

## The Russia (Sanctions) (EU Exit) (Amendment) Regulations 2023

<b>Lead department</b>	Foreign, Commonwealth and Development Office
<b>Summary of proposal</b>	The proposal introduces further trade sanctions on Russia, consisting of both additional export (for example, critical-industry goods and technology) and import (for example, iron and steel) restrictions.
<b>Submission type</b>	Impact assessment (IA) – 18 April 2023
<b>Legislation type</b>	Secondary legislation
<b>Implementation date</b>	21 April 2023 (30 September 2023 for third country processed iron and steel prohibitions and exceptions)
<b>Policy stage</b>	Final
<b>RPC reference</b>	RPC-FCDO-5270(1)
<b>Opinion type</b>	Formal
<b>Date of issue</b>	5 May 2023

### 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>	£24.3 million	£24.3 million (2019 prices, 2020 pv)
<b>Business impact target (BIT) score</b>	£121.6 million	£121.5 million
<b>Business net present value</b>	-£191.5 million	
<b>Overall net present value</b>	-£191.5 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

<b>Category</b>	<b>Quality<sup>2</sup></b>	<b>RPC comments</b>
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 a detailed presentation of UK trade with Russia by business size. The IA would be improved significantly 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 variations in the scope of further measures.
Cost-benefit analysis	<b>Satisfactory</b>	The IA uses the same overall methodology as previous sanctions IAs to monetise impacts. The IA would be improved by undertaking further sensitivity analysis on key assumptions and using more recent IMF projections.
Wider impacts	<b>Satisfactory</b>	The IA provides a good assessment of supply chain and regional impacts. The IA would be improved by proportionate 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. There are export restrictions applying to:

- Critical-industry goods and critical-industry technology.
- Additional goods in the 'Russia's vulnerable goods list', which includes chemicals, machinery and electrical appliances.
- The 'G7 dependency and further goods list'.
- A number of goods added to the 'Defence and Security Goods & Technology' section, which includes goods and technology used in the Russian security sector, including internal repression.
- Additional goods to the 'Quantum computing and advanced materials goods and technology' schedule, which focusses on goods and technology critical to Russia's high-tech industry.

There are import restrictions applying to:

- Iron and steel, including 50 commodity codes.
- Russian iron and steel that has been processed in a third country.
- Revenue generating goods. This measure includes 144 commodity codes of various nature, deemed to generate additional revenue for Russia.
- The supply and delivery of certain revenue generating goods of Russian origin to third countries. Whilst this includes existing and new commodity codes, certain codes will be exempt from this ban, on global humanitarian, food and energy security grounds.

The IA states that the additional export restrictions align the UK with key partners and that the additional import restrictions align the UK with the EU.

## EANDCB

The IA estimates an EANDCB of £24.3 million, consisting primarily of the 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).

Previous sanctions IAs have generally provided a qualitative assessment of impacts relating to the import restrictions but with some monetisation of one-off adjustment costs to business. The present IA follows this approach.<sup>3</sup> The IA acknowledges that this estimate is highly uncertain but shows that varying the assumptions has only a small effect on the EANDCB (table 16, page 40). The IA would benefit significantly from providing further discussion of any significant additional on-going costs to business from having to source imports of the prohibited goods from other countries.

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<sup>3</sup> See for example, RPC reference: RPC-FCDO-5206(1): <https://www.gov.uk/government/publications/the-russia-sanctions-eu-exit-amendment-no-10-regulations-2022-rpc-opinion>, 27 July 2022.

## SaMBA

The IA includes a good breakdown of UK trade with Russia by business size. Tables 10 (page 30) and 13 (page 34) gives data on exports and imports covered by this proposal, respectively. Large businesses account for over 60 per cent of the value of exports. The SaMBA would benefit from addressing any disproportionality of impact on small businesses more directly and, where such impacts are identified, should seek to discuss courses of mitigation.

### *Medium-sized business considerations*

The IA would benefit from additionally providing information on businesses with between 50 and 499 employees (as opposed to the 50-249 in the tables), to better address the Government's announcement last October of widening presumed exemptions on regulation to medium-sized businesses. The IA should address explicitly the impact of exemption of these businesses on achievement of the policy objectives.

## 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 assessments of previous sanctions measures. Nevertheless, the IA would benefit from discussing the evidence of the impact of existing sanctions (pages 1 and 11 describe these as not being sufficient), including consideration of any recent research studies. The IA could also explain more clearly why these specific products are being targeted and at this particular time. This could include explaining why they are critical to the Russian economy and why they were not included in previous sanctions measures.

On options, the IA would benefit from discussing possible variants on the scope of the sanctions. The IA indicates that all measures are in line with those of the UK's key international partners and/or the EU but would benefit from explaining this further. 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.

## Cost-benefit analysis

### Evidence and data

The department explains how it has used Office of National Statistics (ONS) and from HM Revenue and Customs (HMRC) data on trade to inform the IA's estimates. The present IA appears to substitute HMRC for ONS data in some charts and tables and the figures for pre-invasion trade appear significantly different to those in previous IAs (table 1, page 14). The IA would benefit from explaining any significant differences in data use or presentation, including the advantages of HMRC data over that of the ONS.

Projections of future UK trade with Russia are informed by the IMF's World Economic Outlook November 2022. The IMF appears to have provided two further Outlooks since then and the IA would benefit from incorporating information from at least the January 2023 Outlook.

The IA explains data limitations and previous sanctions IAs have noted that security/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, 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 IA provides a more qualitative assessment of the import restrictions. Overall, the approach appears to be proportionate, given the data limitations and expected scale of impact.

The IA would benefit from describing in more detail the data limitations meaning it is not possible monetise impacts in relation to 'ancillary services', what attempts were made to obtain data and the likely relative significance of these impacts.

#### Assumptions

The IA discusses assumptions and risks at sections 3.5.1 (pages 35-36) and 4 (page 40). The IA sets out high and low scenarios based upon different levels of projected trade growth and usefully undertakes a sensitivity test on the assumptions behind the estimated transitional cost of import restrictions. The IA would benefit more generally 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. In particular, the IA could set out more clearly the calculations and steps involved in estimating the adjustment cost relating to import measures. It would also be helpful to include the EANDCB figures in table 14 on page 37.

## **Wider impacts**

The IA provides an assessment of supply chain impacts and impacts by region (which identifies the South East as most affected). The IA would, however, benefit from describing further where the products being banned currently end-up within the UK economy and the potential for wider economy impacts through supply chain linkages and upward pressure on inflation. 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 are expected to be low. The IA 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.

### Regulatory Policy Committee

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