-registered businesses exported goods to Russia, down from 5,500 in 2014.

EANDCB

As first submitted the EANDCB was £116.0 million, using 2022 as the present value (PV) base year. We worked with the Department to apply the correct PV base year (2020) and verify an EANDCB of £108.3 million.

The IA notes the primary cost to UK exporters will be the opportunity cost of future profit they may have made from the export of goods and services that will be subject to restrictions under the new measures. The analysis uses commodity codes (HS 2017 goods classification nomenclature) to proxy the value of trade that may be disrupted. In 2021, the total value of UK goods exports to Russia under the commodity codes covered by the proposed measures was £775.9 million, representing 27.9 per cent of all UK goods exports to Russia in 2021. To estimate the possible impact on profits, the analysis applies the ONS profitability gross annual rate of return for the manufacturing sector private non-financial corporations (estimated to be 10.8 per cent in the four quarters up to Q3 2021) to the appraisal period chosen for this assessment 2022 to 2030 inclusive) to calculate an estimate of profitability loss.

The IA discusses regulatory, administrative and enforcement impacts but has not been able to make a reliable assessment of the potential costs and the calculation of these costs are not considered robust. The IA concludes that these costs are unlikely to be significant and therefore not included in the NPV and EANDCB figures. The IA acknowledges that it is possible that there may be a higher learning cost for companies that decide to apply for exports licences against the set of proposed measures, although these costs are non-monetised. The analysis should also consider the possible compliance costs associated with aligning with the sanctions regulations that companies will have to undertake for their UK operations as well as any overseas subsidiaries, which may be subject to similar but not equivalent sanction regulations.

No direct benefits to UK industry have been identified. The IA does not monetise any benefits and does not expect UK businesses to directly benefit from the export measures, as in most cases it restricts their abilities to export goods or services to Russia. The IA discusses that the banning of imports of certain iron and steel products could potentially protect the competitiveness of upstream UK steel producers from relatively cheaper Russian imports. Whilst these firms may potentially benefit from an import ban, downstream producers may face higher input costs, suggesting the NPV for the ban is likely to be marginal and therefore assumed to be zero. The costs to downstream firms have been estimated to calculate the EANDCB. More evidence could be presented to support the zero to marginal impact position in the IA, with further consideration on whether UK steel production has the capacity to cover the ban in the short term.

SaMBA

The IA provides data and evidence on the size and number of businesses that traded with Russia in 2014 and 2020, noting since the imposition of sanctions on Russia in 2014, SMBs have already experienced the greatest proportional reduction in number of businesses exporting to Russia. This assessment could be improved by also including data on the volume of trade by SMBs.

To support the information provided on small and micro businesses (SMB), the IA would benefit from discussing why it continues not to be appropriate to exempt SMBs from these measures and where appropriate discuss any course of mitigation.

Rationale and options

The IA clearly sets out the problem under consideration and rationale for intervention, citing appropriate market failure arguments. It sets out HM Government’s objectives to:

a. **Coerce** the Russian government into changing policy by targeting its strategic and economic interests, and by influencing decision makers and elites.
b. **Constrain** the Russian military-industrial complex, in terms of its ability to maintain the occupation of Ukraine and its future technological ambitions.
c. **Signal** to Russia and the wider international community that the UK considers Russia's actions in Ukraine unacceptable.

The IA compares the preferred option against a do-nothing option which relies on existing sanctions by both the UK and partners. It goes on to suggest that not implementing any further sanctions will go against UK objectives to align the UK’s sanction package with those of a broad coalition of partners in order to maximise the impact of sanctions, whilst noting that existing sanctions packages have been insufficient to coerce the Russian government to change course and dissuade decision makers from taking aggressive and destabilising actions against Ukraine.

Cost-benefit analysis

The analysis in the IA focuses on:

a. **Economic impacts:** The reduction in the value of UK trade as a result of the prohibition of affected trade with Russia and the resulting impact to the profitability of UK firms.
b. **Regulatory impacts:** The cost to UK firms to comply with the proposed measures.
c. **Administrative and enforcement impacts:** The cost to HM Government of processing licence applications and enforcing these under the updated regulatory framework.

The IA clearly sets out the methodology to derive estimates, transparently outlining all assumptions and data limitations. However, further detail and breakdowns on how the estimates are calculated and derived would be beneficial.

The analysis does consider possible scenarios and undertakes sensitivity analysis. The direct economic cost estimates have been assessed under three potential scenarios underpinned by different assumptions around Russia's demand for UK goods imports. Given the uncertainty surrounding future imports of iron and steel in the counterfactual baseline, sensitivity analysis has also been undertaken to estimate the potential cost to business to different scenarios.

Whilst the appraisal period of nine years (2022 to 2030 inclusive) has been chosen to align with the GTO projections, the IA should consider the permanency of these sanctions and could test different scenarios of the appraisal period, which may affect the estimated impacts.

Wider impacts

The IA mentions but does not monetise secondary and wider impacts of the measures affecting associated services such as maintenance services or insurance, displacement and potential business closure. Although the scale or scope of these effects are not quantified, it provides a qualitative assessment of their potential impacts.

The IA highlights a possible 'chilling effect', where there is a risk that the policy discourages exporting activity due to uncertainty in firms who are not in scope of the sanction package, noting to what extent this 'chilling effect' is persistent over time and trade rebounds is uncertain. The IA would also benefit from considering whether the 'chilling effect' could have similar discouraging effects to the levels of inward investment to the UK, as well as other components of the UK Capital Account, given the global importance of UK's capital markets.

The IA uses Trade in Value Added (TIVA) data from the OECD to reveal how UK industries (upstream and downstream in a value-chain) are connected to consumers and businesses in Russia. This allows identification of the UK sectors that are most integrated into value chains with Russia and, therefore, those that are potentially vulnerable to disruption caused by both export controls and ongoing conflict. Although the IA notes it is not possible to identify how the impacts of the sanctions on goods in scope will be distributed across the UK, it presents the value of exported goods in aggregate to Russia, with the highest concentration in the West Midlands, the Southeast of England and the North West of England. When looking at the value of imported goods in aggregate from Russia, they are of highest concentration in the London, the Southeast of England and Yorkshire and the Humber.

The IA discusses the possible environmental effects due to the potential increase in UK steel production may potentially increase UK steel emissions. The import ban could increase UK emissions by around 226.8k tonnes but the ban is unlikely to increase global emissions, as it is assumed that total global production of steel remains flat over the appraisal period.

The IA could analyse the impacts on UK consumers and competition effects in more detail, which is particularly relevant with respect to the import ban of iron and steel products in the UK.

Monitoring and evaluation plan

The IA notes that the Economic Crime (Transparency and Enforcement) Act 2022 has amended the Sanctions and Anti-Money Laundering Act 2018 and removed section 30 of the Sanctions Act requiring review of the measures on an annual basis. The IA states that sanctions are kept under continuous review and will be adapted when the context changes. However, the IA should provide further detail on how the department intends to monitor and evaluate the economic, regulatory and enforcement impacts on business from these additional sanctions.

We strongly encourage the department to analyse how the sanctions regulations impact the Russian economy as part of their continuous review to inform whether and how the objectives of the sanction regulations have been achieved.

Regulatory Policy Committee

For further information, please contact regulatoryenquiries@rpc.gov.uk. Follow us on Twitter @RPC_Gov_UK, LinkedIn or consult our website www.gov.uk/rpc. To keep informed and hear our views on live regulatory issues, subscribe to our blog.