The Russia (Sanctions) (EU Exit) (Amendment) (No.4) Regulations 2023

Lead department	Foreign, Commonwealth & Development Office
Summary of proposal	The proposal introduces further trade sanctions on Russia, consisting of both additional export (for example, critical-industry goods and technology), import (metal) and financial restrictions.
Submission type	Impact assessment (IA) – 16th November 2023
Legislation type	Secondary legislation
Implementation date	07 December 2023
Policy stage	Final
RPC reference	RPC-FCDO-5317(1)
Opinion type	Formal
Date of issue	07 December 2023

RPC opinion

Rating[1]	**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 and presentation of costs and benefits throughout the IA.

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)	£6.8 million	£6.8 million *(2019 prices, 2020 pv)*
Business impact target (BIT) score	£34.2 million	£34.2 million
Business net present value	-£53.9 million	
Overall net present value	-£53.9 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.

RPC summary

Category	Quality[2]	RPC comments
EANDCB	**Green**	The IA calculates a lost profit estimate in line with previous IAs and appropriately treats this as a direct impact on business. The department has usefully taken on board some comments made in RPC scrutiny of the previous Russia sanctions IA and should continue to take on board lessons from those sanctions that are already introduced.
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 significantly 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 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 setting out more clearly the calculations involved in producing the monetised estimates.
Wider impacts	**Satisfactory**	The IA provides a good assessment of supply chain and regional impacts. The IA would benefit from addressing more directly why it is not considered proportionate to monetise the expected impacts on the public sector.
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. The definitions of the RPC quality ratings can be accessed 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**. This will further restrict Russian access to strategic goods identified as critical to their military and economic ambitions.
- **The 'G7 dependency and further goods list'.** These goods have been identified as areas of Russian dependence on the G7 and many of them are being sanctioned by G7 partners. This target list also covers further goods that have been identified as at risk of contributing to Russia's military or industrial capacity, where the UK will go further than allies.
- **The 'Defence and Security Goods & Technology' list**, which includes goods and technology used in the Russian security sector, including for the purpose of internal repression.

In addition, this legislation strengthens the **'Luxury Goods' provisions**. It bans financial services and funds, technical assistance, and brokering services relating to luxury goods.

This legislation also expands the UK's import sanctions to prohibit the import of additional categories of goods that originate in, or are consigned from, Russia. **Import restrictions** apply to:

- **Metals.** This package prohibits the import, acquisition, supply and delivery of all remaining base metals and articles of base metal, except titanium, and expands existing prohibitions to cover the remaining Iron and Steel codes.

Further **financial measures** apply to:

- **Divestment licensing ground**. This measure introduces a new licensing ground to support divestment from Russia.
- **Designated person frozen asset reporting obligation**. This measure introduces a new obligation on persons designated under the Russia financial sanctions regime to report any assets or economic resources they own, hold or control in the UK.
- **Immobilised assets reporting obligation.** This measure introduces an obligation on persons to report their assets, in relation to which the provision of financial services is prohibited under regulation 18A of the Russia Regulations. This measure will make it clear who holds immobilised assets.
- **Correspondent banking.** This measure amends prohibitions on UK credit and financial institutions processing Sterling payments indirectly from designated financial institutions under the Russia Regulations. The amendment will also introduce licensing grounds under regulation 17A which mirror those under regulations 11-15 (asset freeze prohibitions) and clarify the definition of 'processing' so as not to include the initial receipt of funds by the UK credit/financial institution.

EANDCB

The IA estimates an EANDCB of £6.8 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 (latest estimate of 10.1 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. The IA acknowledges that this estimate is highly uncertain but shows that varying the assumptions has only a small effect on the EANDCB (table 8, page 30). 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.

On the further financial restrictions, the IA explains that it is not possible to monetise impacts due to disclosure concerns. However, it provides a qualitative assessment to support its expectation that the overall impact will be low.

Future assessment

The RPC notes that this is the latest in a series of IAs to be submitted for scrutiny by the department for respective sanctions. The department has helpfully described how it has taken on board a number of comments made through RPC scrutiny of the previous Russia sanctions IA and should continue to take on board learnings (including strengthening of evidence) from those sanctions that are already introduced.

SaMBA

The IA includes a good breakdown of UK trade with Russia by business size. Tables 5 (page 21) and 7 (page 25) give data on exports and imports covered by the proposal, respectively. Large businesses account for over 50 per cent of the value of exports. The IA mentions that small and medium sized businesses are likely to be disproportionately impacted by import sanctions as they are less able to adapt efficiently to supply chain changes or able to find new export markets. The SaMBA would therefore benefit from discussing any possible mitigations.

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 proportionately address explicitly the impact of exemption of these businesses on achievement of the policy objectives.

Rationale and options

Rationale

The RPC would normally expect to see much more detailed assessment of the rationale for intervention 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 goods and services were not included in previous sanctions measures.

Options

The RPC would normally expect to see more consideration of alternative options in IAs. On options, the IA would benefit from discussing possible variants on the scope of the sanctions. 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

Data and evidence

The department uses trade data from the Office of National Statistics (ONS) and HM Revenue and Customs (HMRC) to inform the IA's estimates, as well as using IMF's World Economic Outlook to inform projections of future UK trade with Russia. The IA states that HMRC data is used for goods related sanctions, whilst ONS data is used for services, however the IA appears to substitute HMRC for ONS data in some charts and tables. For example, ONS data is used in Table 2, which presents data on import value of goods. The IA would therefore benefit from explaining any significant differences in data use or presentation, including the advantages of HMRC data over that of the ONS.

Methodology and non-monetised impacts

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. Furthermore, the IA would benefit from justifying further why the impacts from the financial measures included in this package have not been monetised.

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 a summary of total economic costs from the measures (and how this relates to the EANDCB figures), as has been included in previous sanction IAs.

Risks and assumptions

The IA usefully discusses assumptions and risks associated with the analysis. 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.

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 relating to potential shortages.

The IA provides a brief discussion of impacts on innovation, stating that UK businesses changing to new suppliers could lead to greater innovation by introducing different ways to maintain profit without using Russian inputs. The IA could expand on the different ways in which the proposal will change business practises for those who trade with Russia and would also benefit from also commenting on the potential impact on competition. Although the IA states that the relatively small scale of UK imports affected means UK consumers are not expected to suffer significant impacts, implementation of the proposal could potentially affect the level of supply in the affected industries (at least in the short term), meaning the sanctions could affect business ability to compete with each other as they may pass on the new costs to consumers.

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.

The department states that, where possible, the UK has aimed to align its approach with the US and EU to maximise the impact on Russia, but the UK is going further than G7 partners on its import restrictions for metals. The IA would therefore benefit from discussing the potential risks and unintended consequences that could occur from not aligning completely with G7 partners, such as trade circumvention.

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 and external effects that may affect their success.

The IA would also benefit from explaining why a formal post-implementation review will not be undertaken, and in particular considering whether it will be useful to carry out a full review of the effectiveness of sanctions in general.

Regulatory Policy Committee

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