Title: The Russia (Sanctions) (EU Exit) (Amendment) (No.3) Regulations 2022 **IA No:** FCDO2201 **RPC Reference No:** **Lead department or agency:** Foreign, Commonwealth & Development Office **Other departments or agencies:** Department for International Trade	**Impact Assessment (IA)** **Date:** 01/03/2022 **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Secondary **Contact for enquiries:** Sanctions@fcdo.gov.uk

Summary: Intervention and Options

RPC Opinion: Awaiting scrutiny

Cost of Preferred (or more likely) Option (in 2019 prices)			
Total Net Present Social Value	**Business Net Present Value**	**Net cost to business per year**	**Business Impact Target Status**
£-278m	£-278m	£278	Non-Qualifying provision

What is the problem under consideration? Why is government action or intervention necessary?

Russia's assault on Ukraine is an unprovoked, premeditated attack against a sovereign democratic state. Putin's actions are a clear violation of international law and the UN Charter and show flagrant disregard for its commitments including under the 1975 Helsinki Act, the Minsk Protocols and 1994 Budapest Memorandum. Russia's current behaviour is not only threatening Ukraine's sovereignty, it is also destabilising the rules-based international conventions and challenging the values that underpin it.

HMG intervention is necessary to reconcile the disparity between the private costs and benefits found in trading the listed goods with Russia, and the wider societal costs. This will ensure UK businesses cannot directly or indirectly provide resource or funding to the Russian government, entities or individuals associated with destabilising activities in Ukraine. Given the nature of the issue, there is no appropriate non-governmental or private sector solution at hand.

What are the policy objectives of the action or intervention and the intended effects?

The purposes of the measures covered by this IA are to encourage the Russian government to: (i) respect international law and the territorial integrity of sovereign nations, democratic principles and institutions; (ii) cease destabilising activities and withdraw their military deployment in Ukraine; and (iii) constrain the development of the Russian military-industrial complex and strategically-important sectors through banning the export of dual use and other critical items.

This intended effect is to coerce Russia to change its behaviour and constrain the capability development of Russia to undertake further aggression against Ukraine, the UK and partners. It will also reinforce the UK's support for democracy, the international rule of law, and peace and security in Europe.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

The government has considered two options:

Option 0: Do nothing. Rely on existing sanctions to erode financial power of the Kremlin to constrain the Russian state's ability destabilise and invade sovereign nations, and to force them to change course. Continue to act through diplomatic channels and multilateral forums to signal to the Kremlin that such actions are unacceptable and represent serious breaches of international law. However, existing sanctions packages have been insufficient to coerce the Russian government to change course and dissuade decision makers from taking aggressive and destabilising actions against Ukraine.

Option 1 [preferred option]: Amend some of the trade measures in the 2019 Regulations (as part of a wider package of sanctions) to significantly strengthen the sanctions regime and provide HMG with a range of new tools that support the purposes of coercing Russia to change course and constrain its capabilities. These new trade measures include:

- removing licensing provisions on the dual-use list, which will limit Russia's access to sensitive items and related technical assistance to constrain the development of their military-industrial complex
- prohibiting the export of critical industry items to Russia, to constrain and disrupt strategic industries such as maritime and aviation and further limit access to goods required by the Russian military-industrial complex.

These sanctions also signal to others in the international community that the UK will not tolerate any destabilising actions against the territorial integrity of another sovereign nation, and that international law must be respected.

This measure would coerce Russia by targeting longer-term economic interests. Reduced access to high-quality inputs will constrain Russian capability in these sectors and reduce diversion to the Russian military. By acting in concert with allies, the impact of this measure will be increased.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** March 2025

Is this measure likely to impact on international trade and investment?		Yes		
Are any of these organisations in scope?	**Micro** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)		**Traded:** n/a	**Non-traded:** n/a	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister The Rt Hon Elizabeth Truss MP Date: 28/2/2022

Summary: Analysis & Evidence

Policy Option 1

Description: Sanctions prohibiting the export of dual use items to the Russian Federation;

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2022	Time Period Years 9	Net Benefit (Present Value (PV)) (£m)		
			Low: -3,452	**High: -**2,383	**Best Estimate:** -2,502

COSTS (£m)	Total Transition	Years	Average Annual (2019 Prices)	Total Cost (2019 Prices, 2022-2030)
Low	0	0	265	**2,383**
High	0		384	**3,452**
Best Estimate	0		278	**2,502**

Description and scale of key monetised costs by 'main affected groups':

The key cost to UK business will be the opportunity cost of future profit they may have made from the export of goods and services that will be subject to restrictions under the new measures. The measures will prohibit UK businesses from exporting dual-use items to the Russian Federation. These items accounted for 11.8% of UK goods exports to Russia in 2021.

Other key non-monetised costs by 'main affected groups'

The trade measures taken are likely to have wider impacts on the UK economy. This includes impact on associated services where some goods are sold with a 'package' of services, for example maintenance services, or insurance or other financial products. It also includes the "Chilling effect" whereby there may be an additional cost associated with businesses that stop exporting to Russia due to uncertainty around whether their goods or services are captured by this intervention.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	0	0	**0**
High	0		0	**0**
Best Estimate	0		0	**0**

Description and scale of key monetised benefits by 'main affected groups'

None

Other key non-monetised benefits by 'main affected groups'

One of the key non-monetised benefits is promoting global peace, security and economic development – as the UK is doing via these measures – which also brings longer-term economic benefits. The measures could have a positive impact on the UK's reputation by enhancing UK credentials as a 'clean' place to do business.

Key assumptions/sensitivities/risks	Discount rate	3.5%

Assumptions

For the low scenario, we have assumed low economic costs based on applying low projections for Russia goods import demand to the value of UK's dual-use goods exports to Russia.

For the central scenario, we have applied central estimates of the growth rate of Russia goods import demand to the value of UK's dual-use goods exports to Russia.

For the high scenario, we have assumed high economic costs based on applying high projections for Russia import demand of UK goods to the value of UK's dual-use goods exports to Russia. To provide the widest interpretation of the removal of licensing provisions on the dual-use list, the full value of approved SIELs based on a 2020 baseline is also assessed over the same period and included in this estimate.

Risks

There is a risk that the policy discourages exporting activity in firms who are not in scope of the policy and has a wider chilling effect on trade. There is risk of asymmetric Russian retaliation.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 278	**Benefits:** 0	**Net: -**278	

Evidence Base

Policy background

1. Following its illegal annexation of Crimea in 2014 Russia has continued to pursue a pattern of aggressive action towards Ukraine. This has included use of military force to invade Ukraine, announced by President Putin on 24 February 2022 as a “special military operation”, and the recognition of the ‘Donetsk People’s Republic’ and ‘Luhansk People’s Republic’ as independent states, and the deployment of Russian military to those regions. The UK has called on Russia to cease its military activity, withdraw its forces from Ukraine and Crimea fulfil its international commitments including under the 1975 Helsinki Act, the Minsk Protocols and 1994 Budapest memorandum.

2. The UK continues to reiterate its support for Ukraine and in addition to withdrawing its troops from Ukrainian soil, has called on Russia to end its support for the separatists, and enable the restoration of security along the Ukraine-Russia border under effective and credible international monitoring.

3. UK policy is focused on ending the crisis in Ukraine and on assisting Ukraine to secure its borders against Russia’s aggressive actions, ensuring a stable, prosperous and democratic future for all its citizens, and has been unwavering in its support for the country’s territorial integrity and sovereignty.

4. These sanctions are part of a broader policy of measures which includes: diplomatic pressure; economic and financial sanctions and designations. Sanctions are an important national security and foreign policy tool. They can be used to:
   a. put coercive pressure on a country, regime or group to encourage them to cease particular behaviours;
   b. constrain their access to resources that enable them to engage in such behaviours; and
   c. to signal disapproval of a particular course of action.

5. The purposes of the new trade sanctions are to encourage the Russian government to:
   - Cease destabilising activities and withdraw their military deployment in Ukraine.
   - Constrain Russia’s long-term economic growth potential that would support its aggressive policies.
   - Respect international law and the territorial integrity of sovereign nations, democratic principles and institutions.

6. These trade sanctions measures will limit Russia’s access to dual-use goods, and a further range of technological equipment and other goods and assistance, which represent an area in which has failed to increase domestic production, and constrain their military-industrial complex. The restrictions will also constrain Russia’s economic growth in the years ahead, to limit its capability to support aggressive foreign and military policies.

7. UK sanctions action, in concert with the US and other allies, also sends a strong signal to the Russian government that failure to respect the territorial integrity of and sovereignty of Ukraine, and conform to the international rules-based conventions, incurs significant costs to both the government and any entities linked to this malign behaviour. More broadly, it also demonstrates the UK’s willingness to stand-up for the international rules-based system and to take action against transgressors, sending a deterrent signal to others.

Problem under consideration and rationale for intervention

8. Whilst some businesses might choose to reduce economic ties with Russian individuals or entities in response to its invasion of Ukraine, this would happen in an uncoordinated and incomplete manner. More generally, the private benefit accruing to UK businesses from exporting Russia does not factor in the wider societal cost to the Ukraine, nor the costs of such violations of international law. Without intervention, it is likely the majority of economic activity would continue – directly or indirectly – enabling the Russian government and entities to continue to benefit from access to goods, services and finance.

9. Given the nature of the issue, there is no appropriate non-governmental or private sector solution to the issue at hand. HMG intervention in the form of these trade prohibitions is necessary to reconcile the disparity between the private costs and benefits found in trading the listed goods with Russia, and the wider societal costs. This will ensure UK businesses cannot directly or indirectly provide these goods, technical assistance or financing to the Russian government military and strategic sectors helping to support destabilising activities in Ukraine. Failure to join the international community and impose sectoral sanctions would also undermine the UK's reputation as an upholder of international law, human rights, freedom of expression and democracy.

Policy Objective

12. The FCDO's overall objectives on democracy and human rights are to protect and promote human rights, democracy, good governance and the rule of law, including by assisting those who uphold or seek to promote these principles and using the UK's leverage against those who violate and abuse human rights or the rule of law.

13. The purposes of the Russia (Sanctions) (EU Exit) (Amendment No. 3) Regulations 2022 are to encourage the Russian government to:
    a) Respect international law and the territorial integrity of sovereign nations, democratic principles and institutions.
    b) Cease destabilising activities and withdraw their military deployment in Ukraine.
    c) Constrain the development of the Russian military-industrial complex through banning the export of dual use and other critical industrial items.

14. These measures are designed and intended to constrain the destabilising behaviour of the Russian government and are not designed to have a detrimental impact on the Russian population. We aim to limit the direct impact on the people of Russia, the UK and its partners. We seek to align closely with partners to achieve maximum impact on the Russian government, and associated individuals and entities – e.g. by helping to prevent the export of critical industrial goods that cannot be easily substituted.

Description of options under consideration

Option 0: Do nothing

10. Rely on the existing sanctions to erode the financial power of the Russian state, thereby constraining the Russian government's ability destabilise and invade sovereign nations, and to force them to change course. Continue to act through diplomatic channels and multilateral forums to signal to the Russian government that such cations are unacceptable and represent serious breaches of international law. However, recent events have demonstrated

that existing sanctions packages have been insufficient to coerce the Russian government to change course and dissuade decision makers from taking aggressive and destabilising actions against Ukraine.

11. In this instance, designations and the trade sanctions already in place on military and internal repression goods and technology have been shown to be insufficient to achieve the policy objective. The existing trade sanctions cover a narrow range of goods, technology and services. The Russian Government has shown no signs of wanting to change their behaviour in response to individual designations or the trade sanctions. .

Option 1 [preferred option]: Trade prohibition

15. The purpose of the measure is to prohibit the export of all currently scheduled dual-use goods, technology and related activities and further prohibit the export of further items including microelectronics, telecommunications items, sensors, navigation equipment, avionics, marine equipment and aircraft components (subject to exceptions).

16. Having considered the costs and benefits of all options, the UK Government believes that option 1 is appropriate and intends to make new domestic legislation to impose these sanctions measures on Russia. A comprehensive sectoral response will prevent any UK business exporting, supplying, delivering, making available or transferring goods and technology, providing technical services and funds, or brokering services for the items listed in the schedules.

17. The new measures will include the following:

    a) **Prohibiting the export of Dual-Use Regulation items to the Russian Federation.** This will make it harder for the Russian government to access items that it cannot domestically source to further the development of its military-industrial complex, as well as signalling disapproval of their actions. Reduced access to high-quality inputs will constrain their military-industrial capabilities, reduce diversion to the Russian military forces, and will also increase the cost of their military manufacturing processes, leading to a greater opportunity cost from government spending on these items. If the items were produced for export, the increased costs of production may reduce profit accruing to the manufacturer, thus reducing the revenue of the Russian government. By acting in concert with allies, the impact of this measure will be increased.
    b) **Prohibiting the export of critical industry items to the Russian Federation**. This measure will constrain and disrupt Russia's strategic industries such as maritime and aviation, and limit access to goods required by the Russian military-industrial complex to maintain and develop its capabilities. This measure would signal to Russia and the wider international community that Russia's aggressive actions against international borders and Ukraine's sovereignty is unacceptable and should be met with a serious response. This measure would coerce Russia by targeting longer-term economic interests. Reduced access to high-quality inputs will constrain Russian capability in these sectors and reduce diversion to the Russian military. By acting in concert with allies, the impact of this measure will be increased. There may be an immediate impact as Russia seeks and establishes alternative supply for these items, aggregated by the fact the EU, US and other partners will introduce equivalent prohibitions.

18. These measures are most effective when coordinated with the UK's partners; as such, the UK will align with the US, EU and other partners in introducing these measures. Although sectoral measures apply more broadly than designations, this package of measures is

targeted to ensure that they have maximum impact on Russia's strategic economic interests and its armed forces while minimising direct harmful impact on the civilian population. The measures can also be subject to licensing and exceptions to enable otherwise prohibited activities to continue where they are in line with the objectives of UK sanctions on Russia.

19. This option will protect and advance UK interests by deterring and constraining the capability of Russia to undertake further aggression against Ukraine and undermine Russia's capabilities to take aggressive action against the UK and its partners. It will reinforce the UK's support for democracy, the international rule of law, and peace and security in Europe.

Description of implementation plan

Secondary legislation

20. The Government intends to make secondary legislation under the Sanctions and Anti-Money Laundering Act 2018 (referred to in this Impact Assessment as "the new regulations"). Orders in Council will be made by the Privy Council to extend these amendments to the Overseas Territories and the Isle of Man. Gibraltar and Bermuda make their own legislative arrangements, as do the Bailiwick of Jersey and the Bailiwick of Guernsey.

21. The arrangements will come into effect on 1 March 2022.

22. This SI forms part of a wider package of sanctions measures against Russia, which will be implemented through a combination of existing legislation (designating individuals and entities under the 2019 Regulations) and separate secondary legislation. Separate IAs will be produced for these SIs, as appropriate.

Licensing and exceptions

23. The new regulations will provide for certain exceptions to the new prohibitions they introduce. The new regulations will also provide for the relevant Secretary of State (depending upon the type of sanctions) to grant licences that permit certain otherwise prohibited activities. The Export Control Joint Unit (ECJU) administers the UK's system of export controls and licensing in relation to trade sanctions. DIT's Import Licensing Branch implements trade sanctions and licensing relating to imports.

24. We do not expect any additional impact on businesses in relation to licensing procedures. The licensing powers would include a power to enable General Licences to be introduced to authorise specific activities.

Enforcement

25. It will be a criminal offence to contravene the new trade sanctions, as well as to enable or facilitate a contravention of, or to circumvent them. This is in line with what is currently provided in relation to the existing measures.

26. Breaches of sanctions are a serious criminal offence. Offences of breaching the new trade sanctions measures will be triable either way and carry a maximum sentence on indictment of 10 years' imprisonment or a fine (or both).

Rationale and evidence to justify the level of analysis used in the IA (proportionality approach)

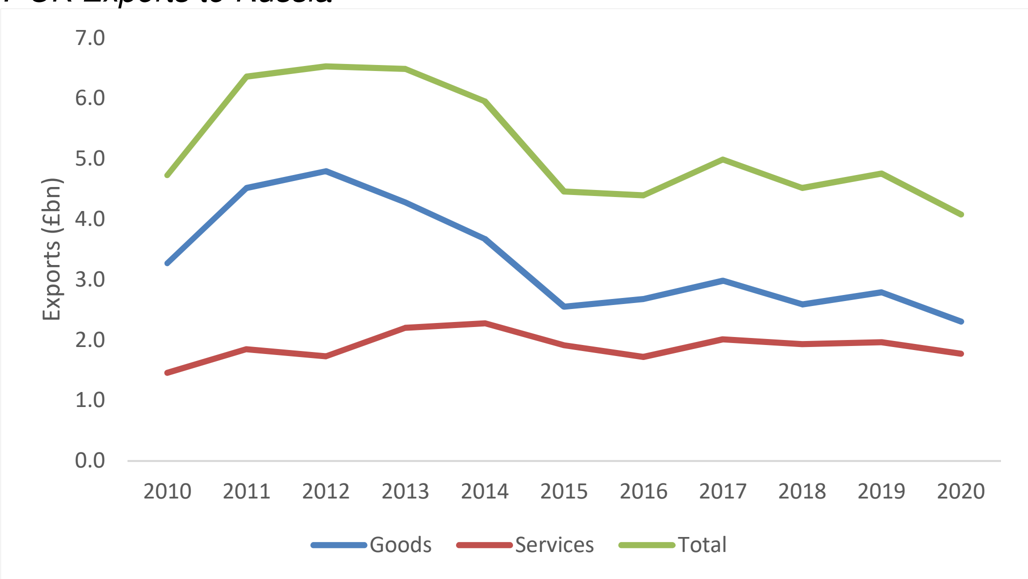
27. The evidence compiled in this Impact Assessment draws on consultation with relevant government departments, primarily DIT but also including HMT, BEIS, Defra and DCMS.

28. Given the speed and constantly-changing nature of international developments related to Ukraine, this policy needed to be developed rapidly. In addition, the requirement to keep discussion of potential policy responses on a secure (to avoid indicating to Russia how we might respond and thus allow them to take advance steps to mitigate the impact on its economy) has limited the extent to which HMG has been able to consult with external stakeholders.

Monetised and non-monetised costs and benefits of each option (including administrative burden)

29. UK trade with Russia has been relatively volatile over the last 10 years. UK exports to Russia fell by over 25% between 2014 and 2015, from just under £6.0 billion to £4.5 billion, when previous sanctions were implemented. Prior to the onset of the pandemic, UK exports to Russia had increased slightly to £4.7 billion. Following a drop in 2020, UK exports to Russia amounted to £4.3 billion in the four quarters to the end of Q3 2021, making it the UK's 26th largest export market accounting for 0.7% of total UK exports. Of all UK exports to Russia in the four quarters to the end of Q3 2021, £2.6 billion (61.6%) were goods and £1.7 billion (38.4%) were services.[1]

Figure 1: UK Exports to Russia



Source: Office of National Statistics, UK Total trade data (seasonally adjusted), extracted February 2022

30. UK market share in Russian import demand has fallen 0.6 percentage points from 2.3% in 2014 to 1.7% in 2020; this was faster than the decline in UK market share seen globally and was driven by a fall in the UK's share of Russian imports of goods, which fell 0.7 percentage

[1] Office of National Statistics (ONS): UK total trade data (seasonally adjusted). https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktotaltradeallcountriesseasonallyadjusted

points over the same period.[2] In 2020, Russia accounted for 1.5% of UK imports[3]; a greater share than Russia accounted for in 2014. This was predominantly driven by Russia accounting for a greater share of UK goods imports, which has increased 0.2 percentage points since 2014.

31. In terms of the exposure of the business population to trade with Russia, in 2020, around 3,800 UK VAT-registered businesses exported goods to Russia, down from 5,500 in 2014. Almost 67% of goods exports, by value, came from businesses with over 250 employees. These large firms only accounted for 14% of businesses that exported goods to Russia in 2020, suggesting that this fewer number of firms account for the bulk of high value trade.[4]

32. Some UK exports to Russia are already subject to licencing restrictions. The Export Control Joint Unit and the Department for International Trade publish export licensing decisions made by HM Government as Official Statistics. The annual reporting suggests that an annual average of approximately 364 of all types of licences across all products were considered between 2017 and 2020 for export to Russia (of which an average of approximately 342 were SIELs[5]).[6] This includes licences that were both issued and refused.

Strategic export controls in relation to Russia: licensing data		2017	2018	2019	2020	Average 2017-2020
Value of SIEL export licences approved (£million)						
Non-military		308.7	98.3	89.0	108.1	151.0
Military			0.2			
All SIEL applications approved		308.7	98.4	89.0	108.1	151.0
Volumes of applications						
SIELs	Issued	288	276	305	276	286.25
	Rejected	59	43	57	62	55.25
	Total	347	319	362	338	341.5
OIELS[7] (excl Other OIELs)	Issued	3	2	0	3	2
	Rejected	2	2	0	4	2
SITCLs[8]	Issued	26	14	12	11	15.75
	Refused	0	3	0	0	0.75
	Revoked	0	0	0	0	0
OITCLs[9]	Issued	3	0	0	2	1.25
	Refused	1	0	0	0	0.25
	Revoked	0	0	0	0	0
Total all licence types		382	340	374	358	364
Data taken from the Strategic export controls: licensing data annual reports https://www.gov.uk/government/collections/strategic-export-controls-licensing-data-annual-reports						

[2] UK market share: imports from the UK as a percentage of all the goods and services imported by Russia. These market share statistics are derived by the Department for International Trade using publicly available data from the ONS (value of imports from the UK) and UNCTAD (total imports) and are converted from US Dollars to Pounds Sterling using the annual average spot exchange rate (Bank of England). Latest market share information can be found on gov.uk: https://www.gov.uk/government/collections/trade-and-investment-factsheets

[3] Office of National Statistics (ONS): UK total trade data (seasonally adjusted). https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktotaltradeallcountriesseasonallyadjusted

[4] HMRC data source for VAT-registered businesses trading goods: HMRC Trade in Goods by Business Characteristics. https://www.gov.uk/government/collections/uk-trade-in-goods-statistics-by-business-characteristics

[5] Standard individual export licence

[6] Data taken from the Strategic export controls: licensing data annual reports https://www.gov.uk/government/collections/strategic-export-controls-licensing-data-annual-reports

[7] Open individual export licenses

[8] Standard individual trade control licenes

[9] Open individual trade control licences

Assessment of the costs and benefits

33. The assessment of the potential impact of the intervention makes use of projections of Russian economic growth to better understand how the sanctions outlined in this legislation might impact on value of UK trade. As a destination for global imports, the Russian economy was worth $469.7 billion in 2013. Following subsequent rounds of sanctions, Russia's imports of goods and services from the world declined to less than $300 billion in 2015 and have since been growing gradually, reaching $353.6 billion prior to the onset of the Covid19 pandemic.[10] Prior to the latest deployment of Russian military force in Ukraine, the Department for International Trade published projections for global trade. In this it estimated that the import demand in Russia would continue to grow 2.7% per year in real terms (3.6% in nominal terms) through the course of the next decade; reaching over $510 billion USD by 2030.[11]

34. It has not been possible to consult UK businesses on potential impacts due to the speed and sensitivity of responding to Russia's actions.

35. Data from the Office of National Statistics (ONS) and from HM Revenue and Customs (HMRC) have been used to undertake an assessment of the potential economic costs and benefits of the proposed sanctions outlined in the preferred policy option.[12] These data are not always directly comparable: ONS data are recorded on a balance of payments basis and reflect a change of ownership during the transaction; HMRC data are more granular and recorded on a physical movement basis. HMRC data are more directly applicable to the policy options under consideration. However, they are only available for goods trade and do not capture any associated services trade that may be sold alongside a goods transaction (for example maintenance contracts for equipment, or insurance policies).

36. The UK has already taken significant action against Russia (outlined in the Russia, Crimea and Sevastopol Sanctions order, 2014). These measures are in addition to those and will include the following:
    a) removing licensing provisions on the dual-use list, which will limit Russia's access to high-tech goods
    b) prohibiting the export of critical industry items to Russia, to constrain and disrupt strategic industries such as maritime and aviation and further limit access to goods required for Russian military use.[13]

37. The assessment therefore focuses on the costs and benefits of these additional measures and provides an indicative assessment of the marginal changes:
    a) Economic cost – the reduction in the value of UK exports as a result of the prohibition of affected exports to Russia;
    b) Regulatory cost – the cost to business, who will need to apply for licences for exemption under the new policy; and
    c) Impact on public sector – the cost to HMG of processing licence applications and enforcing these under the updated regulatory framework.

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[10] UNCTAD: Goods and Services (BPM6): Exports and imports of goods and services, annual. Some UNCTAD data may be based on estimates. https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=89795

[11] Department for Trade and Industry (September 2021), Global trade outlook – September 2021 report, https://www.gov.uk/government/publications/global-trade-outlook-september-2021-report

[12] HMRC Overseas Trade Statistics: https://www.uktradeinfo.com/trade-data/overseas/
Office of National Statistics (ONS): UK total trade data (seasonally adjusted).
https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktotaltradeallcountriesseasonallyadjusted

[13] Dual-use refers to products or items that can deployed for civil or military use.

Further detail on the extent of the estimated economic cost of the two parts of these measures is provided below. However, it is worth signalling here the assessment is primarily driven by the prohibition of additional exports. The removal of licensing provisions on the dual-use list has been considered only within the high scenario to provide an indication of the outer envelope of direct economic costs.

38. The standard period for assessing the economic impact of regulatory measures is 10 years. However, given the unpredictability of the situation which has led to this package of measures being proposed, it is impossible and would be unwise to put a time limit on how long these measures might or should remain in effect. The appraisal period chosen for this assessment is the nine years 2022 to 2030 inclusive, with the end-date aligning with the Global Trade Outlook[14] given the projections are a key assumption for the assessment.

Economic Cost

39. The assessment of the direct economic cost focuses primarily on the items listed in Schedule 2A of the legislation, with the assessment of economic costs of the prohibition of dual use exports considered in the high-cost scenario.

40. For the purposes of the analysis the items listed in Schedule 2A have been given a relevant commodity code. However, due to the specificity of the items under consideration, even the most granular commodity codes capture some items that may fall outside the scope of policy. In addition, due to the breadth of the codes it is possible that the goods captured by this assessment may be granted exemptions (i.e. it may be possible to apply for a licence to continue to export). Finally, given the unpredictability of the situation, no judgement has been made about the proportion of licences that may be granted and their associated export value. As such, the estimates should be considered an upper bound of the potential economic cost.

41. For the purposes of this assessment the direct economic cost of the preferred policy option in comparison to the baseline is considered to be the trade value directly captured by these sanctions until 2030. Using the Global Trade Outlook (GTO)[15] a (pre-invasion) projected growth rate for Russia's global import demand for goods has been applied to the commodity codes in scope for this assessment over the period to 2030. This growth rate is based on nominal USD levels of Russian import demand. A growth rate from 2019-30 has been used given the Covid19 pandemic has led to considerable disruption to global trade, suggesting that 2020 is not a representative year for assessment. A 10-year rolling average growth rate was used to strip out some of the volatility seen in Russia's historic data. Please refer to the technical annex of the most recent GTO publication for more detail on how these growth rates have been calculated.[16]

42. Direct economic cost estimates have been assessed under three potential scenarios underpinned by different assumptions around Russia's demand for UK goods imports. It is not possible to accurately estimate how long these sanctions will remain in effect. Absent other factors, the measures should remain in effect until the policy objective has been achieved.
    a. Low-cost estimate: assumes low economic cost based on low projections for Russia goods import demand from the UK. In the low estimate, half of the standard deviation of the rolling average growth rate in Russia's import demand is subtracted from the GTO's

[14] Department for Trade and Industry (September 2021), Global trade outlook – September 2021 report, https://www.gov.uk/government/publications/global-trade-outlook-september-2021-report

[15] Department for Trade and Industry (September 2021), Global trade outlook – September 2021 report, https://www.gov.uk/government/publications/global-trade-outlook-september-2021-report

[16] Note that for any currency conversions between USD and GBP has been undertaken using a 2021 average from the Bank of England [Link]

central forecast. This adjusted growth rate was then applied to the value of UK's exports to Russia of the items listed in Schedule 2A, thereby creating a lower estimate of the value of UK exports captured by the sanctions between 2022 and 2030.

b. Central-cost estimate (best estimate): a central estimate of economic cost based on central estimates of the growth rate of Russia goods import demand. GTO's central forecast for the increase in Russia's global import demand of goods is applied to the UK's dual-use goods exports to Russia. This created a central estimate of the value of UK exports captured by the sanctions between 2022 and 2030.

c. High-cost estimate: assumes high economic costs based on high projections for Russia import demand of UK goods. In the high estimate, half of the standard deviation of the rolling average growth rate in Russia's import demand is added to the GTO's central forecast. This adjusted growth rate is then applied to the value of UK's dual-use goods exports to Russia, thereby creating a higher estimate of the value of UK exports captured by the sanctions between 2022 and 2030. In addition, to provide an indication of the widest interpretation of the removal of licensing provisions on the dual-use list, the full value of approved SIELs based on a 2020 baseline is also assessed over the same period. This conservatively assumes that the dual-use list and the list of goods in Schedule 2A are mutually exclusive.

43. In 2021, the total value of UK goods exports to Russia under the commodity codes covered by the list in Schedule 2A of the legislation was £328.0m. This accounted for 11.8% of UK goods exports to Russia in 2021. The share of total goods exports to Russia accounted for by these commodities has remained relatively stable in recent years; 10.7% in 2020, and 10.5% in 2019.

44. The preferred policy option includes an extension of the prohibition on dual-use goods, which would impact on some £108 million of approved SIEL licences in 2020 (average £151 million 2017-2020). It is likely that there will be some overlap in dual-use commodities and those in Section 2A of the legislation, however if this is not the case, the value of existing licensable exports is considered in the high scenario. This provides an outer envelope of the direct costs of the legislation.

45. All associated economic costs from this component are assumed to be direct costs to business and no indirect costs have been identified at this stage. There may be wider economic impacts on the UK and there are some specific secondary impacts that are excluded from this analysis, but which are believed to add a substantial additional non-monetised cost to this intervention:

a) **Associated services:** some goods are sold with a 'package' of services, for example maintenance services, or insurance or other financial products. Data from the OECD shows that in 2018 15.9% of the value of UK exports to the world were driven by indirect domestic value add from the UK services industry[17]. It has not been possible to identify the value and volume of services that might be affected by this intervention and therefore the assessment relates only to the value of goods traded.

b) **Supply chain effects:** Given the UK is aligning with partner countries to impose these measures; we recognise there may be both positive and negative ramifications for UK businesses via their integration into complex multinational supply chains. For example, where UK goods (and services) may feed into the production of these goods within a country that has also deployed sanctions to prevent export to Russia. It is known though

[17] OECD Trade in Value Added (TiVA) 2021 ed: Principal Indicators, EXGR_IDC: Indirect domestic value added content of gross exports

that, in 2018, 1.5% of the value of Russian imports from the EU-27 and 0.4% of Russian imports from the United States was derived from value add generate in the UK. This increases to 2.8% and 0.6% respectively for Russia's imports of 'other transport equipment'. Further detail on potential supply chain effects is provided in the wider impacts section.

c) **Displacement and potential business closure:** It is possible that the inability to export to Russia because of these sanctions (directly or indirectly) may lead to the closure of some UK businesses. For example, the number of businesses exporting to Russia in 2020 was 31% fewer than the number of businesses exporting to Russia in 2014, when previous sanctions were applied[18]. Alternatively, businesses may seek to shift their exports to other markets or to domestic consumption to mitigate against the loss of export value and reduce the overall cost of the impact of the sanctions. It is not possible to make any credible assumptions on which of these may prove to deliver the greater impact other than that the former (closure) is likely to happen in the shorter term, while the latter (displacement) would likely happen over a longer time frame (but within the appraisal period) as global demand shifts and the time it may take for UK businesses to identify and establish in new export partners.

d) **"Chilling effect":** There may be an additional cost associated with businesses that stop exporting to Russia due to uncertainty around whether their goods or services are captured by this intervention. It is not possible to disaggregate this impact from the wider declining risk appetite of businesses caused by the situation that has precipitated this intervention to use additional trade sanctions against Russia. UK trade with Russia fell by 30.6% between 2014 and 2016 following the imposition of sanctions resulting from the Russian annexation of Crimea[19]. In the following period, a decrease was seen across almost all goods exported to Russia, demonstrating the possible scale of chilling effects. We might expect a similar chilling effect to occur now, both as a result of the situation in Ukraine, but also following the imposition of sanctions. Such effects may come from wider uncertainty and risk aversion associated with trading with Russia, plus additional impacts may materialise through global market movements (for example, energy or specific commodity markets) or via exchange rate movements, as markets adjust to internalise new assessments of relative risk between countries.

46. In the central cost scenario, the estimated present value of these direct costs is around £2.5 billion (with the low-high range of £2.4 billion to £2.6 billion). As a result of unmonetised costs, the estimates of the economic cost of the preferred option are likely to represent an overestimate of the impact on direct goods exports captured by the assessment, but an underestimate of the total exports (volume and value) affected by the policy.

47. In the high-cost scenario, where the full value of existing licensable dual use exports is included, the estimated present value of the direct costs is approximately £3.5 billion.

48. This is an assessment of the direct economic cost for the UK economy, but these sanctions are not being deployed in isolation. The UK, in acting with partner countries, is part of a much larger package of measures which, cumulatively, are designed to impact the Russian economy. However, this assessment does not seek to quantify to impact of partners actions on UK exporters.

[18] HMRC UK trade in goods by business characteristics. Experimental estimates of Trade in Goods data matched with registered Businesses from the Inter-Departmental Business Register (IDBR) for Exporters. Excludes unregistered businesses. https://www.gov.uk/government/collections/uk-trade-in-goods-statistics-by-business-characteristics#historical-releases

[19] Office of National Statistics (ONS): UK total trade data (seasonally adjusted). https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktotaltradeallcountriesseasonallyadjusted

Regulatory Costs

49. The new regulations will provide for certain exceptions to the new prohibitions. UK business will need to apply for additional licences when exporting, as a result expanding the number of cases for which export licenses are required.

50. To assess the total cost to business of the regulatory change, it is necessary to estimate the unit cost of a licence to individual exporting businesses. This is derived from previous impact assessments published in 2008 which estimated the cost to business of applying for an additional license to be £300[20]. This produces an estimate of £429 per license in 2019 prices.

51. The Export Control Joint Unit annual reporting suggests that an annual average of approximately 364 of all types of licences across all products were considered between 2017 and 2020 for export to Russia (of which an average of approximately 342 were SIELs[21]).[22] This includes licences that were both issued and refused. This number also captures export licences that would still be permissible under the preferred policy option and those that would now be captured by the tighter sanctions being proposed. For the purposes of this assessment, the total number of licences has been used to provide an outer envelope of the number of licences that might be covered by the preferred policy option.

52. The total regulatory cost of the preferred option is the product of the number of additional licences processed annually and the unit cost of an individual licence. For the purposes of this assessment, a marginal increase in licencing applications equal to the 2017-2020 average of 364[23] is assumed (given a company would need to incur the cost of applying for an additional licence irrespective of whether they were successful or not) and the estimated cost of application of £429[24]. This would give a single year total cost of application close to £156,000. Licences would likely require renewal during the appraisal period,[25] so it is reasonable to expect that a proportion of this cost would be re-incurred.

53. However, we judge that the real additional administrative cost for this process would be considerably lower than the £156,000 given:
    a) The £156,000 estimate is based on total numbers of licences across categories for all products, including those not captured by this policy proposal i.e. the difference between the baseline and the change resulting from the intervention will be less than this; and
    b) the intention of the preferred policy option to further limit trade of items that might require licences, suggesting that a lower number of companies will be applying for licences in the future.

54. As export controls already exist for trade with Russia, it is expected that transition or familiarisation costs in addition to the costs of compliance set out above would be negligible.

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[20] Department for Business, Energy and Regulatory Reform (now the Department for Business, Energy and Industrial Strategy and the Department for International Trade), July 2008, Export Control Act 2002 – Review of Export Control Legislation (2007) Impact Assessment.

[21] Standard individual export licence

[22] Data taken from the Strategic export controls: licensing data annual reports https://www.gov.uk/government/collections/strategic-export-controls-licensing-data-annual-reports

[23] https://www.gov.uk/government/collections/strategic-export-controls-licensing-data-annual-reports

[24] Based on £300 cost per licence used in used in the Export Control Act 2002 RIA, uprated to 2019 prices using GDP deflators at market prices, and money GDP December 2021 (Quarterly National Accounts)

[25] For example, a permanent SIEL is generally valid for 2 years from the date of issue, while a temporary SIEL is generally valid for 1 year from the date of issue.

55. In addition to the regulatory cost to business, there will be a direct cost to HM Government associated with assessing additional applications and enforcing additional licences. Where possible and for consistency, unit estimates for the administrative and enforcement costs are also drawn from the 2008 impact assessment[26]:
    a) Administrative cost: the cost incurred by HMG processing additional applications is estimated to be £506 per application in 2019 prices[27].
    b) Enforcement cost: The cost incurred to investigate and potentially prosecute additional exporters. It has not been possible to make a reliable assessment of the potential enforcement costs attached to the preferred option.

56. The total administrative cost is the product of new licence applications and the unit administrative cost per licence. Using the same average number of licences between 2017 and 2020 (364) suggests a single year total administrative cost of around £184,000. Again, a proportion of this cost would expect to be re-incurred as licences required renewal, but this is counterbalanced by the expectation of a considerably fewer number of applications that require processing following the implementation of the preferred option.

57. As indicated above, it is expected that the real additional administrative and enforcement cost will be considerably lower than this given that:
    a) This estimate is based on total numbers of licences across categories for all products, including those not captured by this policy proposal i.e. the difference between the baseline and the change resulting from the intervention will be less that this; and
    b) the intention of the preferred policy option to further limit trade of items that might require licences, suggesting that a lower number of companies will be applying for licences in the future (whether successful or not).

(£millions)	**Y1 (2022, 2019 prices)**	**Annual average Y2-Y9 (2023-2030, 2019 prices)**	**Present Value (2022-2030, 2019 prices)**
Economic Cost - Trade affected			
Low Cost Scenario	305	260	2,383
Central Cost Scenario	308	274	2,502
High Cost Scenario	413	380	3,452
… prohibition of dual use exports	*102*	*90*	*825*
… prohibition of exports on Schedule 2A	*312*	*289*	*2,627*
Regulatory cost – additional licences			
Prohibiting the export of dual use and Schedule 2A items to the Russian Federation	< 0.2		
Costs to public sector			
Prohibiting the export of dual use and Schedule 2A items to the Russian Federation	< 0.2		

58. We have not monetised any benefits to UK business. We do not expect UK businesses to directly benefit from any of the measures, as in most cases it restricts their abilities to export goods or services to Russia.

59. No direct benefits to UK industry have been identified. The main benefit of the measures will be the UK maintaining its reputation as an upholder of international law and democracy.

[26] BERR, July 2008 https://www.legislation.gov.uk/ukia/2008/181

[27] Based on £420 cost per SIEL used in used in the Export Control Act 2002 Review of Export Control Legislation (2007) Impact Assessment July 2008, uprated to 2019 prices using GDP deflators at market prices, and money GDP December 2021 (Quarterly National Accounts)

Risks and assumptions

60. There is a risk that the policy discourages exporting activity in firms who are not in scope of the policy. The cost associated with businesses that stop exporting to Russia due to uncertainty around whether their goods or services are captured in the sanction package; the so-called “chilling effect”. It is not possible to disaggregate this impact from the declining risk appetite of businesses caused by the Russian invasion. UK trade with Russia fell by 30.6% between 2014 and 2016 following the imposition of sanctions resulting from the Russian annexation of Crimea . A decrease was seen across almost all goods exported to Russia demonstrating the possible scale of chilling effects. The extent to which this chilling effect is persistent over time and trade rebounds is uncertain.

61. There is risk of Russian retaliation. Russia has responded in a tit-for-tat manner to each European nation that has closed their airspace to Russian airlines. It is likely retaliatory risks exist across other sanctions packages, and the complex nature of trading relationships mean it is possible that the Russian government would choose to respond in an asymmetric manner. These costs are unquantifiable at this stage as they depend on the actions Russia chooses to take.

Impact on small and micro businesses

62. The Regulations apply to all UK nationals anywhere in the world and all persons and firms in the UK. The regulations do not include any exemptions specifically for small and microbusinesses. SMB exemptions would reduce the effectiveness of the measures, as they would allow some UK businesses to export the goods in the targeted sectors.

63. Although small firms are, in general, disproportionately impacted by regulatory burdens, they are already obliged to have processes in place to ensure compliance with existing sanctions regimes under the Sanctions Act. As stated above, there will be no change to the way UK business, charities and voluntary bodies are notified of those individuals and entities that are sanctioned and we believe no changes to IT systems or administrative processes will be required. Businesses will already be familiar with the Dual-Use items list, as exports of these items already require export authorisation. The changes to the regulation will remove the licensing grounds. However, the Critical Industry Goods list will be new to businesses, and it is possible small businesses could face proportionately slightly higher familiarisation, compliance and legal costs due to these Regulations due to their extensive nature. However, it would be inappropriate to exempt small businesses from the Regulations as this would undermine the policy objectives and reduce the pressure such measures will exert on Russia.

64. Over half of businesses exporting goods to Russia in 2020 employed fewer than 50 employees. Since the imposition of sanctions on Russia in 2014, this is also the group which has already experienced the greater proportional reduction in number of businesses exporting to Russia and greater relative decline in value of goods exports to Russia. The proportion of value of goods trade accounted for by businesses with fewer than 50 employees has already fallen from 29% in 2014 to 9% in 2020.

65. While it has not been possible to map business characteristics of the commodity codes being considered through this intervention, it is reasonable to expect that these new measures would now have a proportionately greater impact on the remaining exporting activity taking place in firms with more than 50 employees.

UK trade in goods with Russia by firm size					
Business Size (No. of Employees)	**Number of businesses**		**Percentage change between 2014 and 2020**		**Share of business exporting goods to Russia in 2020**
	2014	**2020**	**Number of business exporting goods to Russia**	**Value of goods exports to Russia**	
0 to 49	3,056	1,970	-36%	-83%	52%
50 to 249	1,340	985	-26%	-31%	26%
250 +	713	547	-23%	-34%	14%
Unknown	342	280	-18%	-16%	7%
Total	5,451	3,782	-31%	-47%	100%
Sources: HMRC UK trade in goods by business characteristics. Experimental estimates of Trade in Goods data matched with registered Businesses from the Inter-Departmental Business Register (IDBR) for Exporters. Excludes unregistered businesses. https://www.gov.uk/government/collections/uk-trade-in-goods-statistics-by-business-characteristics#historical-releases					

Wider impacts

66. The impact of sanctions measures on trade and supply chains would not be limited to those exporting directly to Russia and would vary across sectors of the UK economy. Using Trade in Value Added (TIVA) data from the OECD reveals how UK industries (upstream and downstream in a value-chain) are connected to consumers and businesses in Russia, including even when no direct trade relationship exists. Analysis using the OECD TiVA dataset identifies the UK sectors that are most integrated into value chains with Russia and, therefore, those that are potentially vulnerable to disruption caused by both export controls and ongoing conflict. TiVA data offers advantages over traditional ways of measuring trade and are complementary to conventional trade statistics.

67. According to OECD TIVA data, 109,200 UK persons' employment[28] and $9.2 billion (approximately £6.9 billion) of UK value add was embodied in Russian final demand in 2018 (3.1% of total foreign value add embedded in Russian final demand)[29]. This is equivalent to around 1.6% of total UK employment embedded in foreign demand and 1.6% of total UK value add embedded in foreign final demand.

68. Due to data limitations, we cannot identify the proportion of trade in value added that would be impacted by UK sanctions of dual-use goods and critical industry items. However, the table below identifies the UK sectors where UK value add in Russian final demand is greatest.

[28] OECD Trade in employment (TiM): Principal indicators for UK employment embodies in Russian final demand. FFD_DEM: Domestic employment embodied in foreign final demand. 2015 data are latest available

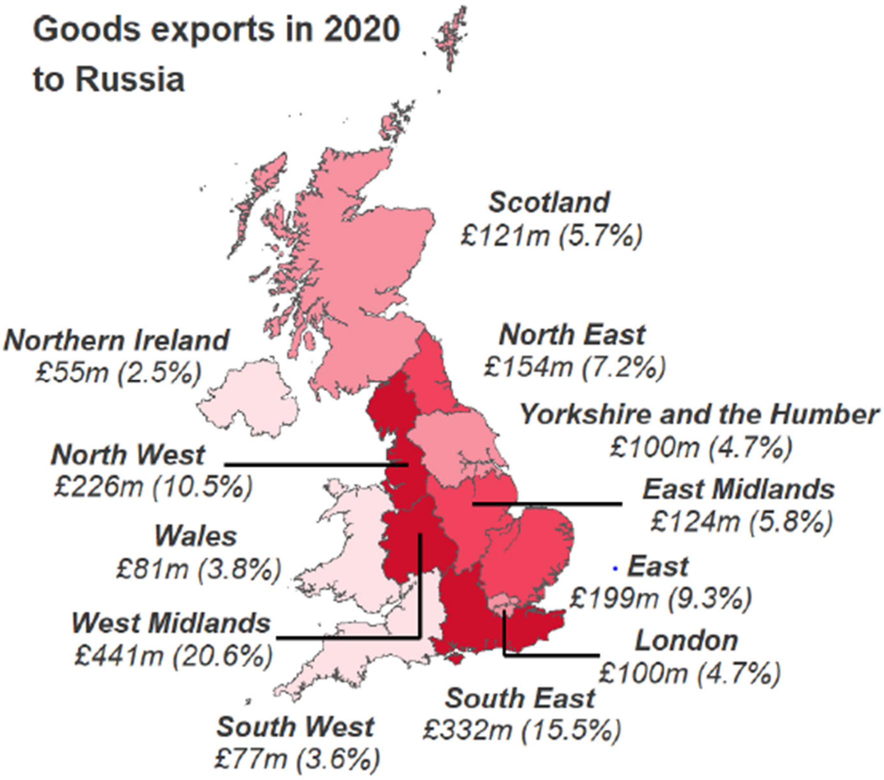
[29] OECD Trade in Value Added (TiVA) 2021 ed: Principal Indicators for UK share of foreign value add in Russian final demand. Data for 2018 are latest available. FFD_DVA.

	UK value add as a share of foreign value add in Russia final demand (2018)	UK value in Russian final demand ($USD millions, 2018)	UK employment embodied in Russian final demand (Persons, Thousands, 2018)
DTOTAL: TOTAL	3.1%	9245.1	109.2
D69T82: Other business services[i]	7.6%	2291	36.5
D64T66: Financial and insurance activities	8.0%	1082.5	6.1
D45T47: Wholesale and retail trade; repair of motor vehicles	2.5%	1059.1	18.1
D49T53: Transportation and storage	2.6%	661.9	7.4
D62T63: Computer programming, consultancy and information services activities	5.4%	494.2	5.0
D20T21: Chemicals and pharmaceutical products	2.3%	348.7	1.5
D29: Motor vehicles, trailers and semi-trailers	3.0%	295.3	1.7
D58T60: Publishing, audiovisual and broadcasting activities	6.1%	263	2.0
D85: Education	12.4%	245.7	4.5
D28: Machinery and equipment n.e.c	2.0%	231.3	1.9

Sources: Experimental data. OECD Trade in Value Added (TiVA) 2021 ed: Principal Indicators for UK share of foreign value add in Russian final demand. Data for 2018 are latest available. FFD_DVA. OECD Trade in employment (TiM): Principal indicators for UK employment embodies in Russian final demand. FFD_DEM: Domestic employment embodied in foreign final demand. 2015 data are latest available
Other business services includes: research and development; consulting; legal and accounting; advertising and market research; technical and trade-related services; architectural, engineering and scientific services; waste treatment, agricultural and mining services; operating leasing services and other business services not otherwise captured.

69. Due to data limitations, it is also not possible to identify how the impacts of the sanctions on Dual-Use goods and critical industry items will be distributed across the UK. However, when looking at the value of exported goods in aggregate to the Russian Federation, they are of highest concentration in the West Midlands, the South East of England and the North West of England.

Figure 2: UK goods exports to Russia in 2020 by UK country and English region



Source: HMRC Regional Trade Statistics, (data extracted from the spreadsheet download using the HMRC interactive tables).

UK country or English region	North East	North West	Yorkshire and the Humber	East Midlands	West Midlands	East	London	South East	South West	Wales	Scotland	Northern Ireland
Value of goods exports to Russia	154	226	100	124	441	199	100	332	77	81	121	55
Percentage of total goods exports to Russia	7.20 %	10.50%	4.70%	5.80%	20.60%	9.30 %	4.70%	15.50%	3.60%	3.80%	5.70%	2.50%
Value of goods imports from Russia	0.2	0.3	0.7	0.1	0.1	0.3	2.2	0.8	0.1	0.2	0.2	0
Percentage of total goods imports from Russia	2.70 %	5.70%	11.70%	1.60%	2.50%	5.80 %	38.40%	13.30%	2.30%	3.90%	3.40%	0.70%

Source: HMRC Regional Trade Statistics, (data extracted from the spreadsheet download using the HMRC interactive tables). Note that these figures from HMRC are reported on a physical movement basis and are not directly comparable to trade data from ONS which are reported on a change of ownership basis.

70. The measures could have a positive impact on the UK's reputation by enhancing UK credentials as a 'clean' place to do business. Although the measures could act as a disincentive to invest for companies in affected sectors (due to export restrictions meaning production facilities in the UK would not be able to access the Russian market), we believe this risk is small given the targeted nature of the measures. In addition, by introducing measures in conjunction with some international partners reduces the potential impact on the UK's relative competitiveness.

71. There has been no direct public cost in developing the Russia Regulations (Sanctions) 2022 as no new permanent employment positions have been created. Resource has been identified through reprioritisation from other work. The public cost that would be incurred in the enforcement of these sanctions is referenced in the above monetised costs section (paragraphs 56-58).

72. Promoting global peace, security and economic development – as the UK is doing via these measures – also brings longer-term economic benefits. Conflicts lead to less prosperous societies by diminishing investment, weakening institutions and undermining the rule of law. Discouraging such conduct will help facilitate conditions conducive for global peace, security and economic development. The UK will benefit from a more secure, prosperous world and a decrease in destabilising activities, which represent a net drain on GDP.

Monitoring and Evaluation

73. The Sanctions and Anti-Money Laundering Act 2018 (the “Sanctions Act”) will require regular reviews of the proposed sanctions measures. Under section 30 of the Sanctions Act, the Secretary of State must consider annually whether or not regulations under section 1 of the Sanctions Act are still appropriate for its stated purpose and lay a report before Parliament, confirming either that is the case or explaining what action he has taken or proposes to take in consequence of that review. Section 30 applies to the existing Russia (Sanctions) (EU Exit) Regulations 2019, and will apply to them as amended by legislation implementing the proposed measures. The new measures will therefore be reviewed annually as part of a wider review of the whole Russia sanctions regime.

74. The FCDO’s Eastern Europe and Central Asia Directorate will keep under review the political situation in Russia and recommend amendments on UK sanctions measures on Russia as required. Such assessment will include the continued collection of open source and classified information. To monitor the impacts to business, the Directorate could draw upon licencing statistics from OFSI to assess activity that has been most impacted. The policy intention is to keep sanctions on Russia in place until Russia has ended its occupation of Ukraine, withdrawn its troops from Ukrainian soil, ended its support for the separatists, and enabled the restoration of peace and security along the Ukraine-Russia border, and HMG is assured that Russia's current behaviour of threatening Ukraine's sovereignty and destabilising the rules-based international conventions has ceased. The FCDO will continue to coordinate with international partners, including on the future of the regime.