

The Russia (Sanctions) (EU Exit) (Amendment) (No. 14) Regulations 2022

Lead department	Foreign, Commonwealth and Development Office
Summary of proposal	The proposal introduces further trade sanctions on Russia, including prohibitions relating to the 'G7 dependency and further goods list'. This list includes chemicals, materials, machinery goods and electrical appliances.
Submission type	Impact assessment (IA) – 1 August 2022
Legislation type	Secondary legislation
Implementation date	21 July 2022
Policy stage	Final
RPC reference	RPC-FCDO-5220(1)
Opinion type	Formal
Date of issue	18 August 2022

RPC opinion

Rating¹	RPC opinion
Fit for purpose	The IA provides a sufficient assessment of direct impacts on business and impacts on small businesses. There are areas for improvement, particularly in setting out plans for monitoring and evaluation.

Business impact target assessment

	Department assessment	RPC validated
Classification	Qualifying regulatory provision (IN)	Qualifying regulatory provision (IN)
Equivalent annual net direct cost to business (EANDCB)	£33.3 million	£33.3 million (2019 prices, 2020 pv)
Business impact target (BIT) score	£166.5 million	£166.5 million
Business net present value	-£262.5 million	
Overall net present value	-£262.5 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	Quality²	RPC comments
EANDCB	Green	The IA calculates a lost profit estimate in line with previous IAs and treats this appropriately as a direct impact on business.
Small and micro business assessment (SaMBA)	Green	The IA provides a detailed presentation of UK trade with Russia by business size. The IA would be improved by considering further any disproportionality of impact and possible mitigation.
Rationale and options	Satisfactory	The IA provides a sufficient discussion of rationale and consideration of options. The IA would be improved by discussing evidence of the effectiveness of existing sanctions and variations in the scope of further measures.
Cost-benefit analysis	Satisfactory	The IA provides monetisation of impacts, and detailed qualitative assessment where this is not feasible. The IA would be improved by undertaking sensitivity analysis on key assumptions.
Wider impacts	Satisfactory	The IA provides a good assessment of supply chain, and regional, impacts. The IA would be improved by consideration of potential innovation and competition impacts.
Monitoring and evaluation plan	Weak	The M&E plan would benefit significantly from setting out research questions that will be addressed and how the framework will evaluate the impact of different sanctions measures.

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

The proposal introduces further trade sanctions on Russia, including:

- prohibitions on the export, supply, delivery and making available of goods in the 'G7 dependency and further goods list' to, or for use in, Russia. The list is wide-ranging, including chemicals, materials, machinery goods and electrical appliances;
- prohibitions on the import, acquisition, supply and delivery of oil and oil products on or after 31 December 2022, coal and coal products, on or after 10 August 2022, that originate in, or are consigned from, Russia; and prohibitions on the import, acquisition, supply and delivery into the UK from Russia of gold that originates in Russia on, or after, 21 July 2022;
- an expansion of existing energy-related goods prohibitions to capture the export of energy goods related to oil and gas production and exploration projects to Russia, regardless of its eventual point of use (which could be outside of Russia); and the provision of energy-related services for both oil and gas exploration and production projects, anywhere in Russia, its exclusive economic zone or continental shelf; and
- prohibitions on the provision of accounting, management and business consulting, and public relations services to persons connected to Russia.

EANDCB

The IA estimates an EANDCB of £33.3 million, consisting primarily of lost profit from the export of goods and services that will be subject to restrictions under the new measures. The method for estimating this cost is in line with that used in previous sanctions IA. As with previous IAs, for goods exports the IA calculates profit using the ONS' gross annual rate of return for manufacturing sector private non-financial corporations (10.8 per cent). The IA appropriately uses a different rate for services exports (14.6 per cent).

The IA explains that data availability is insufficient to monetise impacts relating to the new import restrictions. However, the IA provides a detailed qualitative description of impacts, particularly where these could be significant (for example, the impact of the ban on coal imports on the UK steel industry) and the approach appears to be proportionate.

SaMBA

The IA includes a good breakdown of UK trade with Russia by firm size. Small businesses comprise around half of all UK businesses that trade with Russia, although large businesses account for around two-thirds of exports and 90 per cent of imports by value, respectively. The SaMBA would benefit from addressing more directly any disproportionality of impact on small businesses and, where such impacts are identified, discussing mitigation.

Rationale and options

The IA's assessment of the rationale for intervention and consideration of options is in line with previous IAs and is sufficient. The assessment refers to existing sanctions packages appearing to have been insufficient (page 1) and the IA would benefit from discussing the evidence of the impact of existing sanctions, including consideration of any recent research studies.³ On options, the IA would benefit from discussing possible variants on the scope of the sanctions. This could include separating proposals that go no further than action with international (e.g. G7) partners as potential alternative options. On alternative options to regulation, the IA might usefully discuss further the reduction in trade with Russia resulting from firms 'self-sanctioning'/voluntarily leaving the Russian market.

Cost-benefit analysis

Evidence and data

The department has updated its estimates of future UK trade with Russia since earlier sanctions IAs using the IMF's World Economic Outlook (WEO) April 2022.

The IA explains how security/confidentiality considerations have limited the extent to which the Government have been able to consult external stakeholders. However, the IA would benefit from describing what, if any, engagement has taken place, within these constraints.

The IA would benefit from addressing very recent comments from the Institute of Chartered Accountants in England Wales (ICAEW) around the definition of some of the services in the regulations and its practical effects.⁴

Methodology

As noted above, the IA uses the same overall methodology as previous sanctions IAs to monetise the impact of export restrictions. The IA provides a detailed qualitative assessment of the import restrictions. The IA would benefit from discussing how these impacts might be monetised in future IAs, for example what

³ For example, a very recent study by Yale School of Management:
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4167193

⁴ <https://www.icaew.com/insights/viewpoints-on-the-news/2022/Aug-2022/Persons-connected-with-Russia-ICAEW-seeks-clarification>

data would be required and how it might be collected. Overall, the approach appears to be proportionate, given the data limitations. The analysis would benefit from differentiating further between measures where the UK is acting unilaterally from those where the UK is acting in concert with other countries (e.g. as part of the G7), given that the impacts on UK business could be significantly different. This could include taking account of any wider competition effects where the UK sanctions go further than those of other countries.

The analysis around the UK sourcing energy from different markets could be strengthened. This could take fuller account of the UK competing for those alternative sources against other countries and consider how prepared the UK is for that competition.

Assumptions

The IA discusses assumptions and risks at sections 3.5.1 and 4. The IA would benefit from undertaking sensitivity analysis on the key assumptions. The IA would also benefit from setting out more fully the calculations involved in producing the monetised estimates.

The 10.8% annual rate of return assumption has been used in previous sanctions IAs and seems a reasonable assumption here, given the wide range of good affected. As noted above, the IA appropriately uses a different rate for services exports (14.6 per cent). The RPC would encourage the department to actively revisit these assumptions in future sanctions IAs to ensure they are reasonably representative of the sectors, goods or services being targeted by the proposal.

Wider impacts

The IA provides a detailed assessment of supply chain impacts and impacts by region (which identifies the West Midlands as particularly affected). The section on possible 'chilling effects' is also particularly welcome. The IA would benefit from a proportionate discussion of impacts on innovation and competition. The IA discusses impacts on the public sector, mainly in terms of issuing licences and exemptions, and would benefit from addressing more directly why it is not considered proportionate to monetise these impacts.

Monitoring and evaluation plan

The IA provides a short discussion of M& E plans. This explains that the department is developing a framework to assess how sanctions meet UK objectives, describes the data that will be used and refers to possible research methods. The IA would benefit significantly from setting out further details, for example of the research questions that will be addressed and how the framework will evaluate the impact of different sanctions measures.

Other comments

Presentation

The IA is generally well-written and presented but would benefit from some further editing. For example, paragraphs 130-135 seem to largely replicate paragraphs 118-124 and Figure 2 appears to be the same as Figure 3, which oddly comes first in the document). Page numbers would also help the reader navigate the document better.

Regulatory Policy Committee

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