Title: The Russia (Sanctions) (EU Exit) (Amendment) (No. 14) Regulations 2022 **IA No:** FCDO2207 • **RPC Reference No:** **Lead department or agency:** Foreign, Commonwealth & Development Office **Other departments or agencies:** Department for International Trade, Department for Business, Energy & Industrial Strategy, HM Treasury	**Impact Assessment (IA)** **Date:** 18/07/2022 **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Secondary legislation **Contact for enquiries:** Sanctions@fcdo.gov.uk **RPC Opinion:** Awaiting scrutiny

Summary: Intervention and Options

Cost of Preferred (or more likely) Option (in 2019 prices)			
Total Net Present Social Value	**Business Net Present Value**	**Net direct cost to business per year**	**Business Impact Target Status** Qualifying provision
-£263m	-£263m	£33m	£167m

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

HM Government is continuing to develop the package of sanctions imposed on Russia. By bringing these measures and designations into force, HM Government hopes to deter further Russian aggression in Ukraine and encourage Russia to the negotiating table.

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. Russia's current behaviour is not only threatening Ukraine's sovereignty, but also destabilising the rules-based international conventions and challenging the values that underpin it.

To deliver the HM Government objectives, we are implementing a new and intensified set of measures to further influence Putin's regime and signal our continued condemnation of Russian military aggression against Ukraine.

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

The policy objectives are:

- to encourage the Russian Government to change its policy towards Ukraine by targeting its strategic and economic interests.
- to constrain the Russian military-industrial complex, in terms of its ability to maintain the occupation of Ukraine, by influencing decision makers and elites; and,
- to signal to Russia and the wider international community that the UK considers Russia's actions in Ukraine as unacceptable.

The measures assessed in this Impact Assessment are additional to the ones previously introduced. However, existing sanctions packages appear to have been insufficient so far in encouraging the Russian Government to change course and dissuade decision makers from continuing to take aggressive and destabilising actions against Ukraine.

The measures in this Statutory Instrument will remain in place until HM Government is satisfied with Russia's change of action and intent towards Ukraine. We have aligned with EU and G7 partners where possible to maximise the impact of these measures on Russia.

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

Option 0: Do nothing. Rely on existing sanctions to erode the financial power of the Russian Government and to constrain the Russian state's ability to destabilise and invade sovereign nations, therefore encouraging them to change course. Continue to act through diplomatic channels and multilateral fora to signal to the Russian Government that such actions are unacceptable and represent serious breaches of international law. Previous sanctions have not yet dissuaded Putin's regime to halt its military aggression against Ukraine.

Option 1: Implement additional proposed trade sanctions measures [Preferred option]. As part of the UK's deepening pillar of the Russia sanctions strategy, implement a further set of trade measures. These will support the UK's objective of encouraging Russia to change its policy of aggression towards Ukraine, by increasing pressure on the Russian Government. It will also ensure no reversal of actions by UK businesses where they have self-sanctioned their engagement with Russia or have reduced their business with Russia in response to wider chilling effects that have been seen across global markets. Additional trade sanctions will deny Russia the resources and revenues to finance its illegal invasion and:

- **Deepen** the UK's ability to influence Putin's regime and signal the UK's continuing condemnation of Russian military aggression against Ukraine. This a strategic, targeted package of sanctions that delivers against our Russia objectives.
- Ensure that the UK response is **aligned and coordinated** with a broad coalition of EU and G7 partners, to maximise the impact of sanctions on Russia.
- Support the **sharpening** of trade measures, ensuring enforcement and thorough tracking of measures already implemented by the UK and others.

The new measures in the sanctions package support HMG's objectives by prohibiting the export, supply, delivery, making available and transfer of an additional list of goods, named the G7 dependency and further goods list. These goods have been identified as particularly important to the Russian economy and are goods that Russia especially depends on the G7 and the UK for. These measures also expand the existing prohibition on the export supply, delivery and making available of energy related goods.

The measures will also introduce prohibitions on the export of accounting, management and business consulting, and public relations services to Russia and persons connected to Russia.

The set of measures will prohibit the import, acquisition, supply and delivery of oil and oil products and coal and coal products that originate in, or are consigned, from Russia. They will also introduce prohibitions on the import, acquisition, supply and delivery into the UK from Russia of gold that originates in Russia on, or after, 21 July 2022

These measures additionally target ancillary services – related technical assistance, financial services and funds, as well as brokering services related to the trade of all products sanctioned.

Will the policy be reviewed? It will be reviewed **If applicable, set review date:** policy constantly under review

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 – not this is for imports only, not estimated for exports)	**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: Rehman Chishti, MP Parliamentary Under-Secretary of State Date: 18 July 2022

Summary: Analysis & Evidence

Policy Option 1

Description: Sanctions against Russia prohibiting the export and import of certain strategic goods

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2020	Time Period Years 9	Net Benefit (Present Value (PV)) (£m)		
			Low: -£219m	**High:** -£273m	**Best Estimate:** -£263m

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	£0m	1	£28m	£219m
High	£0m		£35m	£273m
Best Estimate	£0m		£33m	£263m

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

The primary cost to UK businesses 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.

Most of the expected costs related to the export measures are in the 'G7 dependency' group of products (about 75% of the overall total costs in the central estimate), followed by the combined group of services exports (circa 13%).

Around 780 traders exported circa £365m of goods from the UK to Russia in 2021 in the HS codes covered by this set of regulations. The West Midlands is the region relatively more impacted: around 47% of all the UK exports to Russia in 2021 in the affected codes originated in the region.

Approximately £55 million worth of UK services exports to Russia in 2021 are now covered by sanctions in this set of regulations, creating costs for UK services businesses.

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

Across oil and coal measures, we do not expect to see significant market or consumer impacts, as consumption of oil and coal from Russia is relatively low in terms of volume. It is also expected that there will be limited costs associated with pivoting to alternative suppliers, as supply of Russian energy has already reduced, and there is an extended implementation period to identify alternative sources for businesses still reliant on Russian sources.

For coal specifically, there may be a negative impact on UK industry, specifically in sectors such as the steel sector, which relies heavily on coal in its production, and may suffer if there are price impacts arising from any supply challenges.

Despite its high import value, gold is an erratic good, that can vary substantially in import value year-to-year. As such, we do not expect the import ban for gold to lead to significant impacts in the UK. Russian gold is not highly demanded in the UK as an intermediate or final good, so the ban is unlikely to impact British businesses or consumers.

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

Description and scale of key monetised benefits by 'main affected groups'	
This analysis has not monetised any benefits to UK business as a result of the export or imports measures. We do not expect UK businesses to directly benefit from the export measures, as in most cases it restricts their abilities to trade goods or services to Russia. Similarly, the restrictions on imports from Russia are expected to generate primarily a short-term detrimental impact on UK businesses.	
Other key non-monetised benefits by 'main affected groups' The UK oil ban is unlikely to move international product markets or prices materially, but if they do then there may be some isolated benefits, through a transfer to refiners from UK and global consumers, and a transfer to UK upstream industry from UK and global consumers (via refiners). These measures are designed to support the restoration of peace, supporting security and economic development. Security and stability, together with upholding international law and the broader rules-based system, also brings longer-term economic benefits. There is a potential positive reputational impact on the UK, demonstrating that we are ready to take principled action in response to violations of international law and human rights. Additionally this set of measures 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.	
Key assumptions/sensitivities/risks	3.5%

Assumptions for export measures

- For the central scenario, we have applied the IMF's World Economic Outlook (WEO) April 2022 estimates of the growth rate of Russian goods import and export demand to the value of UK's goods exports to, and imports from, Russia.
- For the low scenario, we have assumed low economic costs, if compared to the central scenario. This was based on applying low growth projections for Russia's goods import and export demand to the value of UK's goods exports to, and imports from, Russia.
- For the high scenario, we have assumed high economic costs, if compared to the central scenario. This was based on applying high projections for Russia's goods import and export demand to the value of UK's goods exports to, and imports from, Russia.
- A baseline of 2021 trade values was used.
- We have assumed that the sanctions remain in force for the entire appraisal period captured within this assessment.

Assumptions for goods export measures only

- In year 1, we assume that there will be regulatory impacts associated with shifting trade away from Russia. This was estimated to take one hour of business time and a value was calculated according to the average hourly wage in the UK and the number of traders impacted by the bans.

Assumptions for import measures

- There has not been an attempt to monetise the impact of the import measures within this package. As a result, there are no key assumptions to summarise.

Risks

There is a risk that the policy discourages trading activity in firms who are not in scope of the policy and has a wider chilling effect on UK 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:	**Benefits:**	**Net:**	
£33m	£0.0m	£33m	£166.7m

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1. Rationale

1.3 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, announced by Putin on 24 February 2022 as a “special military operation”, 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 and 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. 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. The UK has been unwavering in its support for Ukraine’s territorial integrity and sovereignty.

3) Change is therefore being sought through diplomatic pressure, and other measures, supported by implementing sanctions in respect of actions undermining the territorial integrity, sovereignty and independence of Ukraine. Sanctions are an important national security and foreign policy tool.

4) HM Government has previously introduced trade measures under the Sanctions and Anti-Money Laundering Act (SAMLA) covering a range of products including:

   - Military goods and technology
   - Arms and related materiel
   - Aviation and space goods and technology
   - Quantum computing and advanced materials goods and technology
   - Luxury consumer goods
   - Iron and steel products
   - Dual-use goods, technology and related activities
   - Critical industry items to Russia
   - Energy-related goods
   - Oil refining goods and technology
   - Chemical and biological goods and technology
   - Defence and security goods and technology
   - Maritime goods and technology
   - Jet fuel and fuel additives
   - Banknotes
   - Revenue generating goods.

   These sanctions are part of a broader policy of measures which includes diplomatic pressure; other trade sanctions; economic and financial sanctions and designations.

5) UK sanctions action, in concert with the US, EU and G7 partners (so as to complement HM Government efforts to broaden the coalition of partners implementing trade sanctions) 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.

1.3.2 Problem under consideration and rationale for intervention

6) 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 trading with Russia does not factor in the wider societal cost to Ukraine, nor the costs of such violations of international law. Without intervention, it is likely a level 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.

7) Given the nature of the issue, there is no appropriate non-governmental or private sector solution to the issue at hand. HM Government 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.

1.2 Policy objectives

8) HM Government's overall objectives on democracy and human rights are to protect and promote good governance and the rule of law. We also assist those who uphold or seek to promote these principles, and use the UK's leverage against those who violate and abuse human rights or the rule of law.

9) HM Government's objectives of the Russia (Sanctions) (EU Exit) (Amendment No. 14) Regulations 2022 are to:

    a. **Coerce** the Russian government into changing policy by targeting its strategic and economic interests, and by influencing decision makers and elites.

    b. **Constrain** the Russian military-industrial complex, in terms of its ability to maintain the occupation of Ukraine and its future technological ambitions.

    c. **Signal** to Russia and the wider international community that the UK considers Russia's actions in Ukraine unacceptable.

10) 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, and on food security. We seek to align closely with partners to achieve maximum impact on the Russian government, and associated individuals and entities.

1.3 Description of options under consideration

1.3.1 Option 0: Do nothing counterfactual

11) In this option, HM Government would rely on existing sanctions by both the UK and our partners to erode the financial power of the Russian Government, to constrain the Russian state's ability to destabilise and invade sovereign nations, as well as to force them to change course. HMG would continue to act through diplomatic channels and multilateral forums to

signal to the Russian Government that such actions are unacceptable and represent serious breaches of international law. However, existing sanctions packages appear to have been insufficient so far to coerce the Russian government to change course and dissuade decision makers from taking aggressive and destabilising actions against Ukraine and it is not clear how much longer UK businesses will continue to self-sanction.

Not implementing any further sanctions will also go against UK objectives to maximise pressure on the Russian government by aligning our package with those of a broad coalition of partners in order to maximise the impact of sanctions taken and, by allowing differences in sanctions actions taken by countries to arise will create opportunities for circumvention and avoidance of sanctions.

1.3.2 Option 1: Implement trade sanction measures [Preferred option]

12) These trade sanctions would introduce the following measures:

   a. prohibitions on the export, supply, delivery and making available of goods in the G7 dependency and further goods list to, or for use in, Russia. This list is wide-ranging, including chemicals, materials, machinery goods and electrical appliances. The majority of this list has been determined in collaboration with key partners and is made of goods which Russia depends on the G7 for. We are sanctioning these items in alignment with key allies such as the European Union to maximise impact. In addition, the G7 dependency and further goods list then includes additional commodities that the UK is sanctioning, unilaterally. Russia has banned certain goods from export and re-export as they are critical to their industry. The UK is targeting these critical goods by sanctioning those that Russia has particularly high dependency on imports from the UK. In doing this HMG is showing international leadership and hope to convince partners to introduce similar measures. Although the UK is initially moving alone on these further goods, HMG is confident that these sanctions will have an impact on Russia due to the Russian dependency on the UK. These export sanctions also target related technical assistance, financial services, funds and brokering services associated with the goods.

   b. prohibitions on the import, acquisition, supply and delivery of oil and oil products on or after 31 December 2022, coal and coal products, on or after the 10 August 2022, that originate in or are consigned from Russia. It will introduce prohibitions on the import, acquisition, supply and delivery into the UK from Russia of gold that originates in Russia on, or after, 21 July 2022. These will also include the related technical assistance, financial services and funds, and brokering services. Similar measures have been introduced by G7 partners, or will be in future, increasing the overall impact to Russia.

   c. an expansion of existing energy-related goods prohibitions from the 2019 Regulations to capture the export of energy goods related to oil and gas production and exploration projects to Russia, regardless of its eventual point of use (which could be outside of Russia); and the provision of energy-related services for both oil and gas exploration and production projects, anywhere in Russia, its Exclusive Economic Zone or Continental Shelf. This measure will be aligned with key partners, such as the European Union.

   d. prohibitions on the provision of accounting, management and business consulting, and public relations services to persons connected to Russia. These services are targeted because they are key areas of Russian dependence, they are particularly used by Russian oligarchs, and they help to generate revenue for Russia.

13) This package of measures has been designed to have maximum impact on Russia’s strategic economic interests and its armed forces, while minimising direct harmful impact on the Russian civilian population. These measures are 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.

14) Having considered the costs and benefits of all options, HM Government believes that Option 1 is appropriate and will best support UK domestic objectives with regard to Russia's military aggression in Ukraine. Option 1 will deliver against the 'deepening' pillar of HM Government's Russia strategy, implementing a new and intensified set of trade measures, to influence Putin's regime and signal the UK's continuing condemnation of Russian military aggression against Ukraine.

2. Implementation Plan

2.1 Secondary legislation

15) 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. Gibraltar and Bermuda make their own legislative arrangements, as do the Isle of Man, the Bailiwick of Jersey and the Bailiwick of Guernsey.

16) The measures on oil and oil products, and coal and coal products are not implemented immediately; coal prohibitions come into force on the 10th August 2022 and the oil prohibitions come into force on the 31st of December 2022. All other arrangements will come into effect on 21 July 2022.

2.2 Licensing and exceptions

17) 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. The Department for International Trade's Import Licensing Branch implements licensing relating to import sanctions. The licensing powers would include a power to enable General Licences to be introduced to authorise specific activities.

2.3 Enforcement

18) 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. 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).

3. Assessment of costs and benefits

3.1 Background to assessment of the costs and benefits of both exports and imports measures

3.1.1 Types of impacts assessed

19) This assessment focuses on the costs and benefits of the regulations in the associated Statutory Instrument, with an indicative assessment of the marginal changes based on 2021 levels of trade. After a background summary of the UK – Russia trade, three types of impacts are assessed, for both exports and imports:

a) **Economic impacts:** The reduction in the value of UK trade as a result of the prohibition of affected trade with Russia and the resulting impact to the profitability of UK firms.

b) **Regulatory impacts:** The cost to UK firms to comply with the proposed measures.

c) **Administrative and enforcement impacts:** The cost to HM Government of processing licence applications and enforcing these under the updated regulatory framework.

3.1.2 Proportionality approach

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

a) Given the nature of international events related to Ukraine, this policy was developed against a backdrop of constantly changing developments. In addition, the requirement to keep discussion of potential policy responses 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 HM Government has been able to consult with external stakeholders.

b) There are challenges associated with estimating the impact of sanctions that are often multilateral in nature. This Impact Assessment focuses on the impact of UK sanctions only.

3.1.3 Data availability

21) 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.[1] 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 used for goods related sanctions, whilst ONS data are used for services.

22) We have seen substantial reductions in UK-Russia trade since the beginning of the invasion, some of which will be as a direct result of existing sanctions measures, whilst some will be as a result of businesses self-sanctioning and ceasing activities in Russia. Hence This assessment focuses on the costs and benefits of the measures in this Statutory Instrument with an indicative assessment of the marginal changes based on 2021 levels of trade. As a bellwether of the changes in trade patterns table 1 below shows the UK – Russia and UK – Ukraine overall goods trade in May 2021 (prior to the Russian invasion) and May 2022 (the most recent full calendar month).

23) Total UK goods trade with both countries has more than halved compared to before the invasion. The largest decrease in UK-Russia trade was in UK imports from Russia, which were £1.1bn lower in May 2022 than a year before.[2]

24) It is expected that most of this reduction in trade was due to UK traders self-sanctioning in addition to compliance with new sanctions. It is not known yet if this trend will continue or how long it would last in the absence of action from HM Government.

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[1] 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

[2] HMRC Overseas Trade Statistics: https://www.uktradeinfo.com/trade-data/overseas/. 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.

Table 1: Total value of UK goods trade with Russia and with Ukraine, before and after the invasion, £m

UK total trade with partner country	May 2021 (pre-invasion)	May 2022 (post invasion)
Russia	1,267	235
Ukraine	114	30

Source: HMRC Overseas Trade Statistics, extracted in July 2022.

25) Services data are less timely. The latest services trade statistics available relating to Accounting, Management consulting and Public relations capture services trade up until the end of 2021, so we cannot assess post-invasion statistics, but a similar downward trend is expected as a result of self-sanctioning.

26) The services sanctions cover exports to Russia provided through all modes of supply, including Mode 3; services provided within a country by a locally-established affiliate, subsidiary, or representative office of a foreign-owned and controlled company (bank, hotel group, construction company, etc.).

27) Businesses specialising in the export of services in scope of these measures, for example, the 'Big 4' accountancy firms (Deloitte, PwC, EY and KPMG) have all announced they are leaving the Russian market.[3] However we understand that this withdrawal is an ongoing process and, in some cases, has yet to be completed

3.1.4 Assessment period

28) 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 projections presented in the Global Trade Outlook (GTO).[4] Although this Impact Assessment replaces the GTO projections (which were published prior to the invasion) with the IMF's WEO April 2022 projections (which incorporate the IMF's views on the early stages of the conflict), we retain this timeline so as to maintain consistency with the Impact Assessments published on similar measures that have been recently announced.[5] For similar reasons the appraisal incorporates the full 2022 year, even though the invasion started at the end of February.

3.1.5 Commodity and service classifications and statistical threshold

29) While the operationalisation of the legislation will not necessarily be on the basis of commodity codes, commodity codes have been used to proxy the value of goods trade that may be disrupted. The true value may differ from these estimates. For the purposes of the analysis, the relevant commodity codes, when possible to the 8-digit Combined Nomenclature (CN8) level for each product, have been identified. However, due to the specificity of the items under consideration, even these granular commodity codes capture some items that may fall outside the scope of policy. Codes that were in scope for previous Statutory Instruments are assumed to have zero import or export value. This analysis has been undertaken based on trade figures that follow HS 2017 goods classification nomenclature, as that was the nomenclature in effect in 2021. There may be some limited variation in values under an HS 2022 goods classification nomenclature, which entered into force in January 2022.[6]

[3] https://www.theguardian.com/business/2022/mar/07/kpmg-and-pwc-to-cut-off-businesses-in-russia-and-belarus
[4] 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
[5] For example the Russia (Sanctions) (EU Exit) (Amendment) (No. 8) Regulations 2022 available here https://www.legislation.gov.uk/uksi/2022/452/impacts
[6] http://www.wcoomd.org/en/topics/nomenclature/instrument-and-tools/hs-nomenclature-2022-edition/amendments-effective-from-1-january-2022.aspx

30) The statistical threshold for recording a customs declaration is defined in UK legislation as £873 (in value) or 1,000kg (in net mass). Transactions below these thresholds may not be recorded in the relevant data sources. As such, some goods transactions below these thresholds will not appear in the data 2021 trade data used for this analysis.

31) The operationalisation of measures facing service sectors is based on various definitions, including CPC codes and EBOPS codes. In line with available data on trade in services, 4 digit EBOPS codes have been used to assess the value of services trade disrupted within these sectors, however some activities not in scope of these sanctions, such as audit will be captured within these estimates, therefore estimated impacts may overstate the volume of exports within areas targeted by these measures.

3.1.6 Methodology note on calculations on Net Present Social Value for export measures

32) The following assumptions and methodology were followed to develop a Net Present Social Value:

a. To estimate how future Russian trade will evolve we use the IMF's WEO April 2022 percentage estimates (which incorporate the IMF views on the impact of the early stages of the conflict) of both the import and export demand projections for Russia. We use the disaggregated 'goods only' demand to align with the 'goods only' analysis captured in the valuation.

b. Given the Covid-19 pandemic has led to considerable disruption in recent global trade we avoid using past growth rates in Russian demand and use instead projections for the 2022-30 growth rate based on the IMF's forecasts.

c. As the IMF projections only extend to 2027, this growth rate was extended to 2030, using a flat rate of 2%. The 2% rate was based on the IMF's GDP forecast for Russia for the 2022 to 2027 period, and the OECD's GDP forecast for Russia in the 2028 - 2030 period. Together they suggest a broadly flat 2% GDP trend post 2025.

d. The projected growth rates from 2022-2030 act as our central scenario. In order to carry out sensitivity analysis, high and low scenarios were constructed, in line with the approach taken in the Impact Assessment for The Russia (Sanctions) (EU Exit) (Amendment) (No. 11) Regulations 2022 that came into effect on the 15th July 2022. The high scenario is not symmetric to the low scenario. Instead, it is more conservative than a symmetric sensitivity would be (e.g. if we had increased the IMF's estimates for Russian import and export demand by 3.5%). This is based on current expectations of the performance of the Russian economy - which tend to lean towards the downside. For example, the IMF's WEO April 2022 GDP forecasts for Russia indicates an expectation of a sharp economic contraction in 2022; followed by a smaller contraction in 2023; and then a small and broadly flat growth up to 2027.[7]

   i. For the low scenario various estimates of Russian GDP projections from international organisations were used. The highest estimation was the IMF's (expectation of a GDP decrease of 7% in 2022), while the lowest estimation was the Institute of International Finance's 15% drop in Russian GDP in 2022. We took the spread between the two as being 7 percentage points and divided this by 2. We used the value of 3.5% and applied it to the central scenario, to revise the low scenario downwards by 3.5 percentage points.
   ii. For the high scenario we applied a 10% uplift on the central scenario, based on the IMF's forecasts for export and import demand from Russia.

[7] https://www.imf.org/en/Publications/WEO/weo-database/2022/April

e. This analysis focusses on the various groups of commodity codes identified above. Codes that were wholly or partially in scope for previous Statutory Instruments are assumed to have zero import or export value.

f. Using 2021 trade values for these codes, and the projected central, high and low scenarios growth rates, a series of trade values were calculated for 2022-2030. There were put into the RPC's BIT calculator. These trade values have a price base year of 2019, and a present value base year of 2020. 2021 trade data was used as baseline. This approach assumes that UK exports would grow in tandem with the growth in Russian goods import demand; and that UK imports would grow in tandem with Russian exports capacity.

g. The proposed export measures are expected to have an impact on the profitability of UK companies that currently trade with Russia. For the sanctioned HS codes under the G7 dependency list and the Energy-related goods list, we apply the ONS' profitability gross annual rate of return for the manufacturing sector private non-financial corporations (estimated to be 10.8% in the four quarters up to Q3 2021) to the appraisal period chosen for this assessment 2022 to 2030 inclusive) to calculate an estimate of profit lost.[8] For the Services exports list we apply the ONS' profitability gross annual rate of return for the services sector private non-financial corporations (estimated to be 14.6% in the four quarters up to Q3 2021) to the appraisal period chosen for this assessment 2022 to 2030 inclusive)

h. An additional 'one-off' cost was added to the year goods export costs, to represent the transition costs. This captures the regulatory impact costs, defined as the cost to UK firms to comply with the proposed measures. The approach taken for goods exports was to see these impacts as primarily a one-off familiarisation cost with the new regulations. We used the RPC's note on implementation costs for guidance.[9] The calculations assume that one hour is required for this familiarisation per company; we then multiply the number of traders exporting or importing to Russia on the HS codes covered by the sanctions by the average UK wage for one hour (based on the ONS median weekly pay in 2021, rebased to 2019 prices).[10] The calculations also assume a 35 hour weekly number of hours worked. This approach produces a combined regulatory impact value for all exporters affected by this regulation. These values were taken as the entire regulatory impact cost and implemented as an upfront cost applied to businesses that export and import in 2022 only. Please note that due to data limitations, these estimates do not include service providers, as data on the number of firms providing services to Russia are not available. As such, this cost estimate should be considered a likely underestimate.

i. The initial 2021 trade figures are based on a nominal estimation. The nominal 2021 figures are used as a starting point upon which the IMF's WEO April 2022 real rates for expected Russian import and export demand are applied.

j. We selected the default discount rate of 3.5%, as suggested in HMTs green book. The annuity rate for the NPSV calculation is calculated using the 3.5% discount rate to calculate the discount factor through the appraisal periods and adding the inverse of the discount factor year on year.

[8] ONS Profitability of UK companies: October to December 2019. ONS Profitability of UK companies: October to December 2019.

[9] https://www.gov.uk/government/publications/rpc-short-guidance-note-implementation-costs-august-2019

[10] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2021.

3.1.7 Methodology note on calculations on Net Present Social Value for import measures

33) Import measures in scope for this package of sanctions have not been monetised to generate a Net Present Social Value.

34) Due to the high value, but erratic[11] nature of energy and gold imports, the import value of these goods do not provide an accurate equivalent monetary impact on the UK, unlike the export measures. Instead, we have included an extensive qualitative assessment of the unique channels of impact for each respective import measure.

3.2 UK – Russia trade

35) The figures below illustrate Russian levels of trade prior to the onset of the current escalation of the conflict in February 2022:[12]

    a. 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. They then recovered gradually, reaching $352.9 billion prior to the onset of the Covid-19 pandemic.

    b. As a source of global exports, the Russian economy was worth $592.0 billion in 2013. Following subsequent rounds of sanctions, Russia's exports of goods and services to the world declined to less than $400 billion in 2015 and then increased subsequently, reaching $482.5 billion prior to the onset of the Covid-19 pandemic.

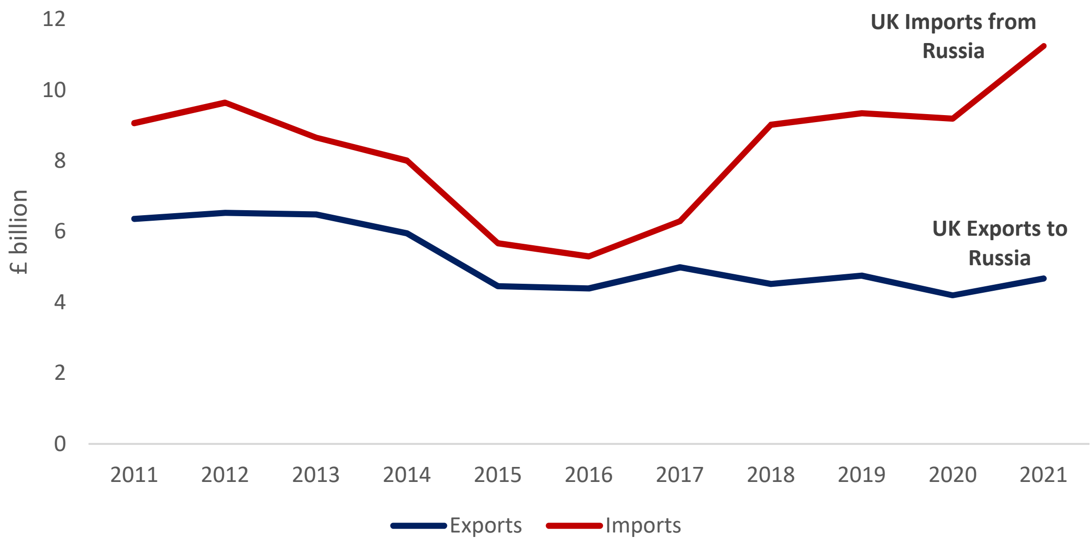
36) UK trade with Russia has been relatively volatile over the last 10 years. UK exports to Russia fell by over 25% between 2014 and 2015, from just under £6.0 billion to £4.5 billion, when previous sanctions were implemented. Prior to the onset of the pandemic, UK exports to Russia had increased slightly to £4.8 billion. Following a drop in 2020, UK exports to Russia amounted to £4.7 billion in the four quarters to the end of Q4 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 Q4 2021, £3.0 billion (63.0%) were goods and £1.7 billion (37.0%) were services.[13]

Figure 1: UK Total Trade with Russia, £ Billion

[11] Oil and other "erratic" commodities can make a large contribution to trade in goods, but often mask the underlying trend in the export or import values due to their volatility. Erratic goods include ships, aircraft, precious stones, silver and non-monetary gold [ONS]

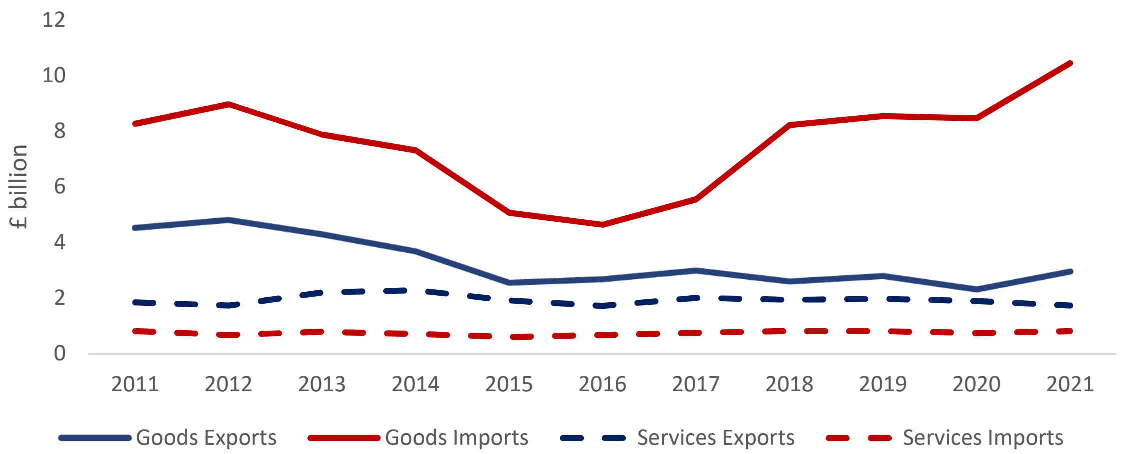
[12] DIT Trade and Investment Factsheets, based on United Nations Conference on Trade and Development (UNCTAD) data sources for trade: Goods and Services (BPM6): Exports and imports of goods and services, annual.

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



Source: Office of National Statistics (ONS): UK total trade data (seasonally adjusted).

Figure 2: UK Trade in Goods and Services with Russia, £ Billion



Source: Office of National Statistics (ONS): UK total trade data (seasonally adjusted).

37) Since 2014, the UK market share of Russian import demand has fallen by 0.6 percentage points, from 2.3% to 1.8% in 2020. This was driven by a decrease in the UK's share of Russian imports of goods, which fell by 0.7 percentage points.[14] Over the same period, Russia's share of UK imports has increased, albeit marginally: in 2021, Russia accounted for 1.7% of UK imports[15], compared to 1.4% in 2014.

38) It is estimated that around 94,500 UK workers were supported by exports to Russia in 2018, representing 0.3% of total UK employment (or 1.4% of total UK employment supported by

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[14] 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

[15] Office of National Statistics (ONS): UK total trade data (seasonally adjusted), accessed in July 2022, available from: https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktotaltradeallcountriesseasonallyadjusted

exports).[16] Conversely, it is estimated that around 356,400 Russian workers were supported by exports to the United Kingdom in 2018.

3.2.1 Nations and regions trade with Russia

39) The UK exported about £2.8bn in goods to Russia in 2021.[17] Table 2 shows a breakdown of these exports across UK nations and regions. The West Midlands had the greater relative share of the trade with Russia – 19% of all the UK exports to Russia in 2021 came from the region. 9% of the UK businesses trading with Russia in that year were located in the region as well.[18] The South East had the greatest share of businesses trading with Russia – 18% of all the UK exporters to the country in 2021 were located in the region.

40) The UK exported £1.7bn in services to Russia in 2021[19]. A breakdown of services trade into UK regions and nations is not available for specific destinations so we cannot assess the geographical distribution of service exports to Russia. At the global level, based on ONS experimental data, in 2020, 48% of all UK service exports were from London, with the South East of England second with 14% of all service exports. Similarly, 50% of UK exports in Professional, scientific and technical activities, which includes accounting, management and business consulting and public relations, came from London, with South East England the second largest region with 19% of exports[20].

Table 2: UK Nations and Regions' goods exports to Russia in 2021[21]

[16] OECD (2021) Trade in Employment (TiM) 2021 ed, available from: https://stats.oecd.org/Index.aspx?DataSetCode=TIM_2021# [Accessed 24/05/2022]. These figures include both those whose jobs are supported directly by exports to Russia (I.e. in the export industry) and those whose jobs are supported indirectly by exports to Russia (I.e. in supply chains).
[17] HMRC overseas trade data for 2021, accessed in April 2022, available on https://www.uktradeinfo.com/trade-data/ots-custom-table/
[18] A trader is here defined as a business or private individual uniquely identified via their VAT number. The regional information for each trader and its export value has been identified generally using its registered head office address.
[19] ONS UK trade in services: service type by partner country, non-seasonally adjusted https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/datasets/uktradeinservicesservicetypebypartnercountrynonseasonallyadjusted
[20] ONS Subnational Trade in Services https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/datasets/subnationaltradeinservices
[21] Source: HMRC Regional Trade Statistics, using 2021 figures (https://www.gov.uk/government/statistical-data-sets/regional-trade-statistics-analysis-fourth-quarter-2021).

UK Region or Nation	Russia Exports Value	Russia Exports Value (%)	Russia Exporters Population[22]	Russia Exporters Population (%)
West Midlands	£522.7m	19%	459	9%
South East	£445.8m	16%	893	18%
North West	£284.5m	10%	539	11%
East of England	£252.6m	9%	579	11%
London	£175.1m	6%	710	14%
Scotland	£173.4m	6%	289	6%
North East	£170.2m	6%	126	2%
South West	£155.6m	6%	378	7%
East Midlands	£150.3m	5%	359	7%
Yorkshire & the Humber	£143.9m	5%	390	8%
Wales	£109.2m	4%	144	3%
Other[23]	£101.8m	4%	137	3%
Northern Ireland	£52.2m	2%	58	1%
N/A[24]	£40.3m	1%	N/A	N/A

Source: HMRC Regional Trade Statistics, using 2021 figures (https://www.gov.uk/government/statistical-data-sets/regional-trade-statistics-analysis-fourth-quarter-2021). Please note these statistics exclude non-monetary gold, and therefore are not representative of the full list of HS codes sanctioned.

41) The UK imported an estimated £18bn in goods from Russia in 2021.[25] Table 3 shows a breakdown of these imports across UK nations and regions. 34% of the value of all UK imports from Russia were assigned to London – more than double the share of the next region (the South East). Nevertheless the percentage of the overall number of UK traders importing from Russia is broadly the same across these two regions (16% of these traders are located in London and 17% in the South East).

42) The UK imported £0.8bn in services from Russia in 2021[26]. As for exports, breakdowns of services trade to Russia disaggregated to UK nations and regions are not available. At the global level, based on ONS experimental data, in 2019, 41% of all UK service imports were to London, with the South East of England second with 13% of total imports. 42% of UK exports in Professional, scientific and technical activities, which includes accounting, management and business consulting and public relations, were to London, with the East of England the second largest region with 20% of imports[27].

Table 3: UK Nations and Regions' goods imports from Russia in 2021[28]

[22] These data are using the proportion method, where a business will be counted as a fraction in each region they trade based on the proportion of their employees in each region.

[23] Traders not registered to a UK region, including Isle of Man, Channel Islands and non-UK addresses.

[24] Trader details, including registered address, are not provided for these traders.

[25] HMRC overseas trade data for 2021, accessed in April 2022, available on https://www.uktradeinfo.com/trade-data/ots-custom-table/

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

[27] ONS Subnational Trade in Services https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/datasets/subnationaltradeinservices

[28] Source: HMRC Regional Trade Statistics, using 2021 figures (https://www.gov.uk/government/statistical-data-sets/regional-trade-statistics-analysis-fourth-quarter-2021).

UK Region or Nation	Russia Imports Value	Russia Imports Value (%)	Russia Importers Population29	Russia Importers Population (%)
London	£2,375.5m	34%	227	16%
South East	£1,087.5m	16%	243	17%
Yorkshire & the Humber	£831.7m	12%	116	8%
North West	£543m	8%	141	10%
Other	£376.4m	5%	53	4%
East of England	£365.9m	5%	160	11%
Wales	£354m	5%	44	3%
Scotland	£331.8m	5%	90	6%
West Midlands	£283.4m	4%	104	7%
South West	£194.4m	3%	98	7%
North East	£116.3m	2%	35	2%
East Midlands	£79.7m	1%	104	7%
Northern Ireland	£58.6m	1%	38	3%
N/A	£5.2m	0%	N/A	N/A

Source: HMRC Regional Trade Statistics, using 2021 figures (https://www.gov.uk/government/statistical-data-sets/regional-trade-statistics-analysis-fourth-quarter-2021). Please note these regional statistics exclude non-monetary gold, and therefore are not representative of the full list of HS codes sanctioned.

3.2.2 UK trade with Russia by business size

43) 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.[30]

44) Tables 4 and 5 illustrate the change from 2014 to 2020 on the number and type of businesses trading with Russia. Tables 6 and 7 cover 2020 only but display a more detailed breakdown of the companies trading with Russia in that year (for example including micro companies, which have 1 – 9 employees).

45) 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.

46) Around half of businesses importing goods from Russia in 2020 also employed fewer than 50 employees. Unlike exporters, the total number of UK importers importing from Russia has increased between 2014 and 2020, although given disclosure issues it is not possible to determine the growth in the number of trading firms by size.

[29] These data use the proportion method, where a business will be counted as a fraction in each region they trade based on the proportion of their employees in each region.
[30] 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

Table 4: UK exports of goods to 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%

Source: 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

Table 5: UK Imports of goods from Russia by firm size

Business Size (No. of Employees)	Number of businesses		Percentage change between 2014 and 2020		Share of business importing goods to Russia in 2020
	2014	2020	Number of business importing goods to Russia	Value of goods imports to Russia	
0 to 49	467	626	34%	Supressed	50%
50 to 249	204	252	24%	19%	20%
250 +	225	236	5%	301%	19%
Unknown	55	128	133%	Supressed	10%
Total	951	1,242	31%	196%	100%

Source:
Notes: 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. Note some data is supressed due to disclosure issues. https://www.gov.uk/government/collections/uk-trade-in-goods-statistics-by-business-characteristics#historical-releases.

47) As table 6 illustrates although almost 70% of the value of the UK goods exports to Russia in 2020 originated from large (250+ employees) companies, more than half of the companies exporting to Russia were either small (10 to 49 employees – 31% of all companies exporting) or medium (50 to 249 employees – 26% of exporters population).

Table 6: Percentage of export value and number of goods exporters to Russia in 2020 by business size[31]

[31] Source: HMRC Trade in Goods by Business Characteristics, using 2020 figures (https://www.gov.uk/government/statistical-data-sets/uk-trade-in-goods-by-business-characteristics-2020-data-tables).

Business Size[32]	Russia Exports Value	Russia Exports Value (%)	Russia Exporters Population	Russia Exporters Population (%)
Large	£1,436.8m	67%	547	14%
Medium	£330.6m	15%	985	26%
Small	£144.1m	7%	1,185	31%
Micro	£58.3m	3%	772	20%
Zero	£0.1m	0%	13	0%
Unknown[33]	£175.8m	8%	280	7%

Source: HMRC Trade in Goods by Business Characteristics, using 2020 figures**.**

48) The concentration of the value of the trade around large companies is even larger in the imports trade. 91% of all the value of the goods imports from Russia in 2020 associated with large businesses.

Table 7: Percentage of import value and number of goods importers from Russia in 2020 by business size[34]

Business Size	Russia Imports Value	Russia Imports Value (%)	Russia Importers Population	Russia Importers Population (%)
Large	£17,407m	91%	236	19%
Medium	£522.9m	3%	252	20%
Small	£222.7m	1%	272	22%
Micro	£340.6m	2%	342	28%
Zero	£0.1m	0%	12	1%
Unknown	£549m	3%	128	10%

Source: HMRC Trade in Goods by Business Characteristics, using 2020 figures.

49) Equivalent data are not available for services trade with Russia. In 2021, 99.4% of accounting, management and business consulting and public relations firms were small and medium sized businesses, these accounted for 56.5% of all employment within these sectors[35].

3.3 Impacts specific to export measures

3.3.1 Economic impacts of export measures aimed at Russia

50) This section of the Impact Assessment covers the wider context of the UK exports to Russia in the products covered by this Statutory Instrument. For the estimates of the Net Present Social Value and Equivalent Annual Net Direct Cost to Business please see section 3.5.2 (Aggregated monetised impacts of proposed measures).

Trade impacts related to goods export measures

[32] Business size groups are based on IDBR employee data and represent the size of the business based on its number of employees: (0='Zero Employees', 1 to 9='Micro', 10 to 49='Small', 50 to 249='Medium', 250+='Large').
[33] Trader details, including business size, are not provided for these traders.
[34] Source: HMRC Trade in Goods by Business Characteristics, using 2020 figures (https://www.gov.uk/government/statistical-data-sets/uk-trade-in-goods-by-business-characteristics-2020-data-tables).
[35] Business population estimates 2021 (https://www.gov.uk/government/statistics/business-population-estimates-2021). These data refer to the UK business population, which may not be comparable to the UK exporting business population.

51) In 2021, the total value of UK goods exports to Russia under the commodity codes covered by the proposed measures in the legislation was £365m, representing 13% of all UK goods exports to Russia in 2021[36]:

Table 8: Total value of UK goods exports to Russia under the commodity codes covered by the proposed measures (2021)

Measure	Value of goods exports to Russia (2021, £m)	Proportion of goods exports to Russia relative to total goods exports to Russia (2021, %)
Expansion of Energy Related Goods list	£50.7m	1.8%
G7 Dependencies list	£314.1m	11.3%

Source: DIT analysis based on HMRC data.

52) Table 9 presents details on the regional distribution of the traders that exported to Russia in these codes in 2021. Overall, 784 traders exported goods from the UK to Russia in the sanctioned codes in 2021, some of which may also export other goods wholly or partially sanctioned in previous measures. Under goods codes already partially or wholly sanctioned, 2,932 traders exported to Russia in 2021..

53) The West Midlands is the region most impacted in terms of the value of exports to Russia in the sanctioned codes – worth £122.2 billion, 47% of the total, in 2021.The North West is the region most impacted in terms of the number of traders who exported to Russia in the sanctioned codes in 2021 – with 119 traders making up 15% of the total.

Table 9: Export Value and Number of Exporters to Russia in 2021 in HS codes partially or wholly sanctioned, by region[37,38] **UK Region or Nation**	Value (£m)	Share of value (%)	No. of Traders	Share of number of traders (%)
West Midlands[39]	£122.2m	47%	96	12%
South East	£32.7m	13%	112	14%
North West	£33.2m	13%	119	15%
East of England	£5.7m	2%	62	8%
London	£11.3m	4%	54	7%
Scotland	£7.6m	3%	49	6%
North East	£9.5m	4%	28	4%
South West	£6.6m	3%	49	6%
East Midlands	£6.9m	3%	63	8%
Yorkshire & the Humber	£7.8m	3%	82	10%
Wales	£3.2m	1%	25	3%
Other	£3.3m	1%	18	2%
Northern Ireland	*	*	15	2%
N/A[40]	*	*	12	2%

Source: derived from analysis of HMRC microdata on 2021 trade data.

54) Table 10 presents details on the business size of the traders that exported to Russia in these codes in 2021.

[36] HMRC Overseas Trade Statistics: https://www.uktradeinfo.com/trade-data/overseas/
[37] When a small number of traders or high concentration of trade in a few traders is associated with a category, providing the value of the trade in that category could be disclosive. In other words it would be possible to identify the company using the information on the table. When that is the case an asterisk was used instead of the value of exports.
[38] Source: derived from analysis of HMRC microdata on 2021 trade data.
[39] * Suppressed for confidentiality.
[40] Trader details, including registered address, are not provided for these traders.

55) There were more Medium sized businesses (247) who exported to Russia in the sanctioned codes in 2021, than those of other sizes. However, Large businesses made up the largest share of the value of UK exports to Russia in the sanctioned codes – worth £157.9 million (61% of the total) in 2021 - even though they only accounted for 18% of traders impacted.

Table 10: Export value, business size and number of exporters to Russia in 2021 in HS codes covered in this regulation [41,42]

Business Size	Value (£m)	Share of value (%)	No. of Traders	Share of number of traders (%)
Large	£157.9m	61%	139	18%
Medium	£56.6m	22%	247	32%
Small	£14.3m	6%	215	27%
Micro	£10.6m	4%	127	16%
Zero	*	*	*	*
Unknown[43]	*	*	*	*

Source: derived from analysis of HMRC microdata on 2021 trade data.

Impacts related to service export measures

56) As set out above, data on services trade between the UK and Russia cover up to 2021 and pre-dates the conflict in Ukraine. Accountancy, management and business consultancy and public relations exports from UK to Russia totalled £55 million in 2021. This comprised of 3.2% of UK service exports to Russia in 2021. Exports to Russia comprised of 0.02% of all UK exports within accountancy, management and business consultancy and public relations sectors.

Services measure only: Total cost of forgone service exports

Table 11: Total value of UK services exports to Russia under the proposed measures (2021)

Measure	Value of goods exports to Russia (2021, £m)	Proportion of goods exports to Russia relative to total goods exports to Russia (2021, %)
Total service measures	£55m	3.2%

57) Data on the number and size of firms exporting services to Russia are not currently available, therefore we are unable to provide estimates on the impact of these measures on small and medium businesses.

3.3.2 Regulatory impact of export measures aimed at Russia

58) Regulatory impacts are defined as the cost to UK firms to comply with the proposed measures. As the measures are a set of bans on imports and exports the regulatory cost is seen as primarily a one-off familiarisation cost with the new regulations

[41] Business size groups are based on IDBR employee data and represent the size of the business based on its number of employees: (0='Zero Employees', 1 to 9='Micro', 10 to 49='Small', 50 to 249='Medium', 250+='Large').
[42] Source: derived from analysis of HMRC microdata on 2021 trade data.
[43] Trader details, including business size, are not provided for these traders.

59) The Impact Assessment FCDO2201 [The Russia (Sanctions) (EU Exit) (Amendment) (No.3)] outlined an estimated regulatory cost for the proposed measures in that Statutory Instrument.[44] To reach that estimate a number of assumptions were used:
    a. That the regulations proposed allowed for certain exceptions.

    b. UK business would need to apply for additional licences when exporting.

    c. Annual average of all types of licences – including licences that were both issued and refused - for exports to Russia.

    d. Estimated cost of application for a licence.

60) The total regulatory cost of the preferred option was the product of the number of additional licences processed annually and the unit cost of an individual licence.

61) The set of proposed measures in this Statutory Instrument are also subject to exceptions and licences.[45] But they are expected to be minimal (see section 3.3.3) and non-significant.

62) To calculate regulatory impacts this Impact Assessment based its approach on the RPC's guidance on implementation costs.[46] Familiarisation costs - incorporating the potential dissemination of information throughout the business, IT system changes or possible training costs - are estimated.

63) As it is expected that companies will only need to check if the product(s) that they are trading with Russia falls under these regulations it is assumed that one hour will be required for this familiarisation per company. This relatively small amount of time also reflects UK companies' actual behaviours – as table 1 suggests many UK companies are self-embargoing their trade with Russia. Factors such as the chilling effect described in section 3.5.1 also contribute to the expectation that UK – Russia trade will be significantly reduced if compared to 2021 and we assume that many companies expect that the products they trade with Russia could be sanctioned soon if that has not already taken place.

64) Regulatory impacts are calculated by multiplying the number of traders exporting goods to Russia in 2021 on the HS codes covered by the measures covered in this Impact Assessment (over 780 by the UK average wage for one hour (based on the ONS' provided median weekly pay in April 2021 - £611 – rebased to 2019).[47,48] A 35-hour weekly number of hours worked is assumed.

65) Additionally, a 22% uplift is added to the labour cost mentioned above. Labour costs consist mainly of wage and salaries but also non-wage labour costs, such as employers' National Insurance contributions. This uplift is included to ensure that the full cost to the employer of an employee's time is accounted for.

66) Overall regulatory costs for the group of goods exporters affected by these measures are estimated to be £17,416.

67) It was not possible to identify the number of services exporters affected by these measures, so an equivalent regulatory cost has not been identified. As such, the regulatory costs captured in this IA is an underestimate. It is not expected that these costs will be significant.

[44] https://www.legislation.gov.uk/uksi/2022/195/impacts.
[45] These exceptions and licences are in addition to the statistical threshold below which transactions may be aggregated in UK trade statistics. This statistical threshold is currently defined in legislation as '£873 (in value) or 1,000kg (in net mass). https://www.uktradeinfo.com/news/statistical-threshold-sterling-figure-to-apply-for-2021/.
[46] https://www.gov.uk/government/publications/rpc-short-guidance-note-implementation-costs-august-2019
[47] Source for number of traders: derived from analysis of HMRC microdata on 2021 trade data.
[48]https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2021

3.3.3 Administrative and enforcement impacts of export measures aimed at Russia

68) Administrative and enforcement impacts are defined as the cost to HM Government of processing licence applications and enforcing these under the updated regulatory framework.

69) The set of proposed measures in this Statutory Instrument are subject to exceptions and licences.[49] They are necessary to reduce unintended consequences, bring the presumed impact on the UK of the associated sanctions measures into tolerable bounds, support wider HM Government interests overseas and mitigate risks of divergence with partners. Further information on the licences and exceptions can be found in the statutory guidance.[50]

70) Nevertheless, the cost of processing and enforcing potential licences for the set of export prohibitions proposed in this set of measures – or the associated exemptions – is not expected to be significant.

71) Primarily this is because HMG does not expect a large number of requests for licences on the export measures covered in this Statutory Instrument.

72) Rationale for this expectation include:

   a. As table 1 (with a comparison of the May 2021 vs May 2022 UK – Russia trade) indicates, there has been a significant reduction in UK trade with Russia since the invasion – which also decreases the number of licences that would be required. Reasons for this reduction in trade include companies' self-embargos and the 'chilling effect' (see section 3.5.1).[51]

   b. If such requests are received it is expected that they would be very specific and limited in number. E.g. a licence to trade a particular chemical.

   c. It is also expected that licences on humanitarian grounds, if received, would be few.

73) Nevertheless, it is possible that there may be a learning cost for companies that decide to apply for exports licences against the set of proposed measures, as such companies may have limited experience in licensing. Such cost would be incorporated in the one-off regulatory impact outlined in section 3.3.2.

3.3.7 Additional factors to consider on export measures

74) The services sanctions cover exports to Russia provided through all modes of supply, including Mode 3; services provided within a country by a locally-established affiliate, subsidiary, or representative office of a foreign-owned and controlled company (bank, hotel group, construction company, etc.). UK-owned foreign affiliates captured within the scope of these sanctions are unable to legally operate within Russia. Whilst some UK-owned accounting, management and business consulting and public relations firms have voluntarily chosen to exit the Russian market due to the conflict, these sanctions are likely to lead to closures of UK-owned Russian firms or divestment from these firms by UK investors in these sectors. This will lead to administrative costs to UK firms from divestment or closure of entities operating in Russia and reduced overseas income from these firms.

75) The loss of revenue from Mode 3 trade is not captured in monetised costs of the IA, as data on income from foreign affiliates is excluded from ONS Trade in services export estimates. ONS

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[49] These exceptions and licences are in addition to the statistical threshold below which transactions may be aggregated in UK trade statistics. This statistical threshold is currently defined in legislation as '£873 (in value) or 1,000kg (in net mass). https://www.uktradeinfo.com/news/statistical-threshold-sterling-figure-to-apply-for-2021/.

[50] https://www.gov.uk/government/publications/russia-sanctions-guidance/russia-sanctions-guidance.

[51] It is worth noting that the primary cost of these measures to UK businesses will be the opportunity cost of future profit they may have made from the export or import of goods and services covered in these measures. This level of profit loss is reduced by self-sanctioning and the chilling effect. Therefore it is reasonable to expect that the NPSV figures presented in this Impact Assessment may be an overestimate.

experimental statistics suggest that in 2019, Mode 3 income made up 73% of all UK 'other business services' exports (which would include the accounting, management and business consulting and public relations). There are limited data on the number of UK owned foreign affiliates within the accounting, management consulting or public relations sectors operating in Russia. UK owned foreign affiliates in Russia within 'Professional, scientific and technical activities' accounted for £2.1billion in turnover, around, 16,900 in terms of persons employed across 77 enterprises in 2019.

3.4 Impacts specific to import measures

76) Similar to section 3.3 (Impacts specific to export measures) this segment covers the context of the UK imports to Russia in the products covered in this set of measures. Section 3.5.2 presents the aggregated (exports and imports) impacts.

77) As detailed in section 1.3.2, there are three import measures in scope for this package of sanctions; prohibitions on the import, acquisition or supply and delivery into the UK of oil and oil products, coal and coal products that originate in or consigned from Russia, and gold that originate from Russia.

78) None of the import-related measures covered in this impact assessment are aimed at non-government controlled Ukrainian territories (NGCUT). There is already an import ban in place on all imports from NGCUT introduced via the Russia (Sanctions) (EU Exit) (Amendment) (No. 7) Regulations 2022.[52]

3.4.1 Economic impacts of ban on goods imports

79) This section of the Impact Assessment covers the wider context of the UK imports from Russia in the products covered by this Statutory Instrument. For the estimates of the Net Present Social Value and Equivalent Annual Net Direct Cost to Business please see section 3.5.2 (Aggregated monetised impacts of proposed measures).

80) In 2021, the total value of UK goods imports from Russia under the commodity codes covered by the proposed measures in the legislation was £16bn, representing 82% of all UK goods exports to Russia in 2021[53].

Table 12: Total value of UK goods exports to Russia under the commodity codes covered by the proposed measures (2021)

Measure	**Value of goods imports to Russia (2021, £m)**	**Proportion of goods imports to Russia relative to total goods import to Russia (2021, %)**
Oil	£4,266	22%
Coal	£197	1%
Gold	£11,078	58%

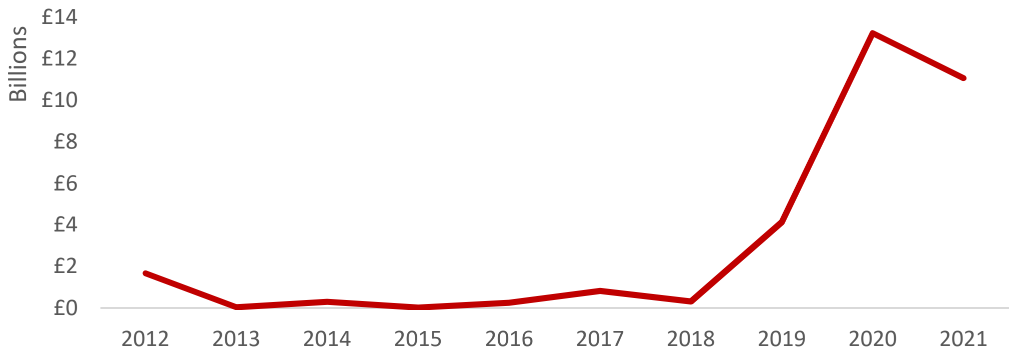
Source: DIT analysis of HMRC data (2021)

81) Whilst these figures may appear quite significant, energy imports and gold imports require a more nuanced assessment than that associated with export restrictions. As such, it is expected that the value of the trade flow may not be an accurate estimation of the economic cost of the restriction.

[52] https://www.legislation.gov.uk/uksi/2022/395/contents/made
[53] HMRC Overseas Trade Statistics: https://www.uktradeinfo.com/trade-data/overseas/

82) Gold is classified as an erratic good, as its high value can drive trade values up substantially. As illustrated in Figure 3, UK imports of gold from Russia were very high in 2020 and 2021, but this is a recent trend, beginning in 2019.

Figure 3: UK imports of gold from Russia, £ Billion



Source: HMRC (ONS) Overseas Trade Statistics (OTS), extracted July 2022.

83) Due to the unprecedented nature of the energy restrictions, the impacts identified are non-monetised, as we do not have sufficient data to determine the magnitude of each different channel of impact..

84) Each category of import restrictions is expected to have unique channels of impact. As such, a qualitative assessment of each package will be provided separately, with an overview of combined impacts.

Economic impacts related to oil import measures

Market impact

85) The UK imports relatively small volumes of oil directly from Russia. The UK imported around 181 thousand barrels per day (kb/d) of Russian oil in 2021, comprising 58 kb/d of crude oil, 87 kb/d of diesel and 36 kb/d of other products – making up 13% of UK oil imports in total. Deliveries of Russian oil to the UK have dropped off significantly since the invasion of Ukraine in February 2022.

86) UK consumers are exposed to changes in global oil markets. Crude oil prices are affected by complex interconnected global oil supply and demand changes. The prices of refined oil products (e.g. petrol and diesel) are determined by related, but ultimately separate, regional product markets. It is these markets that determine the price at the pump for UK consumers.

87) It is expected that the UK's proposed Russian oil ban will not have a material impact on international oil markets and so will not have a material impact on consumer prices. UK imports made up around 2.5% of Russia's total oil exports in 2021 and were equivalent to around 0.2% of the global oil market. Even if none of that oil were to find an alternative buyer, the supply shock to the global market would not be large enough to move either crude or wholesale product prices materially. Any price impact of the removal of such small volumes of supply would be lost in the noise of daily price fluctuations.

88) It is possible, however, that UK consumers will experience materially higher prices at the pump due to the impact of wider collective action including the UK and partner countries – including those of the EU and the G7. It is not yet clear exactly what the impact of partners' sanctions will be. The EU has announced a seaborne oil ban along with oil transport insurance and financing measures. The G7 are also exploring an oil price cap measure. The EU alone imported around 45% of Russia's oil exports in 2021 (3.7% of the global market) and its announced ban and other related measures are much more likely to cause a significant supply shock and move international markets than the UK measures.

89) Costs of crude and processing have increased in 2022 at a time when demand for finished fuels is strong and spare crude refining capacity low – leading to tight and expensive markets. The broader international sanctions could both materially increase the price of crude and put even greater strain on refining capacity – creating significant upward pressures on European product markets (and therefore UK and European consumer prices) from two separate sources. The impacts of partner countries' sanctions are not within the scope of this impact assessment, however.

Sourcing alternative supplies

90) We do not expect there to be significant additional costs associated with the sourcing of alternative supplies that have not already been taken on or that are not likely to be taken on by companies voluntarily.

91) UK refiners and other importers have already significantly reduced deliveries of Russian oil through self-sanctioning. Industry has reported that most of the Russian oil imported to the UK since the invasion of Ukraine had been legacy imports from term contracts. As these have expired, UK importers have avoided Russian oil – bringing imports down by around 50%, and possibly more[54], versus 2021 levels by May 2022. Indications from industry are that these are likely to have fallen further in June.

92) There may have been some small, one-off administrative and business costs associated with switching – sourcing and negotiating with new suppliers and creating new business relationships. These costs are not likely to have been significant and, in any case, have already mostly been taken on voluntarily by industry for reputational reasons. For any volumes not phased out voluntarily, the timing of the import ban should allow for better adjustment and lower costs because it allows market players time to source alternative supplies and negotiate commercial terms. The measures passed in this legislation will therefore not have any material additional administrative cost for importers.

93) It is possible that some UK refiners may struggle to source certain feedstocks, leading to lower throughput and less efficient operation, which could negatively impact profits. Industry engagement has indicated that some petroleum/oil products are likely to be more difficult or expensive to source than others – particularly after the announced EU ban comes into force, when they may become very scarce. These include heavier products such as non-crude refinery feedstocks – which in 2021 made up around 9% of UK imports from Russia and 1.2% of total UK oil imports – and bitumen. Some businesses more reliant on these products may be disproportionately affected. A shortage of bitumen may have a broader social and economic impact as it may impair road construction and repair.

94) In replacing Russian oil imports, UK buyers have sourced oil from further afield, increasing shipping costs. Shipping and other transport-related costs are typically paid for by the buyer and are determined mainly by tanker day rates and insurance premiums. Shipping costs can vary according to market conditions, vessel type and distance, but typically make up only a very small portion of overall costs – generally acknowledged often to be in the region of about 0.5-1p per litre of crude or finished product. To date, Russian imports have been displaced in large part by imports from the Middle East – from where journey times to the UK are around four times longer than from Russia (about a week, versus a month). Longer journey times may in some cases be offset by the use of more economic larger vessels, but a restructuring of flows may also lead to unforeseen logistical supply chain issues. It is not possible to estimate accurately the overall impact on costs against a complex backdrop of shifting journeys, vessel sizes and rates. Furthermore, some unknown portion of the higher shipping costs may accrue to UK shippers and some may be offset by regional oil and product price differentials – further complicating any estimate of overall cost impact. Most of any potential additional cost is

[54] Official statistics for May 2022 are still provisional. There is strong evidence that reported data on imports from Russia includes some crude that is shipped from a terminal in Russia but is Kazakh in origin and is not included in the import ban. We are working with industry to confirm this. If confirmed, this would show a further reduction in Russian imports reported for May.

already being taken on voluntarily, as buyers are understood to have largely stopped importing Russian oil already, without formal legislation.

95) Shipping costs may increase further in 2023, after EU and other partners' potential measures come into force. It is not known how a broader restructuring of oil flows next year will affect the shipping industry, although increased demand for shipping services may increase day rates for certain tanker classes materially. Tanker day rates increased significantly following the invasion of Ukraine, although not as a result of changes in UK import patterns specifically. The impact of partners' measures is not within the scope of this impact assessment.

Opportunity Cost

96) A ban on the import of Russian oil would prevent UK refiners from accessing potentially relatively cheaper Russian crude or refinery feedstocks in the future. Russia's flagship Urals grade crude, which makes up the majority of its seaborne crude exports west, is reportedly trading at significant discounts to other crudes of around $35 per barrel – presenting a potentially significant economic opportunity for any refiners willing or able to process it. Other western grades may also be trading at a discount. To date, UK refiners have considered that any potential cost savings from buying Russian crude are outweighed by the reputational risk of buying Russian oil. Without legislation to enforce the ban, it is possible that UK refiners may choose to stop self-sanctioning and profit from much-improved margins.

97) Any cost savings refiners could in theory make from processing potentially cheap Russian crude or refinery feedstocks likely would not be passed on to consumers. As finished products are internationally traded, UK consumers are exposed to international prices and markets – so any opportunity cost of not buying Russian crude would apply exclusively to the UK refining industry.

98) Consumers or importers of finished products could, in theory, benefit from the import of potentially cheap Russian finished products, particularly diesel. Diesel made up around 48% of UK oil imports from Russia in 2021. Around 20% of UK diesel demand was met by Russian imports in 2021 and Russian diesel is also likely to be trading at a discount. European diesel markets are likely to become even tighter when the planned EU ban comes into force, which would provide added incentive for terminals to import potentially discounted Russian diesel.

99) We have not attempted to monetise any potential opportunity cost for either industry or consumers of finished products. Russian discounts will be dependent on the form and effectiveness of coordinated sanctions from partners, and UK buyers have already demonstrated that they are willing to forego Russian oil voluntarily as they have compelling reputational reasons to do so.

UK Government Revenues

100) UK government tax revenues are unlikely to change materially as a result of the oil ban. The UK tax component of retail petrol and diesel prices was around 60% in 2021. This comprised a flat fuel duty of 57.95p per litre on petrol and diesel and a 20% VAT rate (applied after the duty). The fuel duty on petrol and diesel was lowered to 52.95p per litre in March 2022. The UK oil import ban outlined in this legislation is not likely to have a significant impact on global supply balances and markets, and so is not likely to have a significant impact on consumer prices or UK demand. It is not possible to assess changes to UK government tax take from oil production or refining operations.

Ancillary Services

101) There is a broad range of services companies all along the oil supply chain that are involved in the trade of oil. Due to the very broad range of companies and limited data on their involvement, we have not been able to carry out any analysis of the impacts this legislation may have on UK providers of ancillary services related to the import of Russian oil.

102) The inclusion of a ban on ancillary services in this legislation will not have any additional impact on global or regional crude or product markets as it will only apply to UK imports of Russian oil, which will themselves be prohibited.

Carbon Costs

103) We do not expect the UK oil ban to have a significant impact on UK carbon emissions. It is possible that, if UK refineries are not able to source suitable alternatives, refinery processes may be less efficient and fuel production marginally more carbon intensive. But this may be offset by lower production levels.

104) Sourcing alternatives to Russian oil from further afield would likely increase transport-related carbon emissions. Longer transport routes will see increased emissions at the global level, but as these will occur outside of the UK they are not within the scope of this impact assessment.

Transfers

105) The UK oil import ban outlined in this legislation is not likely to have a material or measurable impact on global supply balances and markets, and so is not likely to have a material or measurable impact on consumer prices – particularly as UK imports have fallen sharply already through self-sanctioning.

106) If there were any price increases as a result of a supply shock to international markets, they would have complex impacts – but they would mostly be internalised in the form of effective (though not necessarily actual) transfers within the UK economy, due to the UKs oil trade balance.

Summary of impacts resulting from an oil import ban

107) The table below provides a summary of impacts of the proposed ban on the import of Russian oil. We expect that each channel of impact will provide weak, or neutral, impacts on the UK, and further, for the cumulative impact, we do not expect there to be a material impact on the UK as a result of the imposition of an oil ban.

Table 13: Summary table of impacts resulting from the proposed oil ban

	Costs	**Benefits**	**Net Benefit**
UK Consumers	The UK oil ban is unlikely to move international markets or prices materially, although consumers are denied access to Russian finished fuels, which may sell at a discount to alternatives. Higher transport costs may result in marginally higher prices.	-	Weak potential negative impact
UK Downstream Oil Industry	UK refiners and other fuel suppliers may have already experienced one-off search costs to source alternative suppliers. Some UK refiners may fail to source certain feedstocks, leading to lower throughput and less efficient operation,	The UK oil ban is unlikely to move international product markets or prices materially, but if they do then there would be a transfer to refiners from UK and global consumers.	Weak potential negative impact

	which could negatively impact profits. Denied access to Russian crude and finished fuels, which may sell at a discount to alternatives – although reputational considerations would likely outweigh potential cost savings.		
UK Upstream Oil Producers	-	The UK oil ban is unlikely to move international crude markets or prices materially, but if they do then there would be a transfer to UK upstream industry from UK and global consumers (via refiners).	Weak potential positive impact (transfer from UK and global consumers)
UK Govt Revenues	-	-	Neutral (any increases would be a transfer within the UK economy)
Other	- Potential shortages of certain heavy products such as bitumen may have wider social and economic costs.	-	Weak potential negative impact

<u>Impacts related to coal import measures</u>

108) Russian coal imports have formed a large share of UK coal imports over the past six years (between 34% - 42%). The main types of coal imported from Russia (in terms of absolute volume) are bituminous coal and coking coal. These amounted to between 49% - 98% of the total imported volume between 2016-2021.[55] UK imports of Russian bituminous and coking coal make up large shares of their respective total UK imports, averaging 44% and 32% in turn. In 2020, 23% of the total UK coal supply came from Russia.

109) Initial data for 2022 (January to April) suggests that since the start of the year, imports from Russia have fallen by 63% (compared to an increase of 53% for the same period in 2021). However, imports from Russia remain the second largest after the United States of America. Whilst there are other factors influencing this fall (including seasonality and high gas prices)[56], the response to Russia's invasion of Ukraine is likely to have contributed to the reduction.

110) Coal demand in the UK has decreased over the last five years from 18,035 thousand tonnes (in 2016) to 7,279 thousand tonnes (provisional estimate for 2021).[57] This reduction has been largely driven by reduced consumption in the power sector (78% reduction).

111) The remaining demand for coal comes largely from either making coke and for use in blast furnaces (which is indirectly industry demand), or direct from industry. Coke manufacturing and

[55] The difference in the range between years is driven by non-agglomerated coal. This represents 50% of the coal imports from Russia in 2016 but falls to 6% by 2021. Briquettes and anthracite make up very small amounts of the total imports from Russia.
[56] The largest other impacts are likely to come from seasonality (i.e. imports for spring are likely to be lower given milder weather and the power sector being a large source of coal demand – data for overall coal imports suggests a 50% fall between January and April) and high gas prices (i.e. higher gas prices could result in increased demand for coal – potentially explained by the significantly higher volume of imports in January 2022 versus January 2021).
[57] https://www.gov.uk/government/statistics/solid-fuels-and-derived-gases-section-2-energy-trends

blast furnaces accounted for 2,603 thousand tonnes in 2021. The ultimate user of these coal generated products is mostly likely to be the steel industry.[58] The remaining demand comes from other industries including cement, chemicals, and paper/ printing.[59]

112) We have focused on potential impacts to the largest coal users and therefore those most likely to be affected by this sanction.

UK Consumers (Power Sector and Domestic)

113) Impacts on consumers from a ban on imports of Russian coal are likely to be small. Coal-fired power plants accounted for less than 2% of UK electricity generation in 2020[60] and will be completely phased out of our electricity system by October 2024. Therefore, it is highly unlikely that the price of electricity will be significantly impacted by a ban on Russian coal.

114) There are unlikely to be impacts on security of supply in the GB power market. Market engagement suggest that all three of the GB coal plants have already, or in the final stages of moving away from Russian imports. There are a range of alternative suppliers (including Australia, South Africa, and Columbia) that can provide the required coal.

115) There could be an increase in prices in the Single Electricity Market (SEM) - which covers Northern Ireland. An Energy Trends publication from 2021[61] suggests that 11% of electricity generated came from coal. There is only one large coal-fired power station in Northern Ireland[62] and it forms an important part of the SEM, Therefore, electricity prices could increase if alternative coal suppliers are more costly or if there are challenges in sourcing alternatives.

116) There could be negative (indirect) impacts on security of supply in the SEM. Given the importance of coal-fired generation to the SEM, any challenges to sourcing alternative sources of coal could tighten market conditions across the island of Ireland and pose risks to security of supply.

117) Some domestic households in the UK could also face a negative impact. Data available from housing surveys around the UK (in 2020), suggest that the number of households using coal as their main source of energy was minimal. Nevertheless, an increase in the price of coal (as a result of shifting to alternative sources) would increase their energy bills. However, energy consumption statistics[63] highlight a decreasing role of solid fuels (which includes coal) in domestic consumption which, when coupled with the banning of sales of domestic house coal in England from May 2023[64], might reduce the size of any potential impacts.

Industry (Steel) and UK economy

118) Industry and the UK economy could face impacts from a UK and EU ban on coal imports from Russia. We have focused on the steel industry as the largest coal consuming industry sector. In 2020, the steel industry consumed roughly 40%[65] of all coal in the UK. Of this, 26% of the coal required for UK steelmaking came from Russia.

[58] The steel industry also uses coal directly (without any transformation).
[59] See Annex 1: **Error! Reference source not found.** for a breakdown of the demand for coal in the UK.
[60] See table 5.6: https://www.gov.uk/government/statistics/electricity-chapter-5-digest-of-united-kingdom-energy-statistics-dukes
[61] https://www.gov.uk/government/statistics/energy-trends-december-2021-special-feature-article-electricity-generation-and-supply-in-scotland-wales-northern-ireland-and-england-2016-to-20
[62] There are likely to be small scale producers, but these will form a very minor portion of the total (DUKES data suggests around 3.1% of all coal -fired generation).
[63] https://www.gov.uk/government/statistics/energy-consumption-in-the-uk-2021
[64] https://www.gov.uk/guidance/selling-coal-for-domestic-use-in-england
[65] This is calculated using DUKES table 2.4 and summing consumption of coal in blast furnaces, coke manufacture, and directly by iron and steel.

119) Coal is a raw material required to produce steel[66] and any impacts on the supply of coal may propagate through to the price of steel. The ban of Russian coal imports is likely to result in demand for alternative sources. This is likely to lead to an increase in the price of alternative coal and therefore, increase steel input costs.[67] This may translate to a pro-longed increase in the price of steel, due to higher input costs of non-Russian coal. However, as with the coal price, the Russian invasion of Ukraine, and any resulting sanctions, is only one factor which might affect the price of steel.

120) Evidence from industry suggests that UK steel producers moved quickly to secure alternative sources of coal and therefore no longer source any coal from Russia. Unless secondary impacts from other sectors and countries result in further significant increases to the price of alternative sources of coal, sanctions may be unlikely to have additional impacts on both the steel industry and the wider economy.

121) If the cost of steel were to increase, this could have impacts on the wider UK economy. Steel is an important product with a range of final uses (examples include large infrastructure projects and automotive manufacture). Therefore, an increase in the price of steel, may lead to cost-push inflation in the economy (whereby increases in raw materials prices translate to overall price increases). However, both industry and economy wide impacts may be limited as steel was responsible for only 0.13% of UK GVA in 2021, 1.3% of manufacturing GVA[68].

Global Impacts (prices, alternatives, and impacts on Russia)

122) The global impact from a UK ban on coal imports from Russia is unclear. We have considered how the ban might impact coal prices as well as Russian exports. Both impacts are likely to be linked given the large share Russian coal exports make of the global picture. BP's recent "Statistical Review of World Energy"[69] found that Russian exports made up 17.9% of the world share in 2021 (an increase from 16.9% in 2020)[70]. These exports largely went to the European (roughly 35%) and Asian[71] (roughly 55%) markets[72].

123) As a result of the large global export market share held by Russian coal, any ban on the import of their coal could lead to an increase in the price of alternative (substitutes) sources. The likely impact of a ban of Russian coal is a shift towards alternative, similar sources of coal. This will increase demand for the alternatives, resulting in an increase in price. As a raw material, this could then have indirect impacts within individual economies and push up prices of goods and services (especially those that are dependent on coal). However, it is worth noting the already significant price increase in coal. This is resulting from a range of factors, not only the Russian invasion of Ukraine and related sanctions.

124) As a result of the large global export market share held by Russian coal, any ban on the import of their coal is likely to lead to a reduction in their revenues. The direct impact of a ban on importing Russian coal is reduced exports. This in turn leads to less revenue from coal for Russia. However, the magnitude of impact is unclear. Whilst £377 million worth of coal has been imported to the UK from Russia this year, the net impact of a ban might be less than the full amount. If Russia can export to different markets, it may be able to reduce the impact of

[66] Data shows that coal comprised c.20% of production costs in 2021, which rose to c.45% in 2022. See https://www.steelonthenet.com/cost-bof.html

[67] See paragraphs **Error! Reference source not found.** and 109) for broader context on average coal price increases.

[68] https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/ukgdpolowlevelaggregates

[69] https://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy.html

[70] The unit of measurement for BP statistical review of world energy is exajoules – therefore, given this differs to discussion of tonnes elsewhere, we have focused on shares rather than unit.

[71] We sum the total of inter area movements from Russia to China, India, Japan, South Korea, and Other Asia Pacific to generate the Asian market total.

[72] See Annex 1: **Error! Reference source not found.** for a breakdown of export destinations

lost revenues from the UK. [73] Therefore, the overall impact, whilst likely to be negative, is uncertain in magnitude.

125) Impacts on consumers from a ban on imports of Russian coal are likely to be small. Coal-fired power plants accounted for less than 2% of UK electricity generation in 2020 and will be completely phased out of our electricity system by October 2024. Therefore, it is highly unlikely that the price of electricity will be significantly impacted by a ban on Russian coal.

126) There are unlikely to be impacts on security of supply in the GB power market. Market engagement suggest that all three of the GB coal plants have already, or in the final stages of moving away from Russian imports. There are a range of alternative suppliers (including Australia, South Africa, and Columbia) that can provide the required coal.

127) There could be an increase in prices in the Single Electricity Market (SEM) - which covers Northern Ireland. An Energy Trends publication from 2021 suggests that 11% of electricity generated came from coal. Kilroot is the only large coal-fired power station in Northern Ireland. Whilst Kilroot has stopped buying Russian coal, they form an important part of the SEM. Therefore, electricity prices could increase if alternative suppliers are more costly or if there are challenges in sourcing alternatives.

128) There could be negative (indirect) impacts on security of supply in the SEM. As a result of using alternative suppliers, which may provide more carbon intensive coal, Kilroot could move closer to their emissions limits under the Industrial Emissions Directive. This could lead to constraints in how much electricity they can produce. Given their importance to the SEM, this could tighten market conditions across the island of Ireland and pose risks to security of supply. However, this is likely to be a small risk.

129) Some domestic households in the UK could also face a negative impact. Data available from housing surveys around the UK (in 2020), suggest that the number of households using coal as their main source of energy was minimal. Nevertheless, an increase in the price of coal (as a result of shifting to alternative sources) would increase their energy bills. However, energy consumption statistics highlight a decreasing role of solid fuels (which includes coal) in domestic consumption which, when coupled with the banning of sales of domestic house coal in England from May 2023 , might reduce the size of any potential impacts.

Industry (Steel) and UK economy

130) Industry and the UK economy could face impacts from a UK and EU ban on coal imports from Russia. We have focused on the steel industry as the largest coal consuming industry sector. In 2020, the steel industry consumed roughly 40% of all coal in the UK. Of this, 26% of the coal required for UK steelmaking came from Russia.

131) Coal is a raw material required to produce steel and any impacts on the supply of coal may propagate through to the price of steel. The ban of Russian coal imports is likely to result in demand for alternative sources. This is likely to lead to an increase in the price of alternative coal and therefore, increase steel input costs. This may translate to a pro-longed increase in the price of steel, due to higher input costs of non-Russian coal. However, as with the coal price, the Russian invasion of Ukraine, and any resulting sanctions, is only one factor which might affect the price of steel.

132) Evidence from industry suggests that UK steel producers moved quickly to secure alternative sources of coal and therefore no longer source any coal from Russia. Unless secondary impacts from other sectors and countries result in further significant increases to the price of alternative sources of coal, sanctions may be unlikely to have additional impacts on both the steel industry and the wider economy.

[73] The opportunities in different markets are likely to depend on whether there are equivalent sanctions elsewhere (i.e. preventing the level of exports from Russia), and whether price increases to alternatives, leads to some importers changing coal supplier.

133) If the cost of steel were to increase, this could have impacts on the wider UK economy. Steel is an important product with a range of final uses (examples include large infrastructure projects and automotive manufacture). Therefore, an increase in the price of steel, may lead to cost-push inflation in the economy (whereby increases in raw materials prices translate to overall price increases). However, both industry and economy wide impacts may be limited as steel was responsible for only 0.13% of UK GVA in 2021, 1.3% of manufacturing GVA .

Global Impacts (prices, alternatives, and impacts on Russia)

134) The global impact from a UK ban on coal imports from Russia is unclear. We have considered how the ban might impact coal prices as well as Russian exports. Both impacts are likely to be linked given the large share Russian coal exports make of the global picture. BP's recent "Statistical Review of World Energy" found that Russian exports made up 17.9% of the world share in 2021 (an increase from 16.9% in 2020) . These exports largely went to the European (roughly 35%) and Asian (roughly 55%) markets.

135) As a result of the large global export market share held by Russian coal, any ban on the import of their coal could lead to an increase in the price of alternative (substitutes) sources. The likely impact of a ban of Russian coal is a shift towards alternative, similar sources of coal. This will increase demand for the alternatives, resulting in an increase in price. As a raw material, this could then have indirect impacts within individual economies and push up prices of goods and services (especially those that are dependent on coal). However, it is worth noting the already significant price increase in coal. This is resulting from a range of factors, not only the Russian invasion of Ukraine and related sanctions.

136) As a result of the large global export market share held by Russian coal, any ban on the import of their coal is likely to lead to a reduction in their revenues. The direct impact of a ban on importing Russian coal is reduced exports. This in turn leads to less revenue from coal for Russia. However, the magnitude of impact is unclear. Whilst £377 million worth of coal has been imported to the UK from Russia this year, the net impact of a ban might be less than the full amount. If Russia can export to different markets, it may be able to reduce the impact of lost revenues from the UK. Therefore, the overall impact, whilst likely to be negative, is uncertain in magnitude.

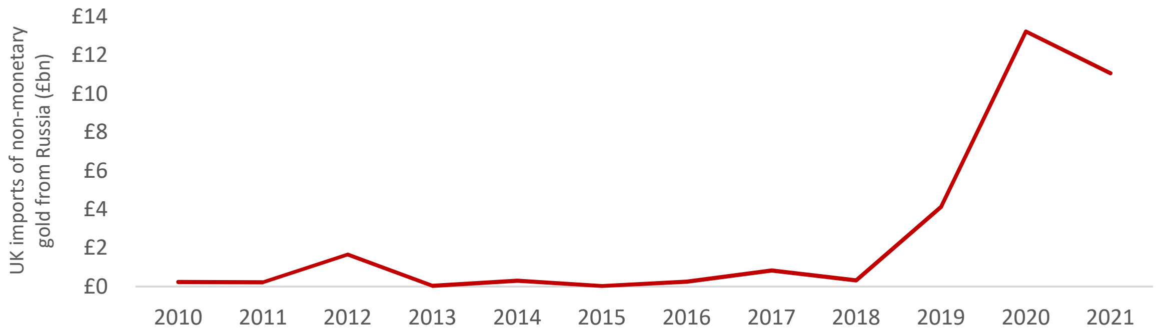
<u>Impacts related to gold import measures</u>

137) The UK imported £11.1bn in non-monetary gold (HS7108) from Russia in 2021, based on HMRC data (which measures the physical movement of a good across a border). All of this was classified as semi-manufactured (thought to be gold bullion). All 2021 UK imports from Russia were on CN: 71081310 "Bars, rods, wire and sections, plates, sheets and strips of a thickness, excl. any backing, of > 0,15 mm, of gold, incl. gold plated with platinum".

138) UK gold imports from Russia are volatile and have increased sharply in recent years. In 2010, imports from Russia of non-monetary gold were worth around £243m. Until 2018, imports stayed at relatively low levels, averaging around £400m per year. In 2019 they jumped to £4.1bn and in 2020 they rose again to £13.2bn, remaining at an elevated level of £11.1bn in 2021.

139) During this period, the vast majority of gold imports from Russia have been classified as semi-manufactured, including gold bars. Imports of unwrought gold were zero between 2015 and 2021.

Figure 2: UK imports of non-monetary gold (HS7108) from Russia over time, £bn

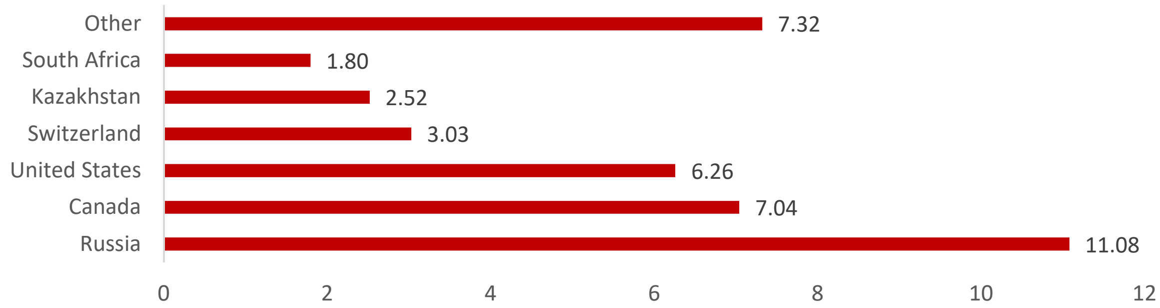


Source: HMRC trade in goods data (2021)

Dependency

140) The UK's imports of gold from Russia were larger than imports from any other country, and made up 28% of a total £39bn of UK gold imports in 2021. Other countries that the UK imported significant amounts of gold from in 2021 include Canada (18%), USA (16%), Switzerland (8%), Kazakhstan (6%) and South Africa (5%).

Figure 2: UK imports of gold (HS7108) by country in 2021, £bn



Source: HMRC trade in goods data (2021)

141) The dependency in the other direction is starker - 89% of total Russian exports of gold in 2021 went to the UK . Of the remaining 11%, the main importers were Switzerland (2%), Kazakhstan (2%), India (2%) and Germany (2%). In 2020, Russia was the 6th largest global exporter of gold, accounting for 4% of global gold exports.

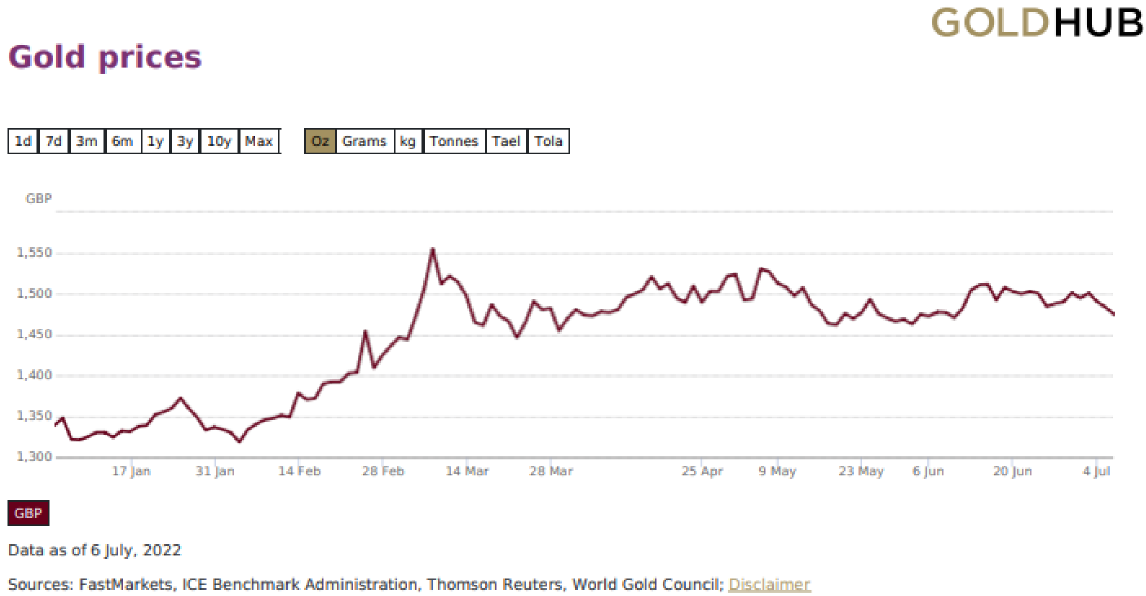
London Bullion Market Association (LBMA) Action on 7 March

142) On 7 March, the LBMA suspended six Russian refiners to maintain an orderly market following Russia's invasion of Ukraine. Bars from the six refiners will no longer be accepted as "Good Delivery" by the London Bullion market, which means imports from these refiners cannot come into London as accredited and tradable bars of gold.

143) The UK's import ban on new Russian gold gives legal backing to the LBMA's actions, banning the import of Russian origin gold physically exported from Russia after the date of the ban. The ban includes additional prohibitions on providing ancillary services (eg. financial services such as insurance, technical assistance and brokering services) in relation to Russian origin gold exported from Russia after the ban is in force. It also goes further by banning the supply, delivery and acquisition of this gold. The LBMA's Good Delivery Rules 4.4 state that refiners must meet UK, US, and EU sanctions rules. The LBMA will use UK (and wider G7) sanctions to ban LBMA accredited refineries from taking Russian gold feedstock and refining it into gold bars.

144) Markets trade off the basis of certified “Good Delivery” gold. Any Russian-origin gold that is already certified in line with the rules of the LBMA can continue to be traded on London markets as it is not affected by this ban. This explains why, since the UK, US, Japan and Canada announced their respective bans, the gold price has remained stable.

Figure 3: Gold prices since January from the World Gold Council



Alternative Gold Markets

145) The London market sets a global standard (“Good Delivery”) for gold. This standard accounts for around c.90% of the global gold market. If Russian gold that would otherwise have been exported to the UK is imported into alternative markets that do not recognise Good Delivery accreditation, we expect this gold to be traded at a discount. It is not possible to calculate the value of the discount.

3.4.2 Regulatory impact of the import measures

146) The licensing and exemption grounds for the import measures in scope are very limited, and it is not expected that there will be a significant number of applications. In addition, the extended implementation period for the energy measures is expected to be sufficient time for businesses to find alternative sources. As such, these costs have not been monetised.

3.4.3 Administrative and enforcement impacts of import measures

147) Similar to the situation with export measures (see section 3.3), the combined administrative and enforcement costs to HM Government related to the import measures covered in this Statutory Instrument are expected not to be significant. The rationale for this expectation is the same one outlined regarding the export measures.

148) It is possible that there may be enforcement costs associated with the identification, disruption and disposal of banned imports at the UK border. It has not been possible to make a reliable assessment of the potential enforcement costs attached to the preferred option.

3.5 Assessment of costs and benefits of aggregated (exports and imports) measures

3.5.1 Assumptions and caveats

149) This analysis is subject to a number of assumptions and caveats:

a. Currently many UK businesses are embargoing their own exports but we do not have full data to evidence this at present. Nevertheless as table 1 above indicates UK – Russia goods trade has already reduced significantly when comparing May 2021 (prior to the Russian invasion) against May 2022 (the most recent full calendar month after the invasion for which there is data). Therefore it is more likely that growth of UK exports, if any, would be below the growth in Russian import demand.

b. It is assumed that the embargoes will last for the full duration of the appraisal period, which may not be the case if Russian aggression ends and sanctions are lifted.

c. Profitability only considers the profit impact to the final supplier in the supply chain. There may be further profit loss to firms, both in the UK and overseas, producing inputs to the final product that have not been captured in these estimates.[74]

d. The commodity codes used to analyse the impact of Russian sanctions reflect our best understanding of the goods and services that are in scope for these measures but may not exactly reflect the Statutory Instrument. Reflecting data available the analysis has to assume that all the trade associated with a code is subject to the sanctions, when in reality only a part of it may be so.[75] This is likely to lead to an overestimation of the economic impact.

e. As mentioned above, this analysis has been undertaken based on trade figures that follow HS 2017 goods classification nomenclature. Trade values may differ under an HS 2022 goods classification nomenclature.

150) All associated economic costs from this set of measures are assumed to be direct costs to business and no indirect costs have been identified. 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 show 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.[76] It has not been possible to identify the value and volume of the indirect services contribution that might be affected by this intervention.

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 exports to Russia. It is known though 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 generated in the UK. Further detail on the potential impact via supply chains is outlined in the wider impacts section below.

c. **Displacement and potential business closure:** It is possible that the inability to export to - or import from - Russia due to 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

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[74] Office for National Statistics. Profitability of UK companies data – rates of return January 2022: https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/datasets/profitabilityofukcompanies.

[75] The analysis is carried out using HS codes up to and including 8 digits.

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

to Russia in 2014, when previous sanctions were applied.[77] Businesses may have to look for alternative suppliers for their current imports from Russia, which could add costs to their transactions and reduce their profits.
Similarly they may seek to shift their exports to other markets or to domestic consumption to mitigate against the loss of export value. It is not possible to make robust assumptions on which of these may prove to deliver the greater impact other than that the potential closure of businesses is likely to happen in the shorter term, while the diversion of trade to other countries (or to the domestic market) would likely happen over a longer time frame (but within the appraisal period). This is because it may take time for UK businesses to identify and establish new export or import partners.

d. **"Chilling effect":** Whilst many businesses have elected to embargo exports to Russia beyond the formal sanctions in response to the invasion of Ukraine, there may be some residual exports that are stopped due to uncertainty around whether their goods or services are captured by this set of measures. Similarly, some businesses may be uncertain if their trade associated with Russia is captured in previous regulations related to the invasion; or will be covered in forthcoming measures by HM Government. 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.[78] In the following period, a decrease was seen across almost all goods exported to Russia, demonstrating the possible scale of the chilling effect.
We might expect a similar chilling effect to occur now, both as a result of the situation in Ukraine and also following the imposition of sanctions. As table 1 above shows total UK goods trade with Russia has already more than halved when comparing pre- and post-invasion periods.
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.
This effect is expected to be temporary and to last until the package of measures in this Statutory Instrument is implemented and its consequences are fully absorbed by UK traders.

151) This is an assessment of the direct economic cost for the UK economy, but these sanctions are not being deployed in isolation. Instead they further the existing measures that the UK has put in place, the impacts of which are yet to be seen in data. Additionally the UK, in acting with partner countries, is part of a much larger group 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.

152) An estimation of the emissions impact of the proposed set of export measures was not seen as robust. It is possible that the products previously produced in the UK and exported to Russia would be produced elsewhere, leading to the risk of carbon leakage. On the other hand it is possible that consumption patterns in Russia for these products will change due to the sanctions being imposed by the UK and its broad coalition of partners.

153) An estimation of the emissions impact of the proposed set of import measures has not been attempted. Whilst these measures will reduce oil and coal imports from Russia, it is expected that these will be substituted to be imported from alternative destinations.

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[77] 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.
[78] Office of National Statistics (ONS): UK total trade data (seasonally adjusted). https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktotaltradeallcountriesseasonallyadjusted.

154) As highlighted in section 3.4.1, it is possible that, if UK refineries are not able to source suitable alternatives, refinery processes may be less efficient and fuel production marginally more carbon intensive. But this may be offset by lower production levels. There may also be some additional emissions associated with increased transport costs.

3.5.2 Aggregated monetised impacts of proposed measures

155) This Statutory Instrument bans ancillary services related to the trade of all goods sanctioned. Ancillary activities include services such as technical assistance[79], financial services and funds[80], as well as brokering services[81].

156) Due to limited data availability, it was not possible to include a robust estimate for the measures associated with these ancillary services.

157) The primary cost of t to UK businesses will be the opportunity cost of future profit they may have made from the export or import of goods and services that will be subject to restrictions under the new measures. Table 14 below presents an estimate of the profits associated with the trade in goods affected by this set of measures. As there are no monetised benefits associated with this Statutory Instrument the costs that incorporate profitability ("Average annual cost (2022-2030) incl. profitability" and "Total cost (2022-2030) incl. profitability" columns) are also an estimate of the profits.

Table 14: Aggregate economic costs of measures (£m)[82]

(£m, 2019 prices)		Average annual cost (2022-2030)[83]	Total cost (present value)	EANDCB
Total export measures	**Low**	£27.7m	£219.3m	
	High	£34.8m	£273.1m	
	Central	£33.5m	£262.5m	-£33.3m
Goods export measures	**Low**	£23.0m	£182.1m	
	High	£28.9m	£226.9m	
	Central	£27.8m	£218.1m	-£27.7m
G7 Dependency List	***Low***	*£19.8m*	*£156.8m*	
	High	*£24.9m*	*£195.3m*	
	Central	*£23.9m*	*£187.8m*	*-£23.8m*
Energy-related Goods List	***Low***	*£3.2m*	*£25.3m*	
	High	*£4.0m*	*£31.6m*	
	Central	*£3.9m*	*£30.3m*	*-£3.9m*
Services export measures	**Low**	£4.7m	£37.1m	
	High	£5.9m	£46.2m	
	Central	£5.7m	£44.4m	-£5.6m
Total import measures	**Oil** **Coal** **Gold**	Not monetised		

Source: DIT analysis based on HMRC data. Data presented focuses on the cost to profitability of firms exporting in the goods and services in scope of the proposed measures.

3.5.3 Aggregated non-monetised impacts of proposed measures

[79] Further detail defined here https://www.legislation.gov.uk/uksi/2019/855/regulation/21/made.
[80] Further detail defined here https://www.legislation.gov.uk/ukpga/2018/13/section/61.
[81] Further detail defined here https://www.legislation.gov.uk/uksi/2019/855/regulation/21/made.
[82] There are very small costs for the export measures on bank notes, which are associated with the regulatory costs for businesses.
[83] Average annual cost incl. profitability is equivalent to profitability as there are no benefits

158) The proposed import measures accounted for 82% of imports from Russia in 2021, but it is not expected that the import value of these goods will be representative of the overall impact that these bans have on the UK.

159) Across oil and coal measures, we do not expect to see significant market or consumer impacts, as consumption of oil and coal from Russia is relatively low in terms of volume. It is also expected that there will be limited costs associated with pivoting to alternative suppliers, as supply of Russian energy has already reduced, and there is an extended implementation period to identify alternative sources for businesses still reliant on Russian sources.

160) For coal specifically, there may be a negative impact on UK industry, specifically in sectors such as the steel sector, which relies heavily on coal in its production, and may suffer if there are price impacts arising from any supply challenges.

161) Despite its high import value, gold is an erratic good, that can vary substantially in import value year-to-year. As such, we do not expect the import ban for gold to lead to significant impacts in the UK. Russian gold is not highly demanded in the UK as an intermediate or final good, so the ban is unlikely to impact British businesses or consumers.

162) We do not expect UK businesses to directly benefit from the export measures, as in most cases it restricts their abilities to export goods or services to Russia. This analysis therefore has not monetised any benefits to UK business as a result of the export measures.

163) A benefit that has not been monetised is that this set of measures 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.

3.6 Wider impacts of trade measures

3.6.1 Supply chains and employment

164) The impact of the proposed set of 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 are connected to consumers and businesses in Russia, including even when no direct trade relationship exists. Analysis using the OECD's TiVA dataset allows identification of the UK sectors that are most integrated into value chains with Russia and, therefore, those that are potentially vulnerable to disruption caused by export or import controls as well as the ongoing conflict. These are shown in Table 15. TiVA data offers advantages over traditional ways of measuring trade and are complementary to conventional trade statistics.

165) According to OECD TIVA data, 109,200 UK persons' employment[84] and $9.2 billion (approximately £6.9 billion[85]) of UK value add was embodied in Russian final demand in 2018 (3.1% of total foreign value add embedded in Russian final demand).[86] This is equivalent to around 1.6% of total UK employment – and 1.6% of total UK value add – embedded in final demand from all international trade partners. Due to data limitations, we cannot identify the proportion of trade in value added that would be impacted by UK sanctions of the export of goods in scope.

[84] OECD Trade in employment (TiM) Principal indicators for UK employment embodies in Russian final demand. FFD_DEM: Domestic employment embodied in foreign final demand.
[85] Value was converted from US Dollars to Pounds Sterling using the 2018 annual average spot exchange rate (Bank of England).
[86] OECD Trade in Value Added (TiVA) ed: Principal Indicators for UK share of foreign value add in Russian final demand. Data for 2018 are latest available. FFD_DVA.

166) The table below presents the value added across all sectors at different levels of aggregation. The goods in scope of these measures span a range of different sectors, but are particularly concentrated in the manufacturing sector.

Table 15: UK exports supply chain linkages with Russia's final demand[87]

TiVA Industry (SIC code)		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	9,245.1	109.2
D01T03: Agriculture, hunting, forestry and fishing		0.2	37.0	0.8
D05T09: Mining and quarrying		1.4	180.2	0.4
D10T33: Total Manufacturing	D10T12: Food products, beverages and tobacco	2.1	165.2	1.6
	D13T15: Textiles, wearing apparel, leather and related products	0.4	32.0	0.3
	D16T18: Wood and paper products and printing	1.9	70.4	0.9
	D19T23: Chemicals and non-metallic mineral products	2.0	507.4	3.4
	D24T25: Basic metals and fabricated metal products	1.2	172.1	2.3
	D26T27: Computer, electronic and electrical equipment	0.7	131.0	1.0
	D29T30: Transport equipment	2.5	387.2	2.4
	D31T33: Manufacturing nec; repair and installation of machinery and equipment	2.7	142.1	1.7
D35T39: Electricity, gas, water supply, sewerage, waste and remediation activities		2.3	142.9	0.6
D41T43: Construction		5.0	108.4	1.4
D45T82: Total Business Sector Services		4.4	6,410.0	80.6
D84T98: Public admin, education, health and other personal services		6.4	528.0	9.8

Source: 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

167) TiVA data also allows identification of the share of value added in Russian exporting industries accounted for by exports from the UK[88]. The two most relevant sub sectors for the goods export packages are Pharmaceuticals, medicinal chemical and botanical products and Machinery and equipment nec. Within these sectors, neither contributes more than 5% of value added to any given Russian sector. The UK's pharmaceuticals, medicinal chemical and

[87] The OECD calculates final demand as a combination of Household consumption, Consumption expenditure of non-profit institutions serving households (NPISH), Direct purchases by non-residents, Government Final Consumption, Gross Fixed Capital Formation (GFCF) and changes in inventories, see: https://www.oecd-ilibrary.org/science-and-technology/guide-to-oecd-tiva-indicators-2021-edition_58aa22b1-en

[88] The OECD refers to exporting industries as those industries of origin of the exports from a country or imports to a country, see https://www.oecd-ilibrary.org/science-and-technology/guide-to-oecd-tiva-indicators-2021-edition_58aa22b1-en .

botanical products subsector does, however, contribute at least 2% of value added to 61 of 70[89] Russian sectors. The UK motor vehicles, trailers and semi-trailers sector contributes at least 2% of value added to 16 of 70 Russian sectors.

168) TiVA also allows us to look at concentrations of Russian value added in UK industries, accounted for by UK imports from Russia. The two sectors of the UK economy with the greatest value add input from Russia were coke and refined petroleum products, and mining and quarrying of non-energy producing products. These Russian sectors contributed at least 5% of value added to 67 of 70, and 15 of 70 UK sectors respectively.

169) Although the direct impact of these service sanctions on the UK is expected to be small (with Russia accounting for 0.02% of all UK exports in the sectors banned), the sanctions will indirectly impact on other sectors across the UK economy. There will be potential disruption and loss of revenue to wider sectors that supply intermediate inputs to services in scope of the sanctions. TiVA suggests that the 'professional, scientific and technical activities' itself will be most impacted as the sector which supplies the highest value of inputs into gross exports of 'professional, scientific and technical activities' (77.6%), followed by sectors, 'administrative and support services activities' (3.3%), 'financial and insurance activities' (2.3%), 'computer programming, consultancy and information services activities' (2.1%), and 'real estate activities' (1.8%) which provide the next highest proportion of value to gross exports in the 'professional, scientific and technical activities' sector .'

170) The sanctions on accounting, management and business consulting and public relations services exports may also have a wider impact on employment and the UK labour market. The OECD experimental data on 'Trade in employment (TiM)' suggests that the value of domestic UK employment embodied in gross exports of the 'professional, scientific and technical activities' sector, from the UK to Russia in 2018 was 12,500 persons, though noting that this is a wider sector definition than the covered by the ban in this sector. The impact of sanctions on the labour market will depend on a number of variables including the labour market conditions more broadly and the transferability of skills of those employed.

3.6.2 Impact on protected groups

171) It is not possible to make a robust assessment of the impact of the measures in this Statutory Instrument on protected groups (in relation to age, sex, ethnicity and disability) in the UK labour market.[90]

172) It is possible that any potential impact would be more likely to affect male workers, who are disproportionally concentrated in sectors where employment is associated with international trade.

173) The potential impact on male workers is based on experimental analysis by DIT and the Fraser of Allander Institute showing that, in 2016, 64% of jobs directly and indirectly involved in exports were held by males, with the remaining 36% filled by females.[91]

174) Background information: UK employment broken down by protected groups:

c. Sex: 47% of those in employment in the UK are female and 53% are male.[92]
d. Ethnicity: 12% of those in employment in the UK are from an ethnic minority group and 88% report that they are white.
e. Age: 12% of those in employment in the UK are aged 16-24, 84% are 25-64, and 4% are over 65.
f. Disability: Around 13% of those in employment in the UK report that they have a disability (as defined by the Equalities Act 2010).[93]

[89] The OECD TiVA database covers 70 sectors, some of which are subsectors, in total.
[90] Race is a protected characteristic under the Equality Act 2010. For the purposes of this analysis, we utilise data regarding ethnicity to consider this protected characteristic.
[91] Evaluating the impact of exports on UK jobs and incomes
[92] According to DIT Analysis of the ONS three-year pooled Annual Population Dataset (2016-2018).
[93] It is possible that non-response to this question in the Annual Population Survey affects the estimated proportion.

175) Data specific to services firms engaging in trade with Russia is not available. Estimates suggest that in 2019, the UK accounting, management and business consulting and public relations sectors' overall has a 49.5% share of female employment, 13.9% from an ethnic minority background and 11.7% reporting that they have a disability (as defined by the Equalities Act 2010)[94]. Of those employed in these sectors, 7.7% are aged 16-24, 87.1% are 25-64, and 5.2% are over 65[95].

4. Risks and assumptions

176) There is a risk that the policy discourages exporting activity in firms who are not in scope of the policy. There is a cost associated with businesses that stop trading with Russia due to uncertainty around whether their goods or services are captured in the sanctions 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. Following the imposition of sanctions resulting from the Russian annexation of Crimea[96] a decrease in trade was seen across almost all goods exported to Russia demonstrating the possible scale of this chilling effect. To what extent this chilling effect is persistent over time and trade rebounds is uncertain.

5. Monitoring and evaluation

177) The Economic Crime (Transparency and Enforcement) Act 2022 has amended the Sanctions and Anti-Money Laundering Act 2018 and removed section 30 of the Sanctions Act requiring review of the measures on an annual basis.

178) While FCDO does not intend to undertake a formal post-implementation review, all sanctions are kept under continuous review and will be adapted when the context changes. FCDO analysis is developing a monitoring and evaluation framework to assess how sanctions meet UK objectives. Such assessment will aim to include the continued collection of open source and classified information to monitor the political and economic situation in Russia as well as any unintended impacts, including on UK businesses, that come to light. Assessments of the regulatory and administrative impacts of the sanctions package could for instance draw on the Office of Financial Sanctions Implementation (OFSI)'s and Export Control Joint Unit (ECJU)'s reporting and on the number of licences applied for.

179) Published data from both the ONS and HMRC now covers the period since the invasion, and by autumn, published data will cover the period following the introduction of these measures. Bilateral trade between the UK and sanctioned nations since the invasion of Ukraine will then form a central pillar of the monitoring framework for these measures. Additional use of HMRC microdata could allow for impacts to be monitored at a business level and identify any disproportionate impacts across business characteristics. HM Government also has regular engagement with UK businesses. This will provide another channel through which information on the impact of the sanctions on UK businesses is fed back to HM government.

180) Several economic assumptions have been made in this impact assessment. Therefore, it is important that an economic evaluation of the estimated economic impact on the UK takes place when possible to do so. This type of evaluation could include more in-depth analysis using econometric models or robust business surveys to understand the impact on various parts of the UK economy and its businesses. It should be noted that it may not be possible to separate the impacts of sanctions from the overall impact of the war when undertaking these analyses.

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[94] Annual Population Survey (2020): Numbers of people by selected "protected" characteristics in countries, and within the UK and Great Britain industry, 2019

[95] Annual Population Survey (2020): Employment by detailed occupation and industry by sex and age for Great Britain, UK and constituent countries 2019

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

181) 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 HM Government 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.