Title: The Russia (Sanctions) (EU Exit) (Amendment) (No.4) Regulations 2023 **IA No:** FCDO2210 **RPC Reference No:** RPC-FCDO-5317(1) **Lead department or agency:** Foreign, Commonwealth & Development Office **Other departments or agencies:** Department for Business &Trade	Impact Assessment (IA) **Date:** 7/12/2023 **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Secondary legislation **Contact for enquiries:** Sanctions@fcdo.gov.uk

Summary: Intervention and Options

RPC Opinion: Fit for purpose

Cost of Preferred (or more likely) Option (in 2019 prices)			
Total Net Present Social Value	**Business Net Present Value**	**Net cost to business per year**	**Business Impact Target Status** Qualifying provision
-£53.9m	-£53.9m	£6.8m	£34.2m

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

Russia's assault on Ukraine is an unprovoked, premeditated attack against a sovereign democratic state. Its actions are a clear and flagrant violation of international law and the UN Charter. Its behaviour is not only threatening Ukraine's sovereignty, but also destabilising rules-based international conventions and the values that underpin them.

HMG is implementing a new and intensified set of measures to ramp up economic pressure on the Russian regime and to improve the effectiveness of existing measures to deter further aggression in Ukraine.

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

The policy objectives are:

- **Deter**: The UK will impose (or threaten to impose) sanctions in order to change the behaviour of an individual, entity, or state, by convincing them that the negative consequences of the sanctions outweigh their current or potential gains from their behaviour. Deterrence can either be aimed at preventing an actor from initiating a particular action, or encouraging an actor to desist in current negative behaviour.
- **Disrupt**: The UK can impose sanctions to deny an individual, entity, or state, access to the resources it needs to carry out the negative behaviour, whether that be military equipment, sensitive technology or funding.
- **Demonstrate**: The UK will impose sanctions in order to show disapproval and defend international norms that are under threat

The measures assessed in this Impact Assessment are additional to the ones the UK has previously introduced. While existing measures are applying significant economic pressure on the Russian government, the continuation of the war demonstrates that they have not themselves been sufficient to dissuade decision makers from taking aggressive and destabilising actions against Ukraine.

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 and economic power of the Russian government, constrain its ability to destabilise and invade sovereign nations, and encourage it to change course in Ukraine. 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.

While they have clearly exerted economic pressure on the Russian government, previous sanctions have not yet dissuaded Putin's regime from military aggression against Ukraine. To do nothing would also lead to divergence with our allies, undermine our international commitments and reduce the effectiveness of enforcement actions.

Option 1: Implement additional proposed sanctions measures [Preferred option]. Implement a further set of trade and financial measures to increase pressure on the Russian government and encourage it to change its policy of aggression towards Ukraine.

This package of sanctions adds goods to those already prohibited in the Russia (Sanctions) (EU Exit) Regulations 2019 ('the Russia Regulations'). Further **export restrictions** apply to:

- **Critical-industry goods and critical-industry technology**. This will further restrict Russian access to strategic goods identified as critical to their military and economic ambitions.
- **The 'G7 dependency and further goods list'.** These goods have been identified as areas of Russian dependence on the G7 and many of them are being sanctioned by G7 partners. This target list also covers further goods that have been identified as at risk of contributing to Russia's military or industrial capacity, where we will go further than allies.
- **The 'Defence and Security Goods & Technology' list**, which includes goods and technology used in the Russian security sector, including for the purpose of internal repression.

In addition, this legislation strengthens the **'Luxury Goods' provisions**. It bans financial services and funds, technical assistance, and brokering services relating to luxury goods. This will further limit the access of Russian elites to Western consumer items and make clear that the UK is unwilling to resume normal trading relations with Russia in the current circumstances.

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

- **Metals.** This package prohibits the import, acquisition, supply and delivery of all remaining base metals and articles of base metal, except titanium, and expands existing prohibitions to cover the remaining Iron and Steel codes. This will further restrict Russia's ability to generate revenue to fund the war. We are going further than G7 partners have publicly committed to by proactively implementing comprehensive measures targeting Russian metals.

Further **financial measures** apply to:

- **Divestment licensing ground**. This measure introduces a new licensing ground to support divestment from Russia. This measure will align the UK with the EU and actively support UK businesses seeking to divest from Russia where they have taken the commercial decision to do so.
- **Designated person frozen asset reporting obligation**. This measure introduces a new obligation on persons designated under the Russia financial sanctions regime to report any assets or economic resources they own, hold or control in the UK. The reporting measure will provide greater transparency and oversight of UK based assets and compliance with the sanctions regime.
- **Immobilised assets reporting obligation.** This measure introduces an obligation on persons to report their assets, in relation to which the provision of financial services is prohibited under regulation 18A of the Russia Regulations. This measure will make it clear who holds immobilised assets. This will enable HM Treasury (HMT) to track them over time, better equipping the UK to meet its commitment to the G7 to keep these assets immobilised. The reporting measure will provide greater transparency and oversight of UK based assets and compliance with the sanctions regime.
- **Correspondent banking.** This measure amends prohibitions on UK credit and financial institutions processing Sterling payments indirectly from designated financial institutions under the Russia Regulations. The amendment will expand the prohibition to payments in any currency and implement a new exception to enable UK credit and financial institutions to credit accounts for the purposes of compliance with the regulation. The amendment will also introduce licensing grounds under regulation 17A which mirror those under regulations 11-15 (asset freeze prohibitions) and clarify the definition of 'processing' so as not to include the initial receipt of funds by the UK credit/financial institution. This will disrupt Russian banks and financial institutions' access to the global financial system in order to prevent them from utilising it to fund the war against Ukraine and, will offer a legal underpinning to UK banks who are likely already operating this prohibition in a currency-agnostic way.

1. **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)	**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: Anne-Marie Trevelyan MP Date: 12/12/2023

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	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low:	**High:**	**Best Estimate:**
2019	2020	9	-£44.2m	-£55.7m	-£53.9m

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	£4.9m	1	£5.0m	£44.2m
High	£5.5m		£6.4m	£55.7m
Best Estimate	£5.5m		£6.2m	£53.9m

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

The estimated cost to UK businesses is assessed on (i) the opportunity cost of future trade that may have been made from the export or import of goods that will be subject to restrictions under the new measures, and (ii) a regulatory transition cost in the first year.

Based on 2021 trade flows, the new measures sanction **£67m** of annual UK imports from Russia that have not previously been sanctioned. The new package also sanctions **£70m** worth of UK exports to Russia that have not been previously sanctioned and further sanctions **£662m** worth of UK exports to Russia that have already been partially sanctioned in previous packages (and partially assessed in previous Impact Assessments).

The analysis in this Impact Assessment only includes the goods exports that have not been previously sanctioned (£70m) to avoid overestimating or double counting the impact to businesses. More recent trade data shows that the **UK exported goods worth £27.3m in 2022 and £5.9m between January and July 2023 in the products in scope of this new trade sanctions package.** This implies that the partial sanctions previously put in place, as well as traders self-sanctioning means that there is little trade remaining and therefore this has been left out of the Impact Assessment.

In 2021, around 569 UK-based traders exported goods from the UK to Russia and 82 UK-based traders imported goods from Russia to the UK in the products in scope of this Statutory Instrument.

UK consumers are not expected to suffer significant negative impacts due to these measures, in part due to the relatively small scale of UK imports affected and the type of goods being sanctioned, e.g. metal goods. In 2021, Russia accounted for just 0.5% of UK global imports for the goods covered in this package. This indicates that UK traders are likely to be able to switch to suppliers of the same products relatively easily and without a significant increase in the price of the products imported. Nevertheless, it is possible that UK consumers may be impacted in the short term whilst UK importers search for alternative suppliers.

Yorkshire & the Humber is the region most impacted in terms of the value of exports (20%), and the South East is the region most impacted in terms of the number of businesses that exported goods to Russia (22%), in the sanctioned commodity codes in 2021. Southern England[1] is the aggregated region most impacted in terms of the value of imports, and the number of businesses that import goods from Russia in the sanctioned commodity codes in 2021.

[1] Due to disclosure concerns, regional analysis for import measures have been aggregated to Northen, Southern, Midlands and Nations (Excl. England).

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

The monetary impacts of financial measures have not been quantified in this Impact Assessment due to disclosure concerns on available data. It is expected that the overall impact will be low because these measures are likely to only impact businesses which are already highly exposed to sanctions. This means they will already have systems in place to manage these new requirements.

In line with previous sanctions impact assessments, the value of impacted ancillary services has not been possible to quantify due to data limitations, but the additional costs are not expected to be significant. It is difficult to monetise ancillary services because the intangible nature of services makes recording services activities much more difficult. UK services trade data is primarily collated through survey responses, it is not possible to link services data to specific transactions, therefore Office for National Statistics (ONS) services trade data cannot be used to estimate the value of ancillary services in this Impact Assessment.

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 measures, as in most cases it restricts their abilities to trade goods or services to Russia.

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

These measures are designed to support the restoration of peace in Ukraine, 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 Russia's capability to undertake further aggression against Ukraine and by undermining its capability 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 Discount rate (%)	3.5%

Assumptions for both export and import measures

In line with the previous sanctions package Impact Assessment:

- For the central scenario, we have applied the International Monetary Fund's (IMF's) World Economic Outlook (WEO) April 2023 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.
- The low scenario is 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. This results in a lower economic cost compared to the central scenario.
- The high scenario is 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. This results in a high economic cost compared to the central scenario.
- A baseline of 2021 world trade values was used.
- We have assumed that the sanctions remain in force for the entire appraisal period captured within this assessment.
- 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

- In line with the previous sanctions package Impact Assessments, we assume that the one-off adjustment cost to businesses from diverting their trade from Russia is the equivalent to 10% of the 2021 import trade value in the year 1 of this Impact Assessment timeline (sensitivity analysis is carried out around this figure). The import trade value used represents only the HS codes covered in these measures.
- It is expected that the diversion of the imports trade sanction will be completed in one year. As the UK has a small import dependency from Russia across almost all products sanctioned in this Statutory Instrument (Russia accounted for 0.5% of all UK imports from the World of these products in 2021) we have assumed UK importers will be able to import goods from elsewhere with minimal change in the price of any given goods.

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 also a 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:**	
£6.8m	£0.0m	£6.8m	£34.2m

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1. Evidence Base Rationale

1.1 Policy background

1) Following its full-scale invasion of Ukraine in February 2022, Russia has continued to use military force in Ukraine. On 30 September 2022, Putin announced the illegal annexation of the Ukrainian regions of Donetsk, Luhansk, Kherson and Zaporizhzhia in flagrant violation of international law, including the UN Charter. 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 has been unwavering in its support for Ukraine's territorial integrity and sovereignty. In addition to the withdrawal of Russian troops from Ukrainian soil, the UK 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 and on assisting Ukraine to secure its borders against Russia's aggressive actions, ensuring a stable, prosperous and democratic future for all its citizens.

3) Sanctions are an important national security and foreign policy tool. Trade sanctions form part of a broader set of measures for responding to Russia's illegal invasion, including designations and other restrictive measures toward Russia and diplomatic, military, financial, and humanitarian support for Ukraine.

4) Previous trade sanctions include wide ranging prohibitions on the export of goods and services. These include defence and security goods and technology, goods used for Russia's energy sector, and critical services like business and management consulting, engineering, and accounting services. Sanctions also include import prohibitions on iron and steel products, certain gold products, oil, coal, and key revenue creating goods that originate or are consigned from Russia.

5) To maximise the impact on the Russian government and its supporters, the UK is working in concert with the US, EU and other G7 partners. More broadly, the UK's decisive action against Russia demonstrates its willingness to stand up for rules-based international conventions and to take action against transgressors, sending a deterrent signal to others.

1.2 Problem under consideration and rationale for intervention

6) Given the nature of the issue, there is no appropriate non-governmental or private sector solution to the issue at hand. In the absence of government action, some businesses might choose to reduce economic ties with Russian individuals or entities in response to its invasion of Ukraine, but 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) HM Government intervention in the form of 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, services or financing to the Russian government, to its military, or to strategic sectors that are supporting the destabilisation of 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.

8) Similarly, 'recognition' of third-country resolution action (further discussed in the policy objectives) relates to a statutory duty of the Bank of England, and as such there is no appropriate non-governmental or private sector solution.

1.3 Policy objectives

9) 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.

10) HM Government's objectives of the Russia (Sanctions) (EU Exit) (Amendment No.4) Regulations 2023 are to:

a. **Deter**: The UK will impose (or threaten to impose) sanctions in order to change the behaviour of an individual, entity, or state, by convincing them that the negative consequences of the sanctions outweigh their current or potential gains from their behaviour. Deterrence can either be aimed at preventing an actor from initiating a particular action or encouraging an actor to desist in current negative behaviour.

b. **Disrupt**: The UK can impose sanctions to deny an individual, entity, or state, access to the resources it needs to carry out the negative behaviour, whether that be military equipment, sensitive technology or funding.

c. **Demonstrate**: The UK will impose sanctions in order to show disapproval and defend international norms that are under threat

11) 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.

1.4 Description of options under consideration

1.4.1 Option 0: Do nothing counterfactual

12) In this option, HM Government would rely on existing sanctions by both the UK and our partners to erode the economic power of the Russian government, to constrain its ability to destabilise and invade sovereign nations and force it to change course in Ukraine. 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.

13) Option 0 would go against UK objectives and the wider UK-Russia sanctions strategy. Key measures in this Statutory Instrument will match the action taken by the UK's allies. Option 0 could increase the risk of circumvention and avoidance of partner countries' sanctions by allowing additional differences in sanctions actions to arise.

1.4.2 Option 1: Implement sanction measures [Preferred option]

14) These measures will increase pressure on the Russian government and encourage it to change its policy of aggression towards Ukraine. They will also ensure no reversal of actions by UK businesses where they have self-sanctioned or reduced their business with Russia. We cannot determine how long businesses will continue to self-sanction.

15) These trade sanctions will prohibit the export, supply, delivery, making available and transfer of additional goods to, or for use in, Russia. **Export restrictions** apply to:

a. **Critical-industry goods and critical-industry technology**. This measure adds further goods to those already prohibited in previous regulations. This will restrict Russian access to strategic goods identified as critical to their military and economic ambitions. This measure will also align the UK with key partners.

b. **A number of products that are being added to the 'G7 dependency and further goods list'.** These goods have been identified as areas of Russian dependence on the G7 and they are being sanctioned by key G7 partners. This will ensure that the goods listed in it cannot be exported to Russia directly or via third party countries, thereby mitigating potential military and industrial uses.

c. A small number of goods to be added to the '**Defence and security goods and defence and security technology' list**. This will further restrict Russian access to key high-end technology. This measure will also align the UK with key partners.

d. The **Luxury Goods provisions** will be amended to introduce a ban on associated services to luxury goods. This will align with the EU.

16) This package of measures also expands previous sanctions to prohibit UK imports of additional categories of goods that originate in, or are consigned from, Russia. **UK import restrictions** apply to:

a. **Metals.** This package prohibits the import, acquisition, supply and delivery of all remaining base metals and articles of base metal, except titanium, and expands existing prohibitions to cover the remaining Iron and Steel codes. This will further restrict Russia's ability to generate revenue to fund the war. We are going further than G7 partners have publicly committed to by proactively implementing comprehensive measures targeting Russian metals.

17) This package adds further **financial measures** which apply to:
    a. **Divestment licensing ground**. This measure introduces a new licensing ground to enable divestment of UK entities from Russia. This measure will align the UK with the EU and actively support UK businesses seeking to divest from Russia, where they have made the commercial decision to do so.
    b. **Designated person frozen asset reporting obligation**. This measure aims to introduce a new obligation on persons designated under the Russia financial sanctions regime to report any assets or economic resource they own, hold or control in the UK. This measure will align the UK with the EU and will drive transparency around assets held by sanctioned persons in the UK.
    c. **Immobilised assets reporting obligation**. This measure introduces an obligation on persons to report the assets, in relation to which the provision of financial services is prohibited under regulation 18A of the Russia Regulations. This measure will align the UK with the EU while improving compliance, asset transparency and assisting international coordination.
    d. **Correspondent banking**. This measure amends prohibitions on UK credit and financial institutions processing Sterling payments indirectly from designated financial institutions under the Russia Regulations. The amendment will expand the prohibition to payments in any currency and implement a new exception to enable UK credit and financial institutions to credit accounts for the purposes of compliance with the regulation. The amendment will also introduce licensing grounds under regulation 17A which mirror those under regulations 11-15 (asset freeze prohibitions) and clarify the definition of 'processing' so as not to include the initial receipt of funds by the UK credit/financial institution. This will disrupt Russian banks and financial institutions' access to the global financial system in order to prevent them from utilising it to fund the war against Ukraine and will offer a legal underpinning to UK banks who are likely already operating this prohibition in a currency-agnostic way.

18) 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 will be subject to licensing and exceptions to enable otherwise prohibited activities to continue where they are in line with the UK's objectives.

19) This legislation sanctions exports that have the potential for military or industrial usage by Russia. It also sanctions products that Ukraine has found Russia using on the battlefield. After this legislation comes into force, the list of unsanctioned exports will largely consist of low risk, humanitarian, food, and health products.

20) This Statutory Instrument builds on previous sanctions by banning the import of additional categories of goods that originate in, or are consigned from, Russia. The objectives of this measure are to deprive Russia of a key export market for these goods and reduce revenue generation. This will build on existing measures and enact commitments made by the PM at the May 2023 G7 Leaders' Summit.

21) The financial measures in this legislation include clarifications to existing measures, new reporting obligations and a new licensing ground to support divestment from Russia. These build on and strengthen the existing financial sanctions prohibitions and obligations in place.

22) Where possible, the UK has aimed to align its approach with the US and EU to maximise the impact on Russia. This legislation includes trade and financial measures that the EU, in particular, has adopted. However, the UK is going further than G7 partners on metals. HMG has publicly committed to proactively target the import and third country supply and delivery of Russian metals. By leading in these measures, the UK hopes to encourage G7 partners to match our ambition. We are engaging closely with the EU, US and other partners.

23) Having considered the costs and benefits of all options, HM Government believes that Option 1 is appropriate and will best support UK domestic objectives regarding Russia's military aggression in Ukraine.

2. Implementation Plan

2.1 Secondary legislation

24) The Government intends to make secondary legislation under the Sanctions and Anti-Money Laundering Act 2018. 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.

25) The measures will come into effect on 14th December 2023.

2.2 Licensing and exceptions

26) The legislation will provide for certain exceptions to the new prohibitions they introduce. It 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 Business and 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.

27) The new regulations will also provide for HM Treasury to grant licences that permit certain otherwise prohibited activities. The Office of Financial Sanctions Implementation (OFSI) administers licensing in relation to financial sanctions. The licensing powers would include a power to enable General Licences to be introduced to authorise specific activities.

2.3 Enforcement and impact on public sector

28) Earlier in 2023, the Government published a refresh of the Integrated Review. Following this, a new Economic Deterrence Initiative (EDI) was launched, designed to strengthen our diplomatic and economic tools to respond to and deter hostile acts by current and future aggressors. The initiative aims, amongst other things, to improve our sanctions implementation and enforcement to maximise the impact of our trade, transport and financial sanctions, including by cracking down on sanctions evasion.

29) It will be a criminal offence to contravene the amended trade sanctions, as well as to enable or facilitate a contravention of, or to circumvent them. This is in line with the existing measures. Offences for 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).

30) It will be a criminal offence to contravene the new financial sanctions, as well as to enable or facilitate a contravention or circumvention of them. This is in line the existing measures. Breaches of sanctions are a serious criminal offence. A breach of the new prohibitions will be an offence that is triable either way and carries a maximum sentence on indictment of seven (7) years' imprisonment or a fine (or both). OFSI is responsible for monitoring and compliance with financial sanctions and for assessing suspected breaches. It also has the power to impose monetary penalties for breaches of financial sanctions and to refer cases to law enforcement agencies for investigation and potential prosecution. OFSI works with other parts of government, supervisory bodies and regulators to consider all cases reported to it, sharing relevant information accordingly.

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

31) 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 potential 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

32) Rationale and evidence to justify the level of analysis used in the Impact Assessment (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

33) Data from the Office for National Statistics (ONS) and from HM Revenue and Customs (HMRC) has 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 datasets are not always directly comparable. ONS data is recorded on a balance of payments basis and reflect a change of ownership during the transaction whereas HMRC data is more granular and recorded on a physical movement basis. HMRC data is used for goods related sanctions, whilst ONS data is used for services.

3.1.4 Assessment period

34) 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. In line with the previous sanctions package Impact Assessments the appraisal period chosen for this assessment is the nine (9) years 2023 to 2031 inclusive, to align with the end-date of the projections presented in the Global Trade Outlook (GTO) used in the first Impact Assessment.[2] Although this Impact Assessment, like the Impact Assessment for the previous packages after the first package, replaces the GTO projections with the IMF's WEO April 2023 projections we retain this timeline so as to maintain consistency with the Impact Assessments published on similar measures that have been previously announced.[3]

3.1.5 Commodity and service classifications and statistical threshold

35) While the operationalisation of the legislation will not necessarily be based on 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. Where possible, this analysis has been undertaken based on the most recent data (which comes under the HS 2022 goods classification nomenclature),[4] but there are some cases where this was not possible (such as TiVA data which only goes up to 2018 and 2020).

36) 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 2021 trade data used for this analysis.

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

37) 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 2023 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.

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

[2] 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

[3] For example the Russia (Sanctions) (EU Exit) (Amendment) (No. 8) Regulations 2022 available here
https://www.legislation.gov.uk/uksi/2022/452/impacts.

[4] http://www.wcoomd.org/en/topics/nomenclature/instrument-and-tools/hs-nomenclature-2022-edition/amendments-effective-from-1-january-2022.aspx

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 instead use projections for the 2024-32 growth rate based on the IMF's forecasts published in 2023.
c. As the IMF projections only extend to 2028, this growth rate was extended to 2032 using the average IMF import/export forecast for Russia between 2024–2028. For exports, this is an average of 2.88% applied to years 2029 – 2032, and for imports 2.995% for the same time period. For GDP growth, we also use IMF WEO forecast, applying the average GDP rate between 2024–2028 and applying this to years 2029–2032. This gives an average GDP growth rate of 0.924%.
d. The projected growth rates from 2024–2032 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 and every Russia sanction Impact Assessment thereafter. 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 for the performance of the Russian economy – which tend to lean towards the downside. For example, the IMF's WEO October 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.[5]

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.

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 2024–2032. These were put into the Regulatory Policy Committee's (RPC's) Business Impact Target (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 the 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 measures are expected to have an impact on the profitability of UK companies that currently trade with Russia. For the sanctioned commodity codes in scope for this package of sanctions, we apply the ONS' profitability gross annual rate of return for the manufacturing sector private non-financial corporations (estimated to be 10.1% in the four quarters up to Q4 2022) to the appraisal period chosen for this assessment 2024 to 2032 inclusive) to calculate an estimate of profit lost.[7] This profitability has only been applied to ongoing (annual) costs, and not transition costs. Due to data limitations, the impacts on affected ancillary services have not been quantified.
h. Two additional 'one-off' costs were added to the year 1 trade costs, as transition costs. The first was to reflect regulatory impact costs, defined as the cost to UK firms to comply with the proposed measures. The approach taken for both exports and imports 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.[6] The calculations assume that one hour is required for this familiarisation per company; we then multiply the number of traders exporting or importing goods 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).[7] The calculations also assume a 35 hour weekly number of hours worked. This approach produces a combined regulatory impact value for all traders affected by this regulation, broken down by exporters and importers. These values were taken as the entire regulatory impact cost and implemented as an upfront cost applied to businesses that export and import in 2024 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. As stated in previous Impact Assessments,[8] the second one-off cost results only from the import ban. Across most of the products covered by the imports ban the UK has a small import dependency from Russia i.e., Russia accounted for 0.5% of all UK imports from the World in 2021

[5] https://www.imf.org/en/Publications/WEO/weo-database/2022/April
[6] https://www.gov.uk/government/publications/rpc-short-guidance-note-implementation-costs-august-2019
[7] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/ashe1997to2015selectedestimates
[8] https://www.legislation.gov.uk/uksi/2022/792/impacts

of the products covered by these import bans. In this situation it is reasonable to assume that UK importers would relatively easily be able to source the same imports with minimal change in price. Therefore, we assume that the cost of this trade diversion is a one-off transitional cost and apply it in 2024 only. To reach the 2024 equivalent we applied the same assumptions utilised to construct the high / central / low scenarios estimates. The 2024 equivalent of the 10% of the imports 2021 trade is seen as a better reflection of the cost of the import bans as these sanctions are expected to enter into effect in 2024.

j. 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 October 2023 real rates for expected Russian import and export demand are applied.

k. We selected the default discount rate of 3.5%, as suggested in HMTs green book. The annuity rate for the Net Present Social Value 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.

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

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

39) The nature of the import prohibitions imposed by these measures requires a more nuanced assessment than that associated with export restrictions. Given this, qualitative assessment rather than quantitative assessment for these measures has been provided for each respective import measure.

3.2 UK Trade with Russia

Trade trends in goods and services

40) Trade between the UK and Russia has significantly declined since the beginning of the invasion, some of which will be as a direct result of existing sanctions measures, whilst some will be because of businesses self-sanctioning and ceasing activities in Russia.

41) As set out in Table 1, UK imports of goods from Russia totalled £1bn one year post invasion (March 2022 and February 2023), which is 94% lower than the previous year (March 2021 and February 2022) where exports totalled £19bn.[9] Similarly, UK goods exports to Russia totalled just over £750m between March 2022 and February 2023, 74% lower than the total between March 2021 and February 2022 which stood at just over £2.8bn. The economic sanctions already imposed are considered likely to have driven these falls in trade with Russia, with UK traders self-sanctioning another likely factor.

Table 1: Total value of UK goods trade with Russia, a year before the war (March 2021–Feb 2022), compared with a year post war (March 2022–Feb 2023), £m

Trade flow	March 21 – Feb 22 (£m)	March 22 – Feb 23 (£m)	Percentage change
Imports	19,435	1,147	-94%
Exports	2,841	752	-74%

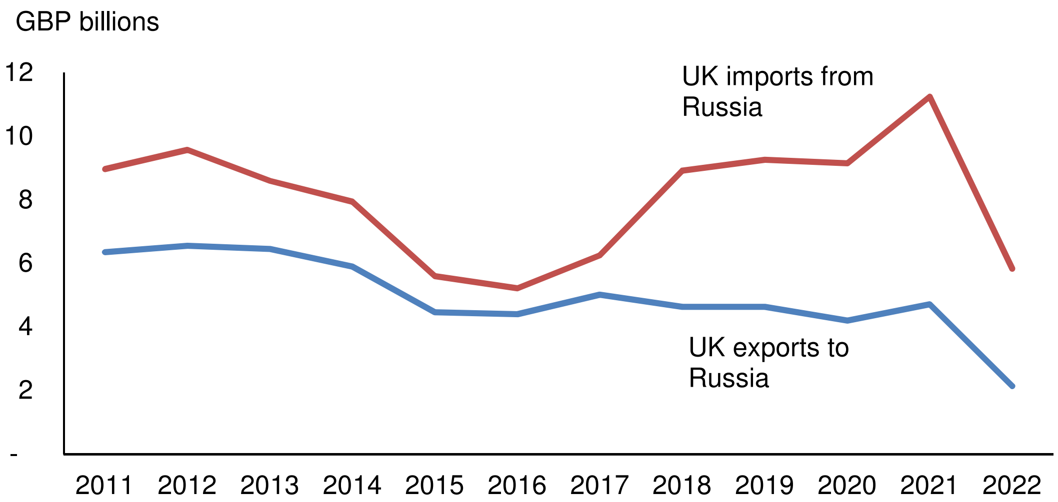
Source: HMRC overseas trade data.

42) Services data are less timely, the latest ONS trade in services data at country level by service type are available to Quarter 3 2022. Imports of services from Russia are estimated to have totalled £177m in Quarter 3 (July to Sept) 2022, a decrease of £37.5m (17.5%) compared with the average quarterly imports in the four quarters to March 2022. For UK exports of services to Russia, there was a decrease of 49.0% to £233 million in the same time period. The relatively small decrease in imports is because fewer sanctions have been applied to imports of services than exports.[10]

43) Figure 1 shows UK total trade in goods and services, and Figure 2 provides a breakdown of this data for goods and services separately. Services trade has been fairly consistent over 2011 to 2022, whereas goods trade sees a large increase from 2017 to 2021 and then a notable drop from 2021 to 2022. This reflects the implementation of UK sanctions packages.

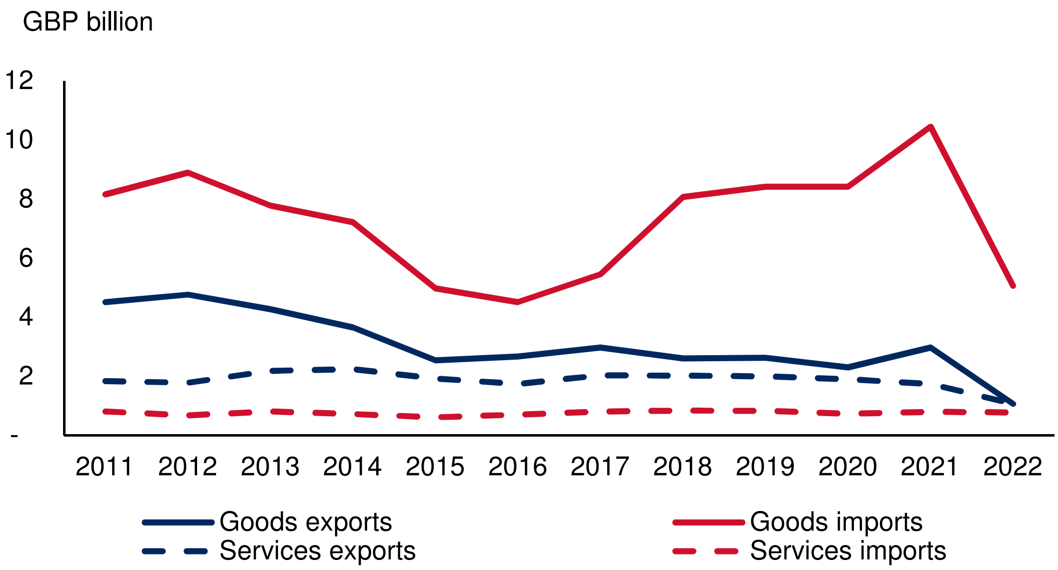
Figure 1: UK Total Trade (in goods and services) with Russia over 2011 to 2022, £ Billion

[9] HMRC Overseas Trade Statistics
[10] https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/articles/theimpactofsanctionsonuktradewithrussia/november2022



Source: Office for National Statistics (ONS): UK total trade data (seasonally adjusted). ONS data is used here because HMRC doesn't provide services data.

Figure 2: UK Trade in Goods and Services with Russia over 2011 to 2022, £ Billion

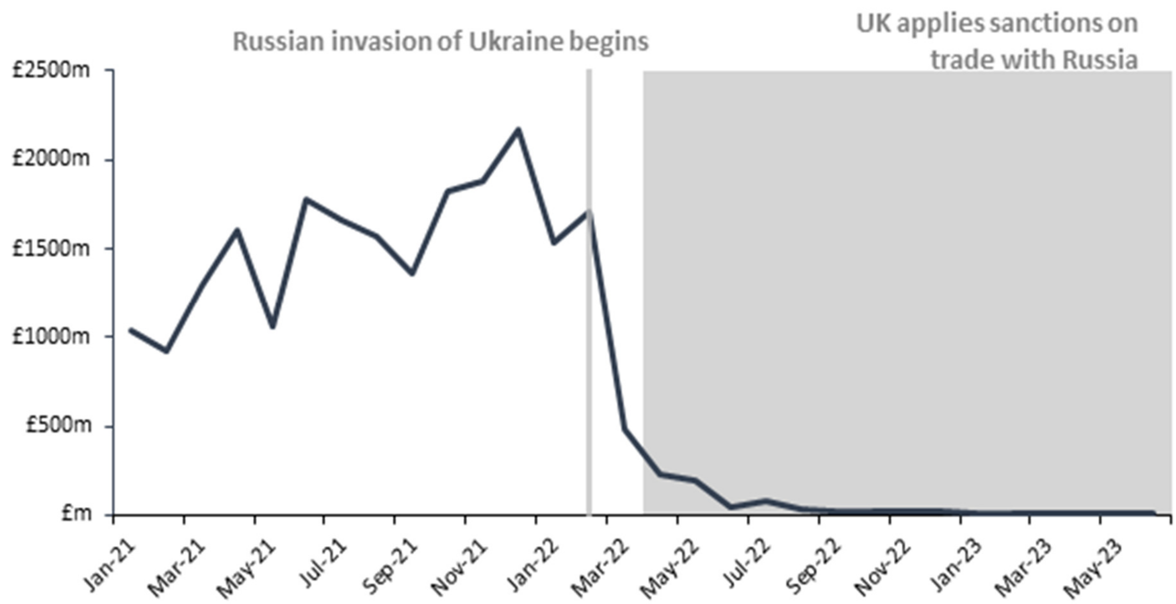


Source: Office for National Statistics (ONS): UK total trade data (seasonally adjusted). ONS data is used here because HMRC doesn't provide services data.

Changes in UK imports (goods) from Russia

44) Recent analysis shows that UK trade with Russia has significantly declined since the beginning of the full-scale invasion in February 2022. The analysis shows that both UK imports from Russia and UK exports to Russia have both seen large falls post-invasion. The economic sanctions already imposed are considered likely to have driven these falls in trade with Russia, with UK traders self-sanctioning considered to be another likely factor. Figure 3 below shows the trend in total UK goods imports from Russia (January 2021 to June 2023).

Figure 3: Total value of UK goods imports from Russia, January 2021 to June 2023



Source: HMRC overseas trade data. Notes: Russian invasion of Ukraine started on 24th February 2022 and the first UK import sanctions on Russia were implemented on 25th March 2022.

45) Using ONS data,[11] Table 2 shows two period comparisons for a breakdown of changes in UK imports from Russia by commodity type. First, and using the 12 months ending February 2022 as a baseline (column 2), the table shows the GBP value for the 12 months ending February 2023 and the percentage reduction in value in square parentheses (column 3). In column 4, the table shows the same comparison but for the six months ending August 2023. From this, it is evident that imports of all broad commodity groups saw notable reductions in the 12-month average ending February 2023 relative to the 12-month average ending February 2022. All commodity types decreased significantly in the 12 months post invasion and decreased further in the most recent four-month period ending June 2023.

Table 2: Comparison of UK import value (average £ million) of goods from Russia by commodity type [and percentage decrease]

Imported commodities	12 months ending Feb 2022 (1 year prior to the invasion)	12 months ending Feb 2023 (1 year post the invasion)	4 months ending June 2023
0 Food & live animals	11.9	7.6 [-37%]	0.4 [-96%]
1 Beverages & tobacco	2.1	0.2 [-92%]	0.0 [-100%]
2 Crude materials	21.2	0.9 [-96%]	0.0 [-100%]
3 Fuels	494.9	77.8 [-84%]	0.0 [-100%]
4 Animal & vegetable oils & fats	0.2	0.0 [-100%]	0.0 [-100%]
5 Chemicals	23.6	2.3 [-90%]	0.0 [-100%]
6 Material manufactures	128.3	10.5 [-92%]	2.8 [-98%]
7 Machinery & transport equipment	25.7	19.7 [-23%]	0.5 [-98%]
8 Miscellaneous manufactures	2.9	1.1 [-62%]	0.6 [-81%]
9 Unspecified goods	265.9	0.5 [-100%]	0.4 [-100%]
Total	976.9	120.6 [-88%]	4.7 [-100%]

Changes in UK exports (goods) from Russia

[11] Trade in goods: Country by commodity imports, June 2023, current prices, non seasonally adjusted; downloaded from: https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktradecountrybycommodityimports. [Accessed 11/08/2023].

46) UK goods exports to Russia totalled £490m between November 2022 and June 2023, 28.3% lower than the total between November 2021 and January 2022 (£684m). Exports of most commodity types to Russia had fallen notably by June 2022, with machinery and transport equipment decreasing by £118m (91.3%). Figure 4 below shows total UK goods exports from Russia from January 2021 to June 2023.

Figure 4: Total value of UK goods exports from Russia, January 2021 to June 2023

Source: HMRC overseas trade data. Notes: Russian invasion of Ukraine started on 24th February 2022 and the first UK import sanctions on Russia were implemented on 25th March 2022.

47) Using ONS data,[12] exports of all broad commodity groups saw notable reductions in the 12-month average ending February 2023 relative to the 12-month average ending February 2022. Table 3 shows a breakdown of changes in UK exports to Russia by commodity type. All but one commodity type decreased significantly in the 12 months post invasion and decreased further in the most recent six-month period ending June 2023.

Table 3: Comparison of UK export value (period average £ million) of goods to Russia by commodity type [and percentage decrease]

Exported commodities	12 months ending Feb 2022	12 months ending Feb 2023	6 months ending August 2023
0 Food & live animals	9.4	5.6 [-41%]	5.2 [-45%]
1 Beverages & tobacco	13.8	12.1 [-12%]	12.5 [-9%]
2 Crude materials	5.1	0.5 [-91%]	0.3 [-95%]
3 Fuels	2.3	0.0 [-99%]	0.0 [-100%]
4 Animal & vegetable oils & fats	0.2	0.1 [-76%]	0.0 [-100%]
5 Chemicals	60.4	45.6 [-24%]	42.9 [-29%]
6 Material manufactures	11.1	1.5 [-87%]	1.2 [-90%]
7 Machinery & transport equipment	135.1	6.1 [-96%]	2.2 [-98%]
8 Miscellaneous manufactures	29.3	5.4 [-82%]	4.9 [-83%]
9 Unspecified goods	1.1	0.2 [-84%]	0.2 [-83%]
Total	267.9	76.9 [-71%]	61.8 [-74%]

Effectiveness of sanctions

[12] Trade in goods: Country by commodity imports, August 2023, current prices, non seasonally adjusted; downloaded from: https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktradecountrybycommodityimports. [Accessed 12/10/2023].

48) Sanctions are an effective signal to internal and external stakeholders that Russia's conduct is unacceptable. Moreover, analysis of the Global Sanctions Data Base[13] finds that of the 93 cases with ending war as the primary objective, sanctions had total success 59 times (63.5%) and partial success seven times (7.5%). Of the 93 cases, sanctions failed 19 times (20.4%).

49) Sanctions have had a clear impact on Russia's ability to fund the war. Without sanctions, it is estimated that Russia would have over $400bn more to fund its war machine (made up of $300bn immobilised foreign reserves, $83bn oil discounts,[14] approximately $58bn in frozen assets, plus various other costs including lower GDP).[15]

50) Russian industry has extensive reliance on imported machine tools. Without access to these, as well as necessary spare parts, production will suffer.[16]

51) Financial sanctions are disrupting Russia's foreign military sales, depriving it of revenue and undermining its credibility as an exporter.[17]

3.3 Impacts specific to export measures

3.3.1 Economic impacts of export measures aimed at Russia

52) This section of the Impact Assessment covers the wider context of the UK exports to Russia in the products covered by this Statutory Instrument.

53) Based on 2021 trade flows, the new package of measures sanction £662m worth of UK exports that have been partially sanctioned already in previous packages, as well as £70m worth of UK exports to Russia that have not been previously sanctioned. Only the previously unsanctioned goods (£70m) are included in the calculations of this Impact Assessment to avoid overestimating or double counting the impacts.

UK exports to Russia, in scope of sanction measures, by product type

54) Using 2021 trade values, Figure 5 shows the absolute value of UK exports to Russia, by HS2 chapter, that is in scope of these sanction measures. It is expected that the new package of trade sanctions will affect UK exports of plastics (where exports were worth £19.8m or 28% of the total value in scope). In addition, UK exports of inorganic chemicals (£14.3m or 21%) and electrical machinery (£12.8m or 18%) are also expected to be impacted.

Figure 5: By HS2 chapter, the value of affected UK goods exports to Russia (2021 trade values)

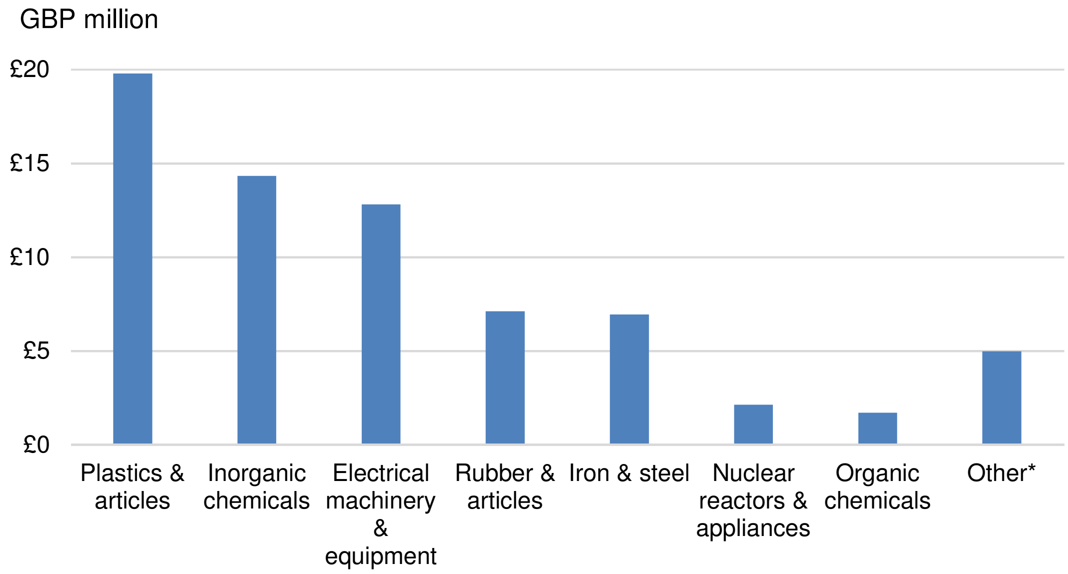
[13] Found at: http://www.globalsanctionsdatabase.com/. The data is classified as (1) failed, (2) negotiated settlement, (3) ongoing, (4) partial success and (5) total success; and according to different policy objectives, one of which is ending war.

[14] The FCDO estimates that there is $83bn of the lost oil revenues due to discounts. The calculation compares what Russia's tax take would have likely been had urals oil traded at Brent crude prices and does not account for any one-off taxes that Russia has levied on Russian oil companies. Note also that the calculation only covers the period Jan-22 to April-23.

[15] Different sources, including (1) Reuters, found at: https://www.reuters.com/article/ukraine-crisis-russia-reserves-idUSL5N2VG0BU, (2) CNN, and (3) House of Lords, found at: https://parliamentlive.tv/Event/Index/8bd3a735-201d-4934-beab-efbcc44bbb6e.

[16] T. Malmlöf (2019), The Russian Machine Tool Industry – Prospects for a turnaround. Found at: https://www.foi.se/rest-api/report/FOI-R--4635--SE.

[17] D. Peri (2023), Payment crisis leads to uncertainty over India-Russia defence deals. Found at: https://www.thehindu.com/news/national/payment-crisis-further-delays-defence-deals-with-russia-around-3-billion-held-up/article67216698.ece.



Notes: *Other consists of 40 HS2 codes: 25, 27, 32, 36, 37, 38, 44, 45, 47, 48, 51, 52, 53, 54, 55, 56, 59, 60, 63, 65, 68, 70, 73, 74, 75, 76, 78, 80, 81, 82, 83, 86, 87, 89, 90, 91, 93, 94, 95, and 96. Combined, these 40 HS2 codes account for 7% of the total estimated impact on sanctioned exports.

Regional and SME impacts

55) Table 4 presents details on the regional distribution of the businesses that exported to Russia in all affected codes in 2021. Overall, 569 traders exported goods from the UK to Russia in the sanctioned codes in 2021.

56) Yorkshire & the Humber is the region most impacted in terms of the value of exports to Russia in the sanctioned codes – worth £13.9m, 20% of the total, in 2021.The South East is the region most impacted in terms of the number of traders who exported to Russia in the sanctioned codes in 2021 – with 123 traders making up 22% of the total.

57) Table 5 presents details on the business size of the traders that exported to Russia in these codes in 2021. There were more small sized businesses (189) 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 £37.3m (53% of the total) in 2021 – even though they only accounted for 18% of traders impacted.

58) Small and medium sized businesses are likely to be disproportionately impacted by sanctions in terms of being able to find new export markets. However, as this is the 7th package, it is likely these impacts have already been felt, and therefore these sanctions will have little further impact.

Table 4: Export Value and Number of Exporters to Russia in 2021 in commodity codes partially or wholly sanctioned, by region[18,19]

[18] 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.
[19] Source: derived from analysis of HMRC microdata on 2021 trade data.

UK Region or Nation	Value (£m)	Share of value (%)	No. of Businesses	Businesses as % share
North East	*	*	17	3%
North West	£8.8m	13%	56	10%
Yorkshire & the Humber	£13.9m	20%	38	7%
East Midlands	£1.7m	2%	44	8%
West Midlands	£2.8m	4%	66	12%
East of England	£1.8m	3%	69	12%
London	*	*	62	11%
South East	£13m	19%	123	22%
South West	£1.4m	2%	35	6%
Wales	*	*	10	2%
Scotland	£1.8m	3%	33	6%
Northern Ireland	*	*	*	*
Other[20]	£1.1m	2%	*	*

*Figures are suppressed for disclosure reasons
Source: derived from analysis of HMRC microdata on 2021 trade data.

Table 5: Export value, business size and number of exporters to Russia in 2021 in commodity codes covered in this regulation [21,22]

Business Size	Value (£m)	Share of value (%)	No. of Businesses	Businesses as % share
Large	£37.3m	53%	104	18%
Medium	£17.6m	25%	165	29%
Small	£7.1m	10%	189	33%
Micro	£6.2m	9%	81	14%
Zero[23]	*	*	*	*
Unknown[24]	*	*	*	*

*Figures are suppressed for disclosure reasons
Source: derived from analysis of HMRC microdata on 2021 trade data. Large businesses are defined by having 250+ employees, medium have 50-249 employees, small have 10-49 employees and micro have 1-9 employees.

3.3.2 Regulatory impact of export measures aimed at Russia

59) 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.

60) The set of proposed measures in this Statutory Instrument are also subject to exceptions and licences.[25] But they are expected to have a minimal administrative impact on UK firms (see section 3.3.3).

61) To calculate regulatory impacts, this Impact Assessment based its approach on the RPC's guidance on implementation costs.[26] Familiarisation costs – incorporating the potential dissemination of information throughout the business, IT system changes or possible training costs – are estimated.

62) In line with the previous sanctions package Impact Assessments, it is assumed that one hour will be required for familiarisation with the sanctions per company exporting products to Russia under the

[20] Traders with an unknown address or a HMRC-registered address not attributable to a UK region, including Isle of Man, Channel Islands and non-UK addresses.
[21] 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').
[22] Source: derived from analysis of HMRC microdata on 2021 trade data.
[23] * Suppressed for confidentiality.
[24] Trader details, including business size, are not provided for these traders.
[25] 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/.
[26] https://www.gov.uk/government/publications/rpc-short-guidance-note-implementation-costs-august-2019

commodity codes covered by these measures. 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 3.6.1, also contribute to the expectation that UK – Russia trade will be significantly reduced if compared to 2021. Consequently, we assume that many companies expect that the products they trade with Russia could be sanctioned soon if that has not already taken place.

63) Regulatory impacts are calculated by multiplying the number of traders exporting goods to Russia in 2021 on the commodity codes covered by the measures covered in this Impact Assessment (569) by the UK average wage for one hour (based on the ONS' provided median weekly pay in April 2021 - £611 – rebased to 2019).[27,28] A 35-hour weekly number of hours worked is assumed.

64) 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.

65) **Overall regulatory costs for the group of goods exporters affected by these measures are estimated to be in the region of £12,600.**

66) It was not possible to identify the number of ancillary services exporters affected by these measures, so an equivalent regulatory cost has not been identified. As such, the regulatory costs captured in this Impact Assessment is an underestimate. It is not expected that these costs will be significant. It is difficult to monetise ancillary services because the intangible nature of services makes recording services activities much more difficult. UK Services trade data is primarily collated through survey responses, it is not possible to link services data to specific transactions, therefore ONS services trade data cannot be used to estimate the value of ancillary services in this Impact Assessment.

3.3.3 Administrative and enforcement impacts of export measures aimed at Russia

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

68) The set of measures in this Statutory Instrument are subject to exceptions and licensing grounds.[29] They are necessary to reduce unintended consequences, bring the presumed impact on the UK of the associated sanctions measures into tolerable bounds, support wider HMG interests overseas and mitigate risks of divergence with partners. Further information on the licensing grounds and exceptions can be found in the statutory guidance.[30]

69) 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.

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

71) Rationale for this expectation include:
    a. As Table 1 (recent HMRC analysis of the impact of sanctions on 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 3.6.1).[31]
    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 expected that few applications will be received for licences on humanitarian grounds.

72) 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.

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[27] Source for number of traders: derived from analysis of HMRC microdata on 2021 trade data.
[28]https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2021
[29] 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/.
[30] https://www.gov.uk/government/publications/russia-sanctions-guidance/russia-sanctions-guidance.
[31] 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.

73) There may also be some additional cost from the enforcement of the application of the measures. However, given the fall in UK – Russia trade, including as a result of existing sanctions and self-sanctioning, and the level of existing sanctions, the additional enforcement cost from these measures is not expected to be significant.

74) These exceptions and licenses are not expected to impact the overall achievement of policy objectives because they will only be granted where they are consistent with the purposes of these sanctions.

3.3.4 Additional factors to consider on export measures

75) The loss of revenue from trade in affected ancillary services is not captured in monetised costs of the Impact Assessment due to data limitations. Services data are available at an aggregated level and the identification of trade flows specific to affected ancillary services is not possible. The estimated costs in this Impact Assessment are therefore underestimates.

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 from Russia in the products covered in this set of measures.

77) As detailed in section 1.4.2, the main measure in scope for this package are metals commodity codes (including iron and steel commodity codes).

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.[32]

3.4.1 Economic impacts of ban on goods imports

79) This section of the Impact Assessment covers the wider context of UK imports of the products covered by this Statutory Instrument from Russia.

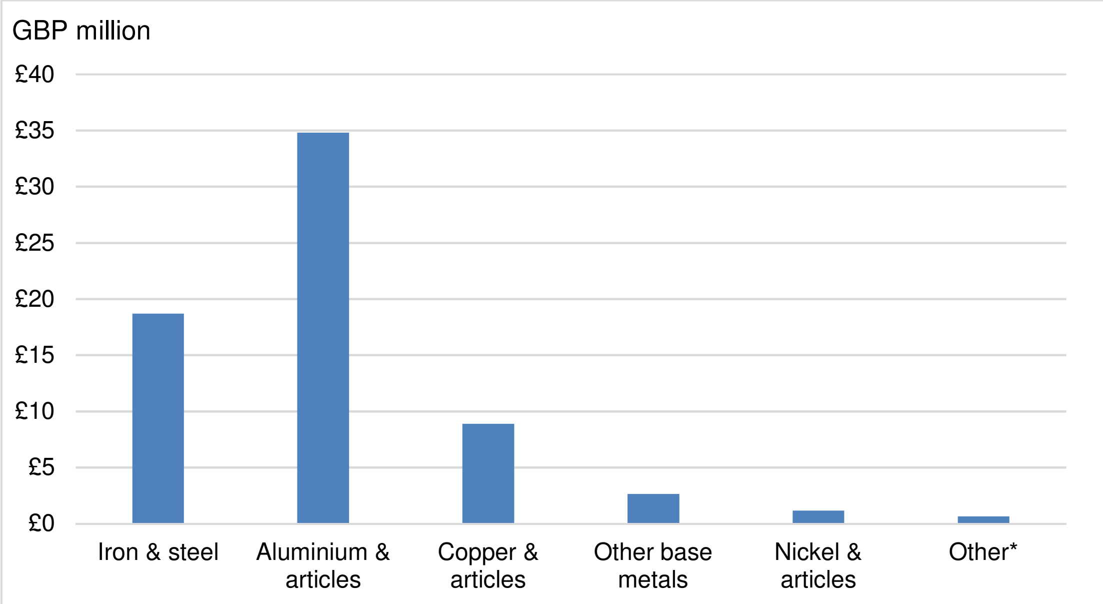
80) Based on 2021 trade flows, the total additional value of UK goods imports from Russia prohibited by the proposed measures in the legislation is £67m, representing 0.4% of all UK goods imports from Russia in 2021.[33]

UK imports from Russia, in scope of sanction measures, by product type

81) Using 2021 trade values, Figure 6 shows the absolute value of UK imports from Russia, by HS2 chapter, that is in scope of these sanction measures. It is expected that the new package of trade sanctions will mostly affect UK imports of aluminium (where imports were worth £34.8m or 52% of the total value in scope). In addition, UK imports of iron and steel are also expected to be impacted (making up 28% of the total value in scope), and also copper (13% of total scope).

Figure 6: By HS2 chapter, the value of affected UK goods imports from Russia (2021 trade values)

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



Notes: *Other consists of seven HS2 codes: 71, 78, 79, 80, 82, 83 and 91. Combined, these seven HS2 codes account for 1% of the total estimated impact on sanctioned imports.

Regional and SME impacts

82) Table 6 presents details on the regional distribution of the traders that imported from Russia in the sanctioned codes in 2021; of which there are 82 traders. Due to disclosure concerns, the regions have been aggregated up to super regions.

83) Southern England is the region most impacted in terms of the value of imports from Russia in the sanctioned codes – worth £28.6m, 43% of the total, in 2021. Southern England is also the most impacted in terms of the number of traders who imported from Russia in the sanctioned codes in 2021 – with 34 traders making up 41% of the total.

84) Table 7 presents details on the business size of the traders that imported from Russia in these codes in 2021.

85) There were more medium sized businesses (21) who imported 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 £38.8m (58% of the total) in 2021 - even though they only accounted for 18% of traders impacted.

86) Small and medium sized businesses are likely to be disproportionately impacted by import sanctions as they are less able to adapt efficiently to supply chain changes. However, due to the length of time since the invasion and sanctions first being implemented, as well as self-sanctioning, it is likely that this new sanctions package will have little further impact.

Table 6: Import Value and Number of importers from Russia in 2021 in commodity codes partially or wholly sanctioned, by region[34,35]

Super Region[36]	Russia Imports (%)[a]	Russia Importer Population (%)[a]	Value (£m)	As % (Value)	No. of Businesses	As % (No.)
Northern	21%	20%	£15.2m	23%	20	24%
Midlands	5%	14%	£20.1m	30%	14	17%
Southern	58%	50%	£28.6m	43%	34	41%
Nations (excl. England)	11%	12%	*	*	*	*
Other[b]	5%	4%	*	*	*	*

[a] Source: HMRC Regional Trade Statistics for all goods, using 2021 figures. These columns are for reference only.

[34] 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 imports.
[35] Source: derived from analysis of HMRC microdata on 2021 trade data.
[36] Regions are aggregated up to super regions for this table due to disclosure reasons.

[b] Traders with an unknown address or a HMRC-registered address not attributable to a UK region, including Isle of Man, Channel Islands and non-UK addresses.
*Figures are suppressed for disclosure reasons

Table 7: Import value, business size and number of importers from Russia in 2021 in commodity codes covered in this regulation [37,38]

Business Size	Value (£m)	Share of value (%)	No. of Businesses	Businesses as % share
Large	£38.8m	58%	15	18%
Medium	£5.5m	8%	21	26%
Small	£4.9m	7%	19	23%
Micro	£1.9m	3%	16	20%
Zero[39]	*	*	*	*
Unknown[40]	*	*	*	*

*Figures are suppressed for disclosure reasons
Source: derived from analysis of HMRC microdata on 2021 trade data. Large businesses are defined by having 250+ employees, medium have 50-249 employees, small have 10-49 employees and micro have 1-9 employees.

3.4.2 Regulatory impact of import measures aimed at Russia

87) The same approach to calculating the regulatory impact of export measures is applied to import measures (see section 3.3.2).

88) Regulatory impacts are calculated by multiplying the number of traders importing goods from Russia in 2021 on the commodity codes covered by the measures covered in this Impact Assessment (82) by the UK average wage for one hour (based on the ONS' provided median weekly pay in April 2021 - £611 – rebased to 2019).[41,42] A 35-hour weekly number of hours worked is assumed.

89) 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.

90) **Overall regulatory costs for the group of goods importers affected by these measures are estimated to be £1,800**.

3.4.3 Administrative and enforcement impacts of import measures aimed at Russia

91) Like for 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 not expected to be significant. The rationale for this expectation is the same one outlined regarding the export measures.

92) 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 Impacts specific to financial measures

93) Similar to section 3.3 and 3.4 (Impacts specific to import/ export measures), this segment covers the impacts of the financial measures covered in this package.

94) It is not possible to monetise these impacts due to disclosure concerns, but the overall impact is expected to be low. These measures are likely to only impact businesses which are already highly exposed to sanctions which means they will already have systems in place to manage these new requirements.

[37] 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').
[38] Source: derived from analysis of HMRC microdata on 2021 trade data.
[39] * Suppressed for confidentiality.
[40] Trader details, including business size, are not provided for these traders.
[41] Source for number of traders: derived from analysis of HMRC microdata on 2021 trade data.
[42]https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2021

3.5.1 Immobilised Asset Reporting

95) Immobilised asset reporting is expected to largely impact businesses in high-exposure environments who will already have measures in place to provide this. The measure does not oblige business to change any of their current procedures. Relevant firms will be legally obliged to report certain information to OFSI as soon as practicable. The costs to relevant firms are expected to be minimal.

96) To minimise the burden of reporting on relevant firms and ensure information can be processed efficiently, OFSI will provide a free standardised online form on GOV.UK. This form can then be submitted to OFSI via email. Chapter 5 of OFSI's General Guidance sets out UK financial sanctions reporting obligations.

97) There is a chance of de-risking costs, where new reporting requirements lead to more cautious behaviour from financial institutions (closing accounts, refusing access to funds) that then has an indirect impact on businesses or individuals that are at higher risk of being exposed to sanctions.

98) Where any costs are incurred, it is expected that only highly exposed companies would be impacted. Costs may also be incurred by engaging with industry, then reading updated guidance and assessing whether it is broadly in line with current practices. While these familiarisation costs cannot be quantified at this stage, businesses will not be required by law to have any additional measures or systems in place. Accordingly, the cost of familiarising employees with such changes should be commensurately low. The approach of businesses to their due diligence processes will influence the costs of meeting this obligation.

99) In practice, the costs of reporting obligations are likely to be a small addition to existing costs of maintaining due diligence methods mandated by money laundering regulations. These costs largely concern minor amendments and or additions to internal processes, guidance and training.

100) In addition to this, businesses find it difficult to isolate the cost of economic crime requirements, particularly the requirements around identifying and verifying their customers, because prudent businesses would do many of these activities anyway, either for commercial reasons, to comply with sanctions in a number of jurisdictions, or to protect themselves and their customers from fraud. The process for notifying businesses about sanctions remains unchanged, so there are not expected to be significant changes in how this information is received.

101) The Impact Assessment for The Money Laundering and Terrorist Financing (Amendment) Regulations 2019 sets out annual anti-money laundering training costs for Virtual Asset Service Providers ("VASPs") as £100-£200 per day and £500 to £1000 per year. However, the annual cost of Client Due Diligence checks is unknown, given they are highly variable depending on the business's client base, risk appetite, business model and software. As with training, costs are likely to be a small addition to existing processes in place to meet anti-money laundering and counter-terrorism financing.

3.5.2 Mandatory Designated Persons (DP) Asset Reporting

102) The reporting obligation on designated persons would largely capture natural persons. Although some designated entities may be captured, the expectation is that this will be low. Furthermore, only assets of £10,000 or more would need to be reported, this will be set in guidance to allow flexibility on this value as required by HMG.

103) Any businesses captured by this measure are expected to be highly exposed companies. Costs may be incurred by engaging with OFSI, reading updated guidance and assessing whether it is broadly in line with current practices. While these familiarisation costs cannot be quantified at this stage, businesses will not be required by law to have any additional measures or systems in place. Accordingly, the cost of familiarising employees with such changes should be commensurately low. The approach of businesses to their due diligence processes will influence the costs of meeting this obligation.

104) In practice, the costs of reporting obligations are likely to be a small addition to existing costs of maintaining due diligence methods mandated by Financial Sanctions. These costs largely concern minor amendments and or additions to internal processes, guidance and training.

105) Across both measures (immobilised and DP asset reporting) there may be some financial impact on UK courts in response to more robust enforcement of financial sanctions. Within the evolving context of significantly expanded financial sanctions placed on Russia, it is not possible to accurately predict the amount of potential breach reports that OFSI will receive, and therefore the number of penalties imposed and challenged in court. So far none of the nine monetary penalties imposed by OFSI have been challenged through to a Court hearing. Section 147 of the 2017 Act sets out the steps that HM Treasury must take to impose a monetary penalty, the rights that a person has to make representations and seek a review, and the right to appeal the decision to the tribunal. OFSI has an administrative review process,

which aims to alleviate people going directly to the Upper Tribunal and subsequently reduces the burden on the courts,

106) These measures and any potential increases in compliance costs will also incur significant benefits that are aligned with wider policy aims. These measures will increase confidence and trust in the UK's financial sectors, and improve transparency around Russian assets in the UK, they are expected to lower the risk of breaches and increase knowledge around financial sanctions. This may in turn make the UK financial sector more attractive and reduce potential liabilities of UK-linked firms in other jurisdictions where they may also be subject to monetary penalties or prosecution for breaching financial sanctions.

3.5.3 Divestment licensing ground

107) It is optional for businesses to use this derogation and so we expect no net costs overall.

108) There will likely be negligible familiarisation and compliance costs given extensive sanctions and derogations already in place.

109) The guidance accompanying the derogation will state that OFSI requires some information to support applications which may include evidence of a company's full plan to divest (where they are seeking only partial divestment) and information on how they have minimised benefit to the Designated Person or Russian government.

110) There is no expected financial impact on UK courts as a result of this measure. Any challenge to OFSI's decision-making on individual applications may lead to UK court involvement and cost to OFSI.

3.5.4 Correspondent banking

111) The impact of financial sanctions on business depends both on the scope (who financial sanctions apply to) and on the HMG enforcement regime for sanctions. The cost to UK firms of compliance with the proposed measures and enforcement and implementation costs incurred by HMG were not included for measures relating to services trade, trusts or recognition due to data constraints. OFSI currently receive 5-10 cases each month just relating to correspondent banking under regulations 11-15 (asset freeze prohibitions) and the existing regulation 17A of the Russia Regulations. From a sample of this overall caseload, only 11% are in GBP, with the remaining 89% in other currencies.

112) The updates contained within this amendment would largely impact natural persons (where they are individuals remitting or benefitting from funds), though recognise some remitters may be legal persons (businesses making payments internationally). However, the amendment and existing regulations only capture those who are required to comply (i.e., UK financial institutions involved in these correspondent banking chains). Those financial institutions that are impacted are expected to be large, and the impact is expected to be minimal given the correspondent banking industry is high volume, low yield. An updated correspondent banking prohibition will likely only impact banks in high-exposure environments who will already have measures in place (e.g., sanctions screening programmes) to provide for this. This measure does oblige businesses to change their current procedures insofar as we are widening the prohibition to include non-Sterling currencies. However, most entities (likely credit/financial institutions) are likely to be implementing the existing prohibition contained in regulation 17A (and their interpretation of the prohibitions under the existing regulation 17A) as currency-agnostic already given a relatively low risk appetite. This measure is not expected to significantly burden (or place a cost) to the firms impacted.

113) There will likely be negligible familiarisation and compliance costs given extensive sanctions already in place. If, for an unforeseen reason, the measure requires the winddown of existing arrangements or creation of new processes, this may add to compliance costs.

114) The regulation does not prescribe a reporting requirement for business.

115) There is a small chance of de-risking costs, where an expanded prohibition in regulation 17A may lead to more cautious behaviour from financial institutions. This could have an indirect impact on businesses or individuals that are at higher risk of being exposed to sanctions. However, this is expected to be minimal risk given our understanding of the implementation of the existing prohibition in regulation 17A.

116) There may be some financial impact on UK courts in response given the expansion of the prohibition into non-Sterling currencies. Inevitably, this will mean that a higher volume of payments are prevented from onward processing leading to a higher volume of possible challenges. Within the evolving context of significantly expanded financial sanctions placed on Russia, it is not possible to accurately predict what this impact may be.

117) These measures and any potential increases in compliance costs will also incur significant benefits that are aligned with wider policy aims – namely to maintain pressure on the Russian government by disrupting Russian banking access to the UK financial sector.

3.6 Assumptions and caveats

3.6.1 Assumptions and caveats across the analysis

118) The analysis estimates that the net direct cost to businesses from implementing this sanctions package will be £6.3m a year, and a net benefit of -£49.5m (best estimate).

119) This analysis is subject to several assumptions and caveats:

a. Currently many UK businesses are embargoing their own exports and imports to and from Russia. Nevertheless, as the HMRC analysis summarised in Table 1 indicates, UK-Russia goods trade has already notably reduced when comparing a year pre-invasion, and a year post invasion (March 2021 – Feb 2022, compared to March 2022 – Feb 2023). Therefore, it is more likely that growth of UK exports to Russia and imports from Russia, if any, would be below the growth suggested by the IMF WEO projections for Russia's exports and imports.

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. 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 must 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.[43] This is likely to lead to an overestimation of the economic impact.

120) 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. **Ancillary 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.[44] 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 to Russia in 2014, when previous sanctions were applied.[45] 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

[43] The analysis is carried out using HS codes up to and including 8 digits.
[44] OECD Trade in Value Added (TiVA) 2021 ed: Principal Indicators, EXGR_IDC: Indirect domestic value-added content of gross exports.
[45] 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.

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 risk appetite of businesses caused by the situation that has precipitated this intervention to use additional trade sanctions against Russia.

e. UK trade with Russia fell by 30.6% between 2014 and 2016 following the imposition of sanctions resulting from the Russian annexation of Crimea. 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. 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.

121) 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.

122) An estimation of the emissions impact of the proposed set of import measures has not been attempted. Whilst these measures will reduce imports from Russia, it is expected that these will be substituted to be imported from alternative destinations. There may be some additional emissions associated if there are increased transport distances.

3.6.2 Assumptions on non-monetised impacts of proposed measures

123) 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.

124) 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. The restoration of peace and security in Europe would also have economic benefits to the UK, given the negative and highly disruptive impact the war has had on the UK and global economy and on global supply chains.

3.6.3 Risks

125) 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,[46] a decrease in trade was seen across almost all goods exported to and imported from Russia demonstrating the possible scale of this chilling effect. To what extent this chilling effect is persistent over time and trade rebounds is uncertain.

126) As previously highlighted, there is also uncertainty over the one-off adjustment cost to importer businesses from diverting their trade from Russia. In the costs to importers outlined above, the one-off adjustment cost is estimated to be equivalent to 10% of the 2021 import trade value in year 1, as per previous Impact Assessments.

127) However, to account for this uncertainty, sensitivity analysis has been conducted to check how the net direct cost to businesses will change if this rate is different. See Table 8 for details.

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

128) There may potentially be further ongoing costs to businesses than what is assumed in this Impact Assessment. For example, it may take time for businesses to find a supplier they are happy with, and to build a strong client-supplier relationship. However, seeing as it has been quite some time since the initial invasion and many businesses would already have started self-sanctioning or considering alternate suppliers, this impact is expected to be minimal.

Table 8: Total net present social value with ranging one-off adjustment costs to businesses

One-off adjustment cost to businesses	Net direct cost to businesses per year (£m)
5%	6.5
10%	6.8
25%	7.9

Source: DBT analysis based on HMRC data. Data presented focuses on the cost to profitability of firms trading in the goods in scope of the proposed measures.

3.7 Wider impacts of trade measures

3.7.1 Supply chains and employment

129) 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 Organization for Economic Cooperation and Development (OECD), reveals how UK industries are connected to consumers and businesses in Russia, including when no direct trade relationship exists. Analysis using the OECD's TiVA dataset (shown in Table 9) 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. TiVA data offers advantages over traditional ways of measuring trade and are complementary to conventional trade statistics.

130) According to OECD TIVA data, 109,200 UK persons' employment[47] was supported by Russian final consumption in 2018. In 2020, $8.7 billion (approximately £6.5 billion[48]) of UK value add was embodied in Russian final demand. This is equivalent to around 1.6% of total UK employment – and 2.6% of total UK value add – embedded in final demand from all international trade partners. While this estimates the level of UK employment that was embedded in Russian final demand in 2018, it is not an estimate of the employment at risk due to sanctions on UK exports to Russia. Where UK exporters switch away from the Russian market to alternatives, including the UK domestic market, as a result of self-sanctioning or government-imposed sanctions, this employment may switch to become embedded in the final demand of these other alternative markets. Due to data limitations, we also cannot identify the proportion of trade in value added that would be impacted by UK sanctions of the export of goods in scope.

Table 9: UK exports supply chain linkages with Russia's final demand[49]

TiVA Industry	UK value in Russian final demand (GBP millions, 2020)	UK employment embodied in Russian final demand (Persons, Thousands, 2018)
Total	6,825	109,000
D01T03 - Agriculture, hunting, forestry and fishing	95	800
D05T09 - Mining and quarrying	1,803	400
D10T33 - Manufacturing	1,510	15,700
D35T39 - Electricity, gas, water supply, sewerage, waste and remediation services	181	600
D41T43 - Construction	71	1,400
D45T82 – Total business sector services	3,129	80,600

[47] OECD Trade in employment (TiM) Principal indicators for UK employment embodies in Russian final demand. FFD_DEM: Domestic employment embodied in foreign final demand.
[48] Value was converted from US Dollars to Pounds Sterling using the 2018 annual average spot exchange rate (Bank of England).
[49] 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

D84T98 - Public administration, education, health and other personal services	35	9,800

Source: OECD Trade in Value Added (TiVA) 2021 ed: Principal Indicators for UK share of foreign value add in Russian final demand. Data for 2020 is 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. 2018 data is latest available

131) There may also be some potential considerations around innovation and competition impacts resulting from this sanctions package. For example, UK businesses changing to new suppliers could lead to greater innovation by introducing new supply chains or different ways to maintain profit levels without the benefit of cheaper inputs from Russia.

3.7.2 Impact on protected groups

132) A Public Sector Equality Duty assessment has been carried out for these measures and covers the impact on protected groups in Russia.

133) 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.[50]

134) 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.

135) The potential impact on male workers is based on experimental analysis by DBT 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.[51]

136) Background information: UK employment broken down by protected groups:
   a. Sex: 47% of those in employment in the UK are female and 53% are male.[52]
   b. Ethnicity: 12% of those in employment in the UK are from an ethnic minority group and 88% report that they are white.
   c. Age: 12% of those in employment in the UK are aged 16-24, 84% are 25-64, and 4% are over 65.
   d. Disability: Around 13% of those in employment in the UK report that they have a disability (as defined by the Equalities Act 2010).[53]

4. Monitoring and evaluation

137) 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.

138) 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.

139) Published data from both the ONS and HMRC now covers the period since the invasion, and by winter, 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.

[50] 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.
[51] Evaluating the impact of exports on UK jobs and incomes
[52] According to DBT Analysis of the ONS three-year pooled Annual Population Dataset (2016-2018).
[53] It is possible that non-response to this question in the Annual Population Survey affects the estimated proportion.