

Ban on the provision of maritime transportation and associated services for Russian oil

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| Lead department | HM Treasury |
| Summary of proposal | A ban on UK persons providing services, including brokering services and financial assistance, related to the maritime transportation of Russian oil and oil products. The proposal will also prohibit UK vessels from transporting Russian oil. |
| Submission type | Impact assessment (IA) – 17 October 2022 |
| Legislation type | Secondary legislation |
| Implementation date | 5 December 2022 |
| Policy stage | Final |
| RPC reference | RPC-HMT-5230(1) |
| Opinion type | Formal |
| Date of issue | 26 October 2022 |

RPC opinion

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|---------------------------|---|
| Rating¹ | RPC opinion |
| Fit for purpose | On first submission the IA received an initial review notice (IRN) – see below for details. The IA is now considered as fit for purpose. The assessment of direct impacts on business is proportionate, given the limitations in available data and relatively low impact of the measure. The assessment of impacts on small and micro businesses has been strengthened significantly. There are some areas where the IA could be improved, in particular on monitoring and evaluation plans. |

Business impact target assessment

| | Department assessment | RPC validated |
|---|---------------------------------|--------------------------------------|
| Classification | Qualifying regulatory provision | Qualifying regulatory provision (IN) |
| Equivalent annual net direct cost to business (EANDCB) | £5.0 million | £5.0 million |
| Business impact target (BIT) score | £24.9 million | £25.0 million |
| Business net present value | -£39.2 million | |
| Overall net present value | -£39.2 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 department has addressed the concerns in the RPC's initial review in some detail. The RPC is now satisfied that the assessment of direct impacts on business is reasonable and proportionate, given the limitations in available data and relatively low impact of the measure. |
| Small and micro business assessment (SaMBA) | Green | The IA now provides information on the number of SMBs affected, explains why an exemption would not be appropriate, discusses disproportionality of impact and refers to mitigation. |
| Rationale and options | Satisfactory | The IA would be improved by discussing evidence of the effectiveness of existing sanctions and possible variations in the scope of the proposal. |
| Cost-benefit analysis | Satisfactory | The IA provides monetisation of impacts and reasonably detailed qualitative assessment where this is not feasible. The IA would be improved by undertaking additional sensitivity analysis on key assumptions. |
| Wider impacts | Satisfactory | The IA provides a reasonable assessment of wider impacts, in particular trade. The IA would be improved by further consideration of impacts on the public sector and discussion of any potential effects on competition and innovation. |
| Monitoring and evaluation plan | Weak | The M&E plan would benefit significantly from discussing how the FCDO framework will evaluate the impact of this particular measure. |

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](#).

Response to initial review

As originally submitted, the IA was not fit for purpose for the reasons outlined below.

EANDCB

The IA needed to:

- explain and justify its approach of calculating the EANDCB, in particular applying 7.5 per cent to £979 million (see summary below);
- address further the cost to shipping companies of having to ensure compliance and possible costs to ports;
- explain why familiarisation and training costs would be negligible and not proportionate to monetise;
- discuss further impacts on UK maritime service provision to non-Russian firms involved in the transport of Russian oil and why this cannot be monetised;
- explain further why an assumed 50 per cent of costs would occur in the counterfactual; and
- justify the five-year appraisal period.

SaMBA

The IA needed to discuss any data on likely numbers of SMBs affected and disproportionality of impact on these businesses.

The Department has now provided a substantially revised IA providing significant explanation and additional detail in response to the above issues. These revisions are described further below.

Summary of proposal

The proposal is for a ban on UK persons providing services, including brokering services and financial assistance, related to the maritime transportation of Russian oil and oil products. The proposal will also prohibit UK vessels from transporting Russian oil.

The IA estimates an EANDCB of £5.0 million. This is calculated using ONS data on UK services exports to Russia in service types expected to be affected by the ban: 'maintenance and repair' (£55m), 'sea transportation' (£11m), 'insurance and pensions' (£123m), financial (£314m) and 'other business services' (£476m) - totalling £979m in 2021. The department does not have data on what proportion of this trade is related to Russian maritime oil and assumes that this proportion is equivalent to the value of seaborne oil trade's contribution to Russia's GDP (at 7.5 per cent), arriving at a figure of £73.4 million. The IA then applies a 15.3 per cent rate of return figure using ONS data to arrive at an estimated reduction in profit to UK business of £11.2 million per year. Finally, the IA estimates that only half of this results from the proposal; it is assumed in the central scenario that 50 per cent of the loss would occur in the counterfactual as a result of the bans that the EU and other

blocs/countries are expected to put in place. Adjusted to 2019 prices; 2020 present value base year gives an EANDCB figure of £5.0 million.

EANDCB

Non-monetised impacts

The IA discusses further the significance of potential costs to shipping companies of ensuring compliance (paragraphs 82-86). The IA explains that due diligence processes are already largely built into companies' existing business models and that the department has worked with industry to minimise the administrative burden. More generally, the IA explains further why familiarisation and training costs are expected to be insignificant, in part because of familiarisation with existing sanctions and self-sanctioning. The IA's evidence appears to be drawn mainly from the financial sector, such as insurance companies, investment banks and exchanges. The IA would benefit from providing more information on communication with industry more generally, such as with shipping industry representatives at stakeholder engagement meetings.

The IA now explains the severe data limitations in estimating impacts on UK maritime service provision to non-Russian firms involved in the transport of Russian oil. It explores the possibility of using data relating to Greece but explains why this would not provide a robust estimate (paragraph 9).

Overall, the IA explains that it has taken a 'maximalist' approach in its assumptions for services in scope of the proposal, partly to offset uncertainty in its estimates and areas of non-monetisation. Given the data limitations and likely relatively low level of impact of the proposal, the approach overall appears to be proportionate (see also comments under 'cost benefit analysis – methodology' below).

Counterfactual

The IA now explains why an assumed 50 per cent of costs would occur in the counterfactual, i.e. why some UK businesses would in any case cease to provide maritime transportation of Russian oil and oil products services to Russia in response to an expected ban by other countries or blocs. Specifically, the IA explains that many of the key firms in affected sectors serve a large number of markets and are likely to align with the legislative framework in their most important commercial market, which might not be the UK (paragraphs 42 and 61). The IA also now provides sensitivity analysis on this assumption.

SaMBA

The department has expanded its SaMBA significantly in response to the RPC's initial review. The IA now provides information on the number of SMBs affected in the maritime insurance and other potentially affected financial services sectors. The SaMBA explains why an exemption would not be appropriate, discusses disproportionality of impact and notes that guidance will be produced aimed at reducing the familiarisation costs to SMBs. The SaMBA could be improved by providing further details on likely number of SMBs affected outside the financial services sectors and a broader discussion of mitigating any potential disproportionality of impact.

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, including consideration of any recent research studies. On options, the IA would benefit from discussing possible variants on the scope of the sanctions. On alternative options to regulation, the IA might usefully discuss further the reduction in trade with Russia resulting from firms 'self-sanctioning'.

Cost-benefit analysis

Evidence and data

The IA now includes a clearer explanation of why data are limited, including why more granular data of Russian trade are not available (paragraph 5).

Methodology

The IA sets out more clearly and in more detail the steps involved in estimating the annual impact on business (annex 2, pages 23-24). The estimation method depends upon a number of assumptions and is subject to significant uncertainty but appears reasonable and proportionate, given the limitations in available data and relatively low impact of the measure (just reaching the *de minimis* threshold for qualification towards the business impact target).

The IA describes how it uses an estimate of the proportion of maritime oil trade in Russia's GDP as a broad proxy for the proportion of Russia's imports from the UK affected by the proposal (paragraphs 43 and 60). The IA would be improved by undertaking additional sensitivity analysis on this and other key assumptions.

The department has now changed the appraisal period to nine years, to align with previous sanctions IAs undertaken by the FCDO.

Wider impacts

The original IA noted the risk of London market reinsurers losing business to countries not imposing sanctions but that the Prudential Regulation Authority did not expect this loss to be significant. In response to the RPC's initial review, the IA has usefully provided explanation and justification for this assessment, discussing both short and longer-term risks (paragraphs 35-40).

The IA has usefully expanded its discussion of the potential for Russia's seaborne crude exports to be displaced from the UK to third countries (paragraphs 76-77) and potential for circumvention of the measures (paragraphs 80 and 85). The IA would benefit from providing estimates, or at least discussing further, the increased resource requirements for UK monitoring and enforcement agencies to proactively monitor transactions and vessels.

Monitoring and evaluation plan

The IA notes that the FCDO does not intend to undertake a formal post-implementation review but that it is developing a monitoring and evaluation framework to assess how sanctions meet UK objectives. The IA would benefit significantly from setting out how the framework would evaluate this particular measure, including the data and research methods that will be used.

Regulatory Policy Committee

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