

## The Russia (Sanctions) (EU Exit) (Amendment) (No. 17) Regulations 2022

<b>Lead department</b>	Foreign, Commonwealth and Development Office
<b>Summary of proposal</b>	The proposal introduces further trade sanctions on Russia, introducing prohibitions on the provision of auditing services, architectural and engineering services, advertising and marketing services and IT consultancy and design services to persons connected to Russia.
<b>Submission type</b>	Impact assessment (IA) – 1 December 2022
<b>Legislation type</b>	Secondary legislation
<b>Implementation date</b>	16 December 2022
<b>Policy stage</b>	Final
<b>RPC reference</b>	RPC-FCDO-5246(1)
<b>Opinion type</b>	Formal
<b>Date of issue</b>	14 December 2022

### RPC opinion

<b>Rating<sup>1</sup></b>	<b>RPC opinion</b>
<b>Fit for purpose</b>	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

	<b>Department assessment</b>	<b>RPC validated</b>
<b>Classification</b>	Qualifying regulatory provision (IN)	Qualifying regulatory provision (IN)
<b>Equivalent annual net direct cost to business (EANDCB)</b>	£25.4 million	£25.4 million (2019 prices, 2020 pv)
<b>Business impact target (BIT) score</b>	£127.0 million	£127.0 million
<b>Business net present value</b>	-£200.0 million	
<b>Overall net present value</b>	-£200.0 million	

<sup>1</sup> 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 <sup>2</sup>	RPC comments
EANDCB	<b>Green</b>	The IA calculates a lost profit estimate in line with previous IAs and appropriately treats this as a direct impact on business.
Small and micro business assessment (SaMBA)	<b>Green</b>	The IA provides information on 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	<b>Satisfactory</b>	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 explain further how the measures relate to those being made by other countries.
Cost-benefit analysis	<b>Satisfactory</b>	The IA provides monetisation of key impacts and qualitative assessment where this is not feasible. The IA would be improved by undertaking sensitivity analysis on key assumptions.
Wider impacts	<b>Satisfactory</b>	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	<b>Weak</b>	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.

<sup>2</sup> 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 by:

- a) introducing prohibitions on the provision of auditing services, architectural and engineering services, advertising and marketing services and IT consultancy and design services to persons connected to Russia;
- b) expanding prohibitions on the export, supply, delivery making available and transfer of goods to, or for use in, Russia to include electronic and production equipment for a range of purposes and specialised or advanced materials;
- c) introducing prohibitions on the provision of trust services to or for the benefit of persons designated for the purposes of this measure, and provision of new trust services to or for the benefit of persons connected with Russia;
- d) disapplying the requirement on the Bank of England to respond to recognition requests in respect of third-country resolution action where the resolved institution is either (i) a designated person for the purposes of the asset freeze under the Russia Regulations or (ii) owned or controlled directly or indirectly (within the meaning of regulation 7 of those regulations) by such a designated person; and
- e) making amendments that will close loopholes identified in previous sanctions measures.

## EANDCB

The IA estimates an EANDCB of £25.4 million, consisting of the lost profit from the export of goods and services that will be subject to restrictions under the new measures. The large majority of this cost is in respect of engineering services and IT consultancy & design method services. The IA uses data from the Office of National Statistics (ONS) and DCMS on the value of exports to Russia in the sectors affected by the measure. As with previous IAs the IA calculates profit using the ONS' gross annual rate of return for services and manufacturing sector private non-financial corporations (14.6 and 10.8 per cent, respectively).

The IA explains that sufficient data are unavailable to monetise impacts relating to other measures, such as prohibitions on the provision of trust services (section 3.2.3, pages 16-17). However, the IA provides a qualitative description of impacts (pages 3-4 in the summary sheets and section 3.4.1 on pages 22-23). Overall, the IA appears to provide a proportionate assessment of the direct impacts on business.

## SaMBA

The IA explains that data by firm size is not available for services trade with Russia but provides data on the SMB share of the number of businesses, employment, turnover and exports in the services sectors covered by the measure (tables 3 and 4, page 14). Data on goods trade with Russia by firm size are available and the IA includes a breakdown for the goods categories covered by the measure (table 5, page 15). The IA would benefit from discussing more explicitly any disproportionality of impact on SMBs and, where appropriate, potential mitigation.

### *Medium-sized business considerations*

Table 5, referred to above, shows that medium-sized businesses are the largest in number and account for the highest percentage share of exports. The RPC notes that the IA does not take account of the Government's recent announcement of plans to widen presumed exemptions on regulations to businesses with fewer than 500 employees. The IA would benefit from addressing explicitly the impact of exemption of these businesses on achievement of the policy objectives. The IA would also benefit from presenting data on businesses with between 50 and 499 employees in tables 3 and 4.

## Rationale and options

The RPC would normally expect to see much more assessment of the rationale for intervention and consideration of alternative options in IAs. However, consideration of these areas is typically more limited in sanctions IAs and the present IA is similar to recent assessments by the FCDO and HMT. Nevertheless, the IA would benefit from discussing the evidence of the impact of existing sanctions (pages 1 and 7 describes these as not being sufficient), including consideration of any recent research studies. On options, the IA refers to alignment and coordination of measures with international partners and the IA would benefit from discussing more fully how these measures relate to those being taken by other countries. On alternatives to regulation, the IA might usefully discuss further the reduction in trade with Russia resulting from firms self-sanctioning or voluntarily leaving the Russian market. The IA could usefully discuss more fully how many companies in these business areas have already removed themselves from the Russian market and how this has reduced the expected impact of the measure.

## Cost-benefit analysis

### Evidence and data

The department explains how it has used ONS, DCMS and HM Revenue and Customs (HMRC) data to inform the IA's estimates. Projections of future UK trade with Russia are informed by the IMF's World Economic Outlook October 2022. The RPC welcomes that the analysis takes account of the latest Outlook, in line with our comments on a previous sanctions IA.

As noted above, the IA explains limitations in data availability. The IA also acknowledges that that security or confidentiality considerations have limited the extent to which the Government has been able to consult with external stakeholders. Nevertheless, the IA would benefit from describing what engagement has taken place with industry and other efforts to obtain data, within these constraints.

#### Methodology and non-monetised impacts

As noted above, the IA uses the same overall methodology as previous sanctions IAs to monetise the impact of export restrictions. The analysis would benefit from providing further clarity on whether the UK is acting in concert with other key international partners or to some extent acting unilaterally, given that the impacts on UK business could be significantly different.

Due to data limitations, the IA provides a qualitative discussion of some impacts. The IA describes how some impacts are likely to have a minimal cost but would benefit from discussing further the likely significance of some unquantified impacts, particularly in relation to service sanctions and 'Mode 3' trade and measures relating to trust services.

#### Assumptions, risk and uncertainty

The IA would benefit from providing further explanation for how the 'low' and 'high' estimates have been arrived at and from undertaking sensitivity analysis on key assumptions. The IA would also benefit from setting out more fully the calculations involved in producing the monetised estimates.

## **Wider impacts**

The IA provides a useful discussion of trade with Russia by UK region (pages 12-13) and potential UK supply chain impacts (ages 24-25). The discussion around possible 'chilling effects', the risk that other exports are stopped due to uncertainty around whether they are captured by this set of measures, 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, explaining that administrative and enforcement costs have not been monetised due to data limitations. The IA would benefit from discussing the expected scale of these impacts. The IA refers to net benefits to the Bank of England, as the need to dedicate fewer resources to processing requests under proposal d), outweigh familiarisation costs. The IA would benefit from discussing the significance of the expected savings to the Bank.

Some of the services affected appear to be areas where the UK is a world leader. Given the UK's strength in these areas, the IA would benefit from discussing whether the impact could be proportionately higher on the UK (even if acting together with other partners). In addition to impacts on existing trade, the IA would also benefit from discussing potential impacts on future trade and investment.

## 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

### Relationship to other measures and associated IAs

The IA does not monetise the impacts of closing loopholes identified in previous sanctions measures, in part because these have already been accounted for in IAs on these measures. The IA would benefit from providing further clarity and explanation of these measures, the associated IAs and, ideally, the corresponding RPC opinion.<sup>3</sup>

## Regulatory Policy Committee

For further information, please contact [regulatoryenquiries@rpc.gov.uk](mailto:regulatoryenquiries@rpc.gov.uk). Follow us on Twitter [@RPC\\_Gov\\_UK](https://twitter.com/RPC_Gov_UK), [LinkedIn](#) or consult our website [www.gov.uk/rpc](http://www.gov.uk/rpc). To keep informed and hear our views on live regulatory issues, subscribe to our [blog](#).

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<sup>3</sup> The IA refers to amendments to three regulations: 16, 17 and 18B. It appears that these regulations correspond to the IAs submitted to the RPC on ‘*Ban on new outward investments to Russia*’ (RPC ref: HMT-5207); ‘*Ban on the provision of maritime transportation and associated services for Russian oil*’ (HMT-5230); and ‘*The Russia (Sanctions) (EU Exit) (Amendment) (No.2) Regulations 2022*’ (FCDO-5166).