Ban on new outward investments to Russia

Lead departments	HM Treasury, Foreign, Commonwealth and Development Office
Summary of proposal	The Government is working to deepen the sanctions measures imposed on Russia following the invasion of Ukraine by prohibiting new investments in the Russian Federation by UK persons.
Submission type	Impact assessment (IA) – 20 June 2022
Legislation type	Secondary legislation
Implementation date	July 2022
Policy stage	Final
RPC reference	RPC-HMT-5207(1)
Opinion type	Formal
Date of issue	8 July 2022

RPC opinion

Rating[1]	**RPC opinion**
Fit for purpose	The assessments of impacts on business are limited but proportionate for this IA. Low, central and high-cost scenarios are provided to demonstrate the range of possible impacts. The assessment of wider impacts is satisfactory but could be improved with further discussion of the consequences of companies choosing to relocate to third countries.

Business impact target assessment

	Department assessment	**RPC validated**
Classification	Non-qualifying provision	Qualifying regulatory provision (IN)
Equivalent annual net direct cost to business (EANDCB)	£17.9 million	£38.2 million
Business impact target (BIT) score	£89.7 million	£191.1 million
Business net present value	-£328.9 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.

Overall net present value	-£328.9 million

RPC summary

Category	Quality[2]	RPC comments
EANDCB	**Green**	The cost-to-business calculation was initially incorrect when first submitted but has since been rectified to take into account only the first-round direct impacts of the policy. The analysis is proportionate for this IA and is therefore now rated fit for purpose. The RPC welcomes the corrections from the departments. The IA provides low, central and high-cost scenarios to demonstrate the range of possible impacts. The IA also monetises the familiarisation costs for the policy but does not include them in the overall cost-benefit analysis. These should normally be included in the EANDCB calculation. While these appear negligible, the departments should consider the risk that higher costs might be incurred and seek to include these monetised costs.
Small and micro business assessment (SaMBA)	**Green**	The SaMBA is limited but proportionate for this IA and is therefore rated fit for purpose. The Government intends to provide guidance to mitigate against familiarisation costs to Small and Micro Businesses (SMBs). The IA states that relevant data by size of company is not available and the RPC appreciates that collecting such data for analysis would be disproportionate in this case.
Rationale and options	**Good**	The rationale for government intervention is that, without it, new investments into Russia will likely continue – from which the Russian economy and government would continue to benefit – and that there is no private sector solution to the problem. The IA considers only one option aside from doing nothing. In this case, this appears proportionate and the reasons for doing so are explained clearly.
Cost-benefit analysis	**Satisfactory**	The overall cost-benefit analysis is satisfactory. The majority of the analysis comprises impacts on business, as described in the EANDCB section above. The benefits, which are not quantified, will be the adverse impacts on Russia's economy, which the Government hopes will "*deter further Russian aggression in Ukraine and encourage Russia to the negotiating table*", and the broader

[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.

		reputational benefits to the UK from taking action to sanction Russian aggression. The IA also states that global peace brings longer-term economic benefits.
Wider impacts	**Satisfactory**	The IA's discussion of wider impacts is satisfactory but could be improved with further discussion of the consequences of UK companies that currently invest in Russia choosing to relocate to third countries in order to avoid the sanctions. The IA could also be improved by considering where these companies may choose to relocate to and whether that will have any impact on business, competition and trade relations. The IA would benefit from a statement as to what similar action is being undertaken by our partners, since coordinated international action is likely to close off many options for evading the measures.
Monitoring and evaluation plan	**Satisfactory**	The IA states that the requirement for reviewing sanctions on an annual basis was removed by the Economic Crime (Transparency and Enforcement) Act 2022. Therefore, no commitment has been made to conduct a post-implementation review and the policy intention is to keep sanctions on Russia in place until Russia has ended its occupation of Ukraine.

Summary of proposal

The Government intends to deepen the sanctions imposed on Russia following the invasion of Ukraine by prohibiting new investments in the Russian Federation by UK persons. Trading on the secondary market will be allowed to continue where the initial investment was made prior to the regulations coming into force. The aim is to close off investment revenue streams to Russia.

EANDCB

The cost-to-business calculation was incorrect as initially submitted but has since been rectified to take into account only the first-round direct impacts of the policy. The analysis is proportionate for this IA and is therefore now rated fit for purpose.

The main quantified component is the lost profit to businesses from the ban on new investments in or connected to Russia. The IA provides low, central and high-cost scenarios to demonstrate the range of possible impacts. The assumption for the central scenario is based on precedent following the Russian invasion of Crimea and a 4.9 per cent average return on investment, giving a total cost to business of £328.9m (discounted figure) over ten years. Consistent with RPC guidance, this is based on treating the profits from a £149.5m annual investment being forgone as a direct impact.

The IA also monetises the familiarisation costs for the policy, but does not include them in the overall cost-benefit analysis. While these appear negligible the department should seek to include these monetised costs in the EANDCB calculation. It should also consider whether additional costs might be incurred (and any deduced effectiveness that might result) by UK investors taking advantage of the exemptions to the sanctions that are described in the IA.

SaMBA

The SaMBA is limited but proportionate for this IA and is therefore rated fit for purpose.

It states that SMBs will be mostly unaffected since they are unlikely to be involved in the scale of investments expected to be undertaken. Nevertheless, the Government intends to provide guidance to mitigate against any familiarisation costs to SMBs.

The IA states that only some 22 UK companies are likely to make new investments in Russia, absent the restrictions, with an average capital expenditure of £45.5m. These firms seem unlikely to be SMBs, but relevant data by size of company is not available and the RPC appreciates that collecting such data for analysis would be disproportionate in this case.

Rationale and options

The rationale for government intervention is that, without it, new investments into Russia will likely continue – from which the Russian economy and government would continue to benefit. UK investors in Russia are unlikely to take into account the benefits that their investments would confer on the Russian economy and, since the denial of such benefits is seen as a positive outcome in the current environment, there is no private sector solution to this problem.

The IA considers only one option aside from doing nothing. In this case, this appears proportionate and the reasons for doing so are explained clearly. However, the IA would benefit from describing some of the similar measures already imposed by allied countries as a benchmark for the reader to compare against, and as a guide to the risks of the UK measures being easily avoided by UK investors in Russia by switching their operations from the UK to other developed countries.

Cost-benefit analysis

The overall cost-benefit analysis is satisfactory.

The IA states on page 9 that "*The benefits of this option (i.e. the cost to Russia) are considered in the round throughout this document.*"

The majority of the analysis comprises impacts on business, as described in the EANDCB section above. The benefits, which are not quantified, will be the adverse impacts on the Russian economy arising from the withdrawal of UK investment funding. The immediate benefit of this is the Government's hope that denying this commercial benefit will "*deter further Russian aggression in Ukraine and encourage Russia to the negotiating table*". The IA refers to the broader reputational benefits to the UK from being seen to take a principled stance against Russian aggression.

The IA also states that global peace brings longer-term economic benefits.

Wider impacts

The IA's discussion of wider impacts is satisfactory but could be improved with further discussion of the consequences of UK companies that currently invest in Russia choosing to relocate to third countries. The summary box on page 3 of the IA states that guidance will "*specify that divestment is not required*", but that does not address the risk that the affected firms will decide to continue to invest in Russia through another location and, if so, the extent to which any such decision will jeopardise their existing UK-based activities.

The IA could be improved by considering where these companies may choose to relocate to and whether that will have any impact on business and trade relations. It could also benefit from further assessment of the likelihood that such firms will take advantage of the proposed exemptions and the prospects that some of the objectives of the regulation might be diluted by successful recourse to these exemptions through an application to OFSI. Finally, the IA could benefit from exploring the ability of these companies to find alternative investment opportunities in other countries, thus preserving UK benefits and offsetting any costs to business associated with the ban on Russian investments.

Monitoring and evaluation plan

The IA states that the requirement for reviewing sanctions on an annual basis was removed by the Economic Crime (Transparency and Enforcement) Act 2022. Therefore, no commitment has been made to conduct a post-implementation review and the policy intention is to keep sanctions on Russia in place until Russia has ended its occupation of Ukraine.

However, the IA also states that sanctions are kept under continuous review and the Foreign, Commonwealth & Development Office is developing a monitoring framework to assess the impacts on the target country as well as any unintended consequences.

Regulatory Policy Committee

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