

The Russia (Sanctions) (EU Exit) (Amendment) (No. 10) Regulations 2022

Lead department	Foreign, Commonwealth and Development Office
Summary of proposal	Deepening trade sanctions on the Russian Federation to prohibit the export of certain goods and technologies (and any ancillary services) and the import on goods which generate significant revenues for Russia.
Submission type	Impact assessment (IA) – 20 June 2022
Legislation type	Secondary legislation
Implementation date	23 June 2022
Policy stage	Final
RPC reference	RPC-FCDO-5206(1)
Opinion type	Formal
Date of issue	27 July 2022

RPC opinion

Rating¹	RPC opinion
Fit for purpose	The IA provides a proportionate analysis of the impacts of the measures and direct costs to business. Given the uncertainty around some of the assumptions, the IA could be improved with further scenario and sensitivity analysis as well as understanding the wider impacts of substitution on UK consumers and competition. The department should seek to commit to how and when it will monitor and evaluate the impacts of the package of sanctions.

Business impact target assessment

	Department assessment	RPC validated
Classification	Qualifying regulatory provision	Qualifying regulatory provision
Equivalent annual net direct cost to business (EANDCB)	£19.2 million	£19.2 million (2019 prices, 2020 pv)

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.

Business impact target (BIT) score	£96.1 million	£96.0 million
Business net present value	-£151.4 million	
Overall net present value	-£151.4 million	

RPC summary

Category	Quality²	RPC comments
EANDCB	Green	The EANDCB calculation is fit for purpose and considers the economic and regulatory costs to business. It applies suitable assumptions to approximate foregone profit for UK businesses.
Small and micro business assessment (SaMBA)	Green	The IA provides the changing patterns in trade with Russia in 2014 and 2020, noting the reduction in small and micro businesses (SMBs) that trade with Russia. It also provides a breakdown of export value and number of exporters by business size for Harmonized System (HS) codes covered in the measure. The SaMBA could be strengthened in its consideration of any courses of mitigation.
Rationale and options	Satisfactory	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 IA provides sufficient information on the historic and current trade patterns with Russia. The data, assumptions and methodology are clearly outlined and the IA transparently discusses data limitations and uncertainties. The cost-benefit analysis could be improved by further scenario or sensitivity analysis. The department should consider engagement with businesses and stakeholders to test the common assumptions.
Wider impacts	Satisfactory	The IA analyses the measures' wider impacts, covering the regional distribution, wider supply chain and possible chilling effects. Whilst it notes that there might not be significant impacts on UK consumers, the IA could be improved by considering substitution and its impact on competition, price and UK consumers.
Monitoring and evaluation plan	Weak	The IA notes the development of a monitoring and evaluation framework. However, it would have been improved by a clear commitment of how and when the packages of sanctions will be monitored and evaluated.

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 set of trade measures that apply to:

1. Chemical and biological goods and technology;
2. Defence and security goods and technology that could be used in Russia or non-government controlled Ukrainian territory occupied by Russia, including internal repression and surveillance equipment;
3. Maritime goods and technology (communication and navigation equipment).
4. Jet fuel and fuel additives;
5. Oil refining goods and technology;
6. Banknotes; and
7. Extension of arms embargo to non-government controlled Ukrainian territories.

The set of measures will also cover import bans on goods which generate significant revenues for Russia and ban the provision of ancillary services related to the import of Russian iron and steel.

The IA anticipates that the measure will have a net present value (NPV) of -£151.4 million over a 9-year appraisal period from 2022 to 2030, which is driven by the opportunity cost of future profit for exporters.

EANDCB

The EANDCB calculation is fit for purpose. It assesses two groups of direct costs to business:

1. Regulatory costs that consider transitional costs including familiarisation costs to businesses that traded with Russia and a one-off cost to importers as they source the same imports from elsewhere; this is based on a percentage of the 2021 imports from Russia.
2. Economic costs that consider the opportunity cost of future profit in the affected sectors, based on IMF projections of Russia import growth and ONS data for the profitability of UK companies .

The package of measures includes measures aimed at non-government controlled Ukrainian territory. However, the Department cannot robustly estimate the regulatory impacts and therefore, such impacts to UK businesses are not considered in the EANDCB.

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.

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 the number of businesses exporting to Russia. It also provides data on export value, business size and number of exporters to Russia in 2021 in the HS codes covered by the measure, which shows that SMBs make up 50 per cent of traders, however, only account for 7 per cent of the export value.

The IA notes that SMBs might be disproportionately affected but are not exempt from the measure, explaining that doing so would undermine the purpose and intent of the sanctions. The IA does not discuss any courses of mitigation but states that it is likely that any businesses with trade associated with Russia would be aware of the possibility of sanctions being imposed by the UK and would have sufficient time to prepare for the potential loss of trade. In addition to the potential loss of trade, the IA could be improved by considering any courses of mitigation for SMBs that need to familiarise with the measure.

Rationale and options

The IA clearly sets out the problem under consideration and rationale for intervention, citing appropriate market failure arguments. It sets out the UK 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 appraises the preferred option against a do-nothing option which relies on the existing package of sanctions by both the UK and international partners.

Cost-benefit analysis

The IA clearly sets out the methodology to deriving the estimates, transparently outlining all risks, assumptions and data limitations.

In addition to the economic and regulatory costs included in the EANDCB, the IA considers the administrative enforcement costs to the UK Government based on processing licence applications. However, these are not expected to be significant and are excluded from the NPV.

The IA constructs asymmetric upper and lower bounds based on the IMF's forecasts for export and import demand from Russia and the midpoint of various estimates for Russian GDP projections, respectively. Given the uncertainty around some of the

assumptions, the IA could be improved with scenario analysis to understand the sensitivity of the impacts to these assumptions.

As many of the common assumptions have been used in previous analyses of sanctions, such as the profitability of UK companies, the department should consider further testing these with the affected industries or stakeholders.

Wider impacts

The IA considers the regional impacts of the measures and notes that 1,600 traders exported goods covered by the measure to Russia in 2021, with the highest share of traders originating in the South East.

It also acknowledges that the measures will have impacts across the UK economy, beyond those that export to Russia. The IA uses OECD Trade in Value Added (TiVA) data 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.

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 states that UK consumers are not expected to suffer significant impacts from the measures, noting the low import dependency from Russia and ability of UK traders switching to suppliers of the same products relatively easily and without a significant increase in the price of the products imported. The IA would benefit from a further testing and analysis of the assumption of substitution and the implications that it has on competition and consumers, if global import demand saturates and shifts to other countries.

Monitoring and evaluation plan

The IA notes the development of a monitoring and evaluation (M&E) framework to assess the impact of the packages of sanctions, including those covered in this IA. It discusses what may be included in the framework, including data sources to monitor the political and economic situation as well as the impacts on business. It notes the use of more in-depth analysis and surveys to understand the impact on various parts of the UK economy and its businesses.

Although the RPC recognises that the department is working to build a M&E framework, the IA would have been improved by a clear commitment of how and when the packages of sanctions will be monitored and evaluated.

Regulatory Policy Committee

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