Title: The Russia (Sanctions) (EU Exit) (Amendment) Regulations 2023 **IA No:** FCDO2211 • **RPC Reference No:** **Lead department or agency:** Foreign, Commonwealth & Development Office **Other departments or agencies:** Department for Business and Trade	**Impact Assessment (IA)** **Date:** 20/04/2023 **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Secondary legislation **Contact for enquiries:** Sanctions@fcdo.gov.uk

Summary: Intervention and Options

RPC Opinion: Awaiting scrutiny

Cost of Preferred (or more likely) Option (in 2019 prices)			
Total Net Present Social Value	**Business Net Present Value**	**Net direct cost to business per year**	**Business Impact Target Status** Qualifying provision
-£191.5m	-£191.5m	£24.3m	£121.6m

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.

On 24 February 2023, the UK and its international partners announced a wave of coordinated sanctions against Russia. By bringing more measures and designations into force, HM Government aims to ramp up economic pressure on the Russian regime and deter further aggression in Ukraine.

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

The policy objectives are to:

- **Pressure** the Russian government into changing policy by targeting its strategic and economic interests.
- **Constrain** the Russian military-industrial complex, in terms of its ability to maintain the occupation of Ukraine and its future technological ambitions.
- **Signal** to Russia and the wider international community that the UK considers Russia's actions in Ukraine to be unacceptable.

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.

The measures in this Statutory Instrument will remain in place until HM Government is satisfied that Russia has changed its actions and intentions towards Ukraine. We have aligned with EU and other G7 partners where possible to maximise the impact of these measures on Russia.

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

Option 0: Do nothing. Rely on existing sanctions to erode the financial 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.

Option 1: Implement additional trade sanctions measures [Preferred option]. This is a strategic, targeted package of sanctions that will deliver against our Russia objectives. It will:

- **Deepen** the impact on Putin's regime, deny it the resources and revenues to finance its illegal invasion and signal the UK's continuing condemnation.
- Ensure that the UK's response is **aligned and coordinated** with a broad coalition of EU and other G7 partners, to maximise the impact on Russia.
- Support the **sharpening** of trade sanctions and their effective enforcement.

In addition, implementing further measures will ensure that there is no reversal of actions by UK businesses, where they have self-sanctioned or reduced their trade with Russia in response to the war. We cannot determine how long UK businesses will continue to self-sanction, whether directly or indirectly through the wider chilling effects that have been seen across global markets.

Key measures in this sanctions package will add to existing schedules of goods that the UK prohibits the export, supply, delivery, making available to, or for use in, Russia.

Further **export restrictions** apply to:

- Additional goods in the '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.
- Additional goods in the 'Russia's vulnerable goods list', which includes chemicals, machinery and electrical appliances. These goods are crucial to Russia's industrial and technological capabilities.
- Additional goods in the 'G7 dependency and further goods list': these goods have been identified as areas of Russian dependence on the G7.
- Additional goods in the 'Defence and Security Goods & Technology' section, which includes goods and technology used in the Russian security sector, including internal repression.
- Additional goods in the 'Quantum computing and advanced materials goods and technology' schedule, which focusses on goods and technology critical to Russia's high-tech industry.

These measures also expand previous import sanctions to prohibit the import of additional categories of goods that originate in, or are consigned from, Russia. **Import restrictions** apply to:

- Iron and steel. This measure includes 50 commodity codes, in addition to the prohibition of 333 iron and steel commodity codes in April 2022.
- Russian iron and steel that has been processed in a third country. This will apply to existing and new iron and steel commodity codes to which import prohibitions apply, from 30 September 2023.
- Revenue generating goods. This measure includes 144 commodity codes of various nature, deemed to generate additional revenue for Russia. It follows earlier bans in June and October 2022 of 100 other goods.
- The supply and delivery of certain revenue generating goods of Russian origin to third countries. Whilst this includes existing and new commodity codes, certain codes will be exempt from this ban, on global humanitarian, food and energy security grounds.

<table>
<tr><td colspan="5">Will the policy be reviewed? It will be reviewed. If applicable, set review date: Policy constantly under review.</td></tr>
<tr><td colspan="2">Is this measure likely to impact on international trade and investment?</td><td colspan="3">Yes</td></tr>
<tr><td>Are any of these organisations in scope?</td><td>Micro
Yes</td><td>Small
Yes</td><td>Medium
Yes</td><td>Large
Yes</td></tr>
<tr><td colspan="2">What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent – not this is for imports only, not estimated for exports)</td><td colspan="2">Traded:
N/A</td><td>Non-traded:
N/A</td></tr>
</table>

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: Andrew Mitchell MP Date: 18/04/2023

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 2019	PV Base Year 2020	Time Period Years 9	Net Benefit (Present Value (PV)) (£m)		
			Low: -£155.4m	**High:** -£198.9m	**Best Estimate:** -£191.5m

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	£9.2m	1	£19.5m	£155.4m
High	£10.2m		£25.2m	£198.9
Best Estimate	£10m		£24.3m	£191.5m

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

There have been notable falls in UK exports and imports, to and from Russia post-invasion, with self-sanctioning likely to be a contributing factor, meaning that the short-term impacts of both the export and import bans in this Statutory Instrument may be limited. However, we cannot determine how long UK exporters and importers would continue to self-sanction. The bans in this Statutory Instrument ensure no reversal of actions by UK businesses where they have self-sanctioned and prohibit the trade of goods where self-sanctioning has not occurred. Therefore, in line with previous Impact Assessments for sanction measures, we have estimated the cost to UK businesses as a result of the bans in this Statutory Instrument in terms of (i) the opportunity cost of future profit 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. The level of self-sanctioning that appears to have taken place may mean that the latter cost is overestimated, however this only has a marginal effect on the overall estimated cost to business. The primary cost to UK businesses from sanctions on these goods subject to the new restrictions is estimated to be the opportunity cost of future profit they may have made.

Based on 2021 trade flows, the new measures sanction around £281m of annual UK exports to Russia and £146m of annual UK imports from Russia that have not previously been wholly or partially sanctioned.

There is likely to be minimal negative impact on UK consumers from these bans. Of the import goods subject to this ban, only 8% are classified as consumption goods whilst the other goods are capital or intermediate goods. Russia also only accounted for 0.05% of the UK's total imports of these consumption goods in 2021. Therefore, UK consumers were not dependent on Russia for these consumption goods and are unlikely to be affected by this ban.

722 UK-based traders exported goods from the UK to Russia and 601 UK-based traders imported goods from Russia to the UK in the commodity codes covered by the export and imports bans in this Statutory Instrument in 2021. The regional distribution of these traders and their business size is outlined in sections 3.3.1 and 3.4.1.

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

The export ban of nettings, canopies, tents, blankets and apparel, specially designed for camouflage has not been monetised due to data limitations. However, we do not expect to see significant market or consumer impacts for these products as UK exports to Russia of nettings, canopies, tents, blankets and apparel of the camouflage and non-camouflage variety only accounted for £111,000 in 2021 (0.04% of the UK's total exports to Russia in this package). As camouflage goods are likely to only account for a small share of these products, the banning of these goods is only likely to have a marginal effect on the overall estimated cost to business.

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.

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) October 2022 estimates of the growth rate of Russian goods import and export demand to the value of UK's goods exports to, and imports from, Russia.
- 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 0.1% 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:**	
£24.3m	£0.0m	£24.3m	£121.6m

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1. Rationale

1.1 Policy background

1) Following its illegal annexation of Crimea in 2014, Russia continued a pattern of aggressive action towards Ukraine that culminated in the invasion of Ukraine's sovereign territory on 24 February 2022. This was announced by President Putin as a "special military operation". It included recognising the "Donetsk People's Republic" and "Luhansk People's Republic" as independent states and the deployment of Russian military forces across Ukraine. Subsequently Russia held sham referenda on sovereign Ukrainian territory and attempted to illegally annex Ukraine's regions of Luhansk, Donetsk, Kherson and Zaporizhzhia, in flagrant violation of international law, including the UN Charter.

2) The UK has been unwavering in its support for Ukraine's independence, territorial integrity and sovereignty. The UK has called on Russia to withdraw its troops from Ukrainian soil, 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) Existing trade sanctions include wide ranging prohibitions on the export of goods and services to Russia, such as defence and security goods and technology; goods used for Russia's energy sector; and key professional and business services. Import prohibitions include iron and steel products; certain gold products; oil, coal, and liquified natural gas; and key revenue generating goods that originate in 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 the international rules-based system and to take action against transgressors, sending a deterrent signal to others.

1.1.1 Problem under consideration and rationale for intervention

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

7) Given the nature of the issue, there is no appropriate non-governmental or private sector solution to the issue at hand. HM Government intervention in the form of these trade sanctions 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 that UK businesses cannot directly or indirectly provide these goods, technical assistance or financing to the Russian government, military or businesses. Failure to join the international community and impose sanctions would also undermine the UK's reputation as an upholder of international law, human rights, freedom of expression and democracy.

1.2 Policy objectives

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

9) HM Government's objectives of the Russia (Sanctions) (EU Exit) (Amendment No. 15) Regulations 2023 are to:

    a. **Pressure** the Russian government into changing policy by targeting its strategic and economic interests.

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

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

10) These measures are designed 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 avoid direct negative impacts on the people of Russia, including through humanitarian licencing grounds; on the UK and its partners; and on the security of food and fuel. We seek to align closely with partners to achieve maximum impact on the Russian government and associated individuals and entities.

1.3 Description of options under consideration

1.3.1 Option 0: Do nothing counterfactual

11) In this option, HM Government would rely on existing sanctions to erode the financial and economic power of the Russian government, constrain its ability to destabilise and invade sovereign nations and force it to change course in Ukraine. The UK 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. 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. In addition, it is not clear how much longer UK businesses will self-sanction.

12) 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.

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

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

    a. Additional goods being added to the 'Russia's vulnerable goods list' to align with partners. These goods are crucial to Russia's industrial and technological capabilities. This is a wide-ranging and long list of goods. These products broadly fall into two categories: they are either (i) critical intermediate goods that feed into supply chains for Russian industry or (ii) vulnerable intermediate or end use goods. The list does not include humanitarian aid goods, basic food and food production goods, medical goods, basic personal or public communications technology, or domestic appliances. As such, the list aims to bring under sanctions the remaining exports to Russia that feed its economy or industry, but as far as possible, avoid direct negative impacts to the Russian people.

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.

c. 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.

d. A small number of goods to be added to the “quantum computing and advanced materials goods and technology’ list. This will further restrict Russian access to key high-end technology.

e. A number of chemicals added to the ‘defence and security goods’ schedule that can be used for various forms of internal repression and arms manufacturing.

14) 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. Iron and steel. This measure includes 50 commodity codes, following the prohibition of 333 iron and steel commodity codes in April 2022.
b. Russian iron and steel that has been processed in a third country. This will apply to existing and new iron and steel commodity codes to which import prohibitions apply, from 30 September 2023.
c. Revenue generating goods. This measure includes 144 commodity codes of various nature, deemed to generate additional revenue for Russia. It follows earlier bans in June and October 2022 of 100 other goods.
d. The supply and delivery of certain revenue generating goods of Russian origin to third countries. Whilst this includes existing and new commodity codes, certain codes will be exempt from this ban, on global humanitarian, food and energy security grounds.

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

2. Implementation Plan

2.1 Secondary legislation

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

17) The measures will come into effect on 21 April 2023, except for the third country processed iron and steel prohibitions and exceptions, which will come into effect on 30 September 2023.

2.2 Licensing and exceptions

18) The new regulations will provide for certain exceptions to the new prohibitions they introduce. The new regulations will also provide for the relevant Secretary of State (depending upon the type of sanctions) to grant licences that permit certain otherwise prohibited activities. The

Export Control Joint Unit (ECJU) administers the UK's system of export controls and licensing in relation to trade in goods 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 trade in goods activities.

2.3 Enforcement

19) It will be a criminal offence to contravene the new trade sanctions, as well as to enable or facilitate a contravention of, or to circumvent them. This is in line with what is provided in relation to the existing measures. Offences of breaching the new trade sanctions measures will be triable either way and carry a maximum sentence on indictment of 10 years' imprisonment or a fine (or both).

3. Assessment of costs and benefits

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

3.1.1 Types of impacts assessed

20) 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

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

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

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

3.1.3 Data availability

22) Data from the Office of National Statistics (ONS) and from HM Revenue and Customs (HMRC) have been used to undertake an assessment of the potential economic costs and benefits of

the proposed sanctions outlined in the preferred policy option.[1] These data are not always directly comparable: ONS data are recorded on a balance of payments basis and reflect a change of ownership during the transaction; HMRC data are more granular and recorded on a physical movement basis. HMRC data are used for goods related sanctions, whilst ONS data are used for services.

23) We have seen substantial reductions in UK-Russia trade since the beginning of the invasion, some of which will be as a direct result of existing sanctions measures, whilst some will be as a result of businesses self-sanctioning and ceasing activities in Russia. Analysis of HMRC data shows that UK imports from Russia and UK exports to Russia have both seen large falls post-invasion.

24) The analysis shows that UK imports of goods from Russia totalled £46m between November 2022 and January 2023, 99.2% lower than the total between November 2021 and January 2022 (£5.6bn). Similarly, UK goods exports to Russia totalled £209.6m between November 2022 and January 2023, 69.3% lower than the total between November 2021 and January 2022 (£684m). This is summarised in Table 1 below.

Table 1: Total value of UK goods trade with Russia, Nov-22 to Jan-23 compared with Nov-21 to Jan-22, £m

Trade flow	Nov-21 to Jan-22	Nov-22 to Jan-23	Change
Imports	5,577	46	-99.2%
Exports	684	209.6	-69.3%

Source: HMRC overseas trade data. Note that the percentage changes are likely to fluctuate as we use a rolling 3 monthly total and therefore trade volatility can affect the figures.

25) 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. It is not known yet if this trend will continue or how long it would last in the absence of action from HM Government. Hence this assessment focuses on the costs and benefits of the measures in this Statutory Instrument with an indicative assessment of the marginal changes based on 2021 levels of trade.

26) 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. The relatively small decrease in imports is because fewer sanctions have been applied to imports of services than exports.[2]

3.1.4 Assessment period

27) 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 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.[3] Although this Impact Assessment, like the Impact

[1] HMRC Overseas Trade Statistics: https://www.uktradeinfo.com/trade-data/overseas/
Office of National Statistics (ONS): UK total trade data (seasonally adjusted).
https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktotaltradeallcountriesseasonallyadjusted
[2]https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/articles/theimpactofsanctionsonuktradewithrussia/november2022
[3] 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

Assessment for the previous packages after the first package, replaces the GTO projections with the IMF's WEO October 2022 projections we retain this timeline so as to maintain consistency with the Impact Assessments published on similar measures that have been previously announced.[4]

3.1.5 Commodity and service classifications and statistical threshold

28) While the operationalisation of the legislation will not necessarily be on the basis of commodity codes, commodity codes have been used to proxy the value of goods trade that may be disrupted. The true value may differ from these estimates. For the purposes of the analysis, the relevant commodity codes, when possible to the 8-digit Combined Nomenclature (CN8) level for each product, have been identified. However, due to the specificity of the items under consideration, even these granular commodity codes capture some items that may fall outside the scope of policy. Codes that were in scope for previous Statutory Instruments are assumed to have zero import or export value. This analysis has been undertaken based on trade figures that follow Harmonised System (HS) 2017 goods classification nomenclature, as that was the nomenclature in effect in 2021. There may be some limited variation in values under an HS 2022 goods classification nomenclature, which entered into force in January 2022.[5]

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

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

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

31) 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 November 2022 percentage estimates (which incorporate the IMF views on the impact of the early stages of the conflict) of both the import and export demand projections for Russia. We use the disaggregated "goods only" demand to align with the "goods only" analysis captured in the valuation.

    b. Given the Covid-19 pandemic has led to considerable disruption in recent global trade we avoid using past growth rates in Russian demand and instead use projections for the 2023-31 growth rate based on the IMF's forecasts published in 2022.

    c. As the IMF projections only extend to 2027, this growth rate was extended to 2031, using a flat rate of 1%. The 1% rate was based on the IMF's GDP forecast for Russia for the 2022 to 2027 period, and the OECD's GDP forecast for Russia in the 2028 - 2031 period. Together they suggest a broadly flat 1% GDP trend post 2025 and therefore we use a 2% growth rate for Russia imports and Exports.

[4] For example the Russia (Sanctions) (EU Exit) (Amendment) (No. 8) Regulations 2022 available here https://www.legislation.gov.uk/uksi/2022/452/impacts
[5] http://www.wcoomd.org/en/topics/nomenclature/instrument-and-tools/hs-nomenclature-2022-edition/amendments-effective-from-1-january-2022.aspx

d. The projected growth rates from 2023-2031 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 sanctions 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 of 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.[6]

   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 2023-2031. 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 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 10.8% in the four quarters up to Q3 2021) to the appraisal period chosen for this assessment 2023 to 2031 inclusive) to calculate an estimate of profit lost.[7] 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.[8] 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

[6] https://www.imf.org/en/Publications/WEO/weo-database/2022/April
[7] ONS Profitability of UK companies: October to December 2019. ONS Profitability of UK companies: October to December 2019.
[8] https://www.gov.uk/government/publications/rpc-short-guidance-note-implementation-costs-august-2019

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).[9] 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 2023 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[10], 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 0.1% of all UK imports from the World in 2021 of the products covered by the 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 2023 only. To reach the 2023 equivalent we applied the same assumptions utilised to construct the high / central / low scenarios estimates. The 2023 equivalent of the 10% of the imports 2021 trade is seen a better reflection of the cost of the import bans as these sanctions are expected to enter into effect in 2023.

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 2022 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 NPSV calculation is calculated using the 3.5% discount rate to calculate the discount factor through the appraisal periods and adding the inverse of the discount factor year on year.

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

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

33) 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 – Russia trade

3.2.1 UK-Russia trade before the 2022 Russian full-scale invasion of Ukraine

34) The figures below illustrate Russian levels of trade with the UK prior to the onset of the current escalation of the conflict in February 2022:[11]

a. As a destination for global imports, the Russian economy was worth $469.7 billion in 2013. Following subsequent rounds of sanctions, Russia's imports of goods and

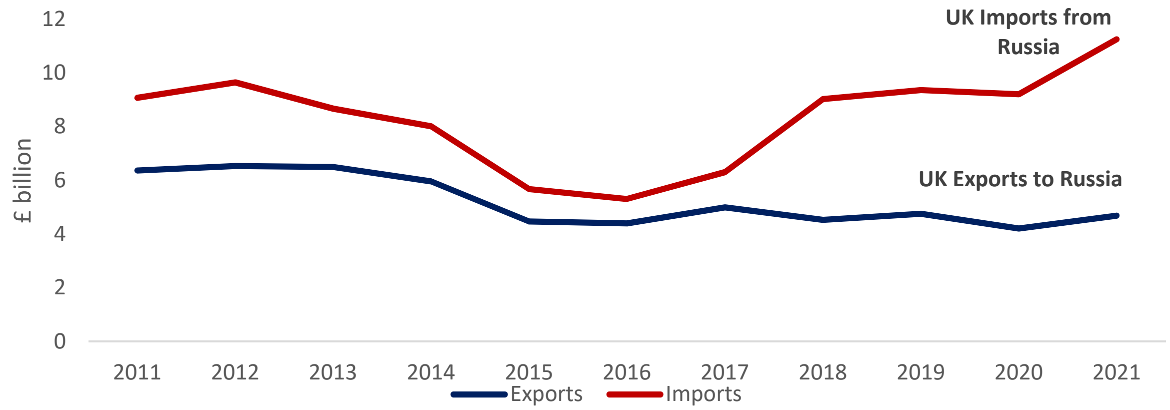
[9]https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/ashe1997to2015selectedestimates
[10] https://www.legislation.gov.uk/uksi/2022/792/impacts
[11] DBT Trade and Investment Factsheets, based on United Nations Conference on Trade and Development (UNCTAD) data sources for trade: Goods and Services (BPM6): Exports and imports of goods and services, annual.

services from the world declined to less than $300 billion in 2015. They then recovered gradually, reaching $352.9 billion prior to the onset of the Covid-19 pandemic.

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

35) UK trade with Russia has been relatively volatile over the last 10 years. UK exports to Russia fell by over 25% between 2014 and 2015, from just under £6.0 billion to £4.5 billion, when previous sanctions were implemented. Prior to the onset of the pandemic, UK exports to Russia had increased slightly to £4.8 billion. Following a drop in 2020, UK exports to Russia amounted to £4.7 billion in the four quarters to the end of Q4 2021, making it the UK's 26th largest export market accounting for 0.7% of total UK exports. Of all UK exports to Russia in the four quarters to the end of Q4 2021, £3.0 billion (63.0%) were goods and £1.7 billion (37.0%) were services.[12]

Figure 1: UK Total Trade with Russia, £ Billion



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

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

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

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

36) Since 2014, the UK market share of Russian import demand has fallen by 0.6 percentage points, from 2.3% to 1.8% in 2020. This was driven by a decrease in the UK's share of Russian imports of goods, which fell by 0.7 percentage points.[13] Over the same period, Russia's share of UK imports has increased, albeit marginally: in 2021, Russia accounted for 1.7% of UK imports[14], compared to 1.4% in 2014.

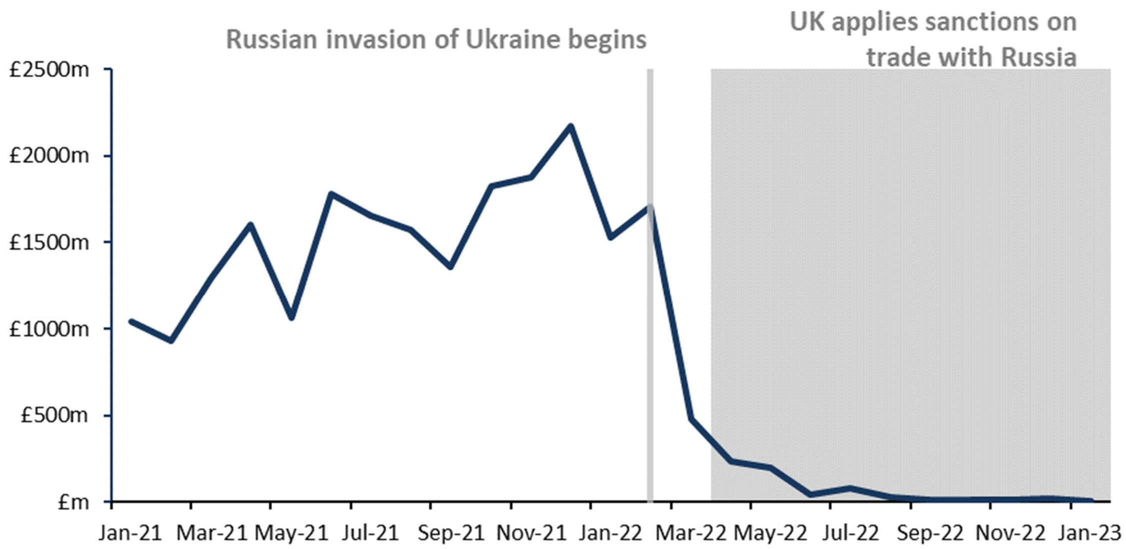
37) It is estimated that around 94,500 UK workers were supported by exports to Russia in 2018, representing 0.3% of total UK employment (or 1.4% of total UK employment supported by exports).[15] Conversely, it is estimated that around 356,400 Russian workers were supported by exports to the United Kingdom in 2018.

3.2.2 UK-Russia trade following the 2022 full-scale Russian invasion of Ukraine

38) Recent analysis shows that UK trade with Russia has notably 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.

39) Analysis of HMRC data shows that UK imports of goods from Russia totalled £46m between November 2022 and January 2023, 99.2% lower than the total between November 2022 and January 2023 (£5.6bn). Figure 3 below shows total UK goods imports from Russia January 2021 to January 2023.

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

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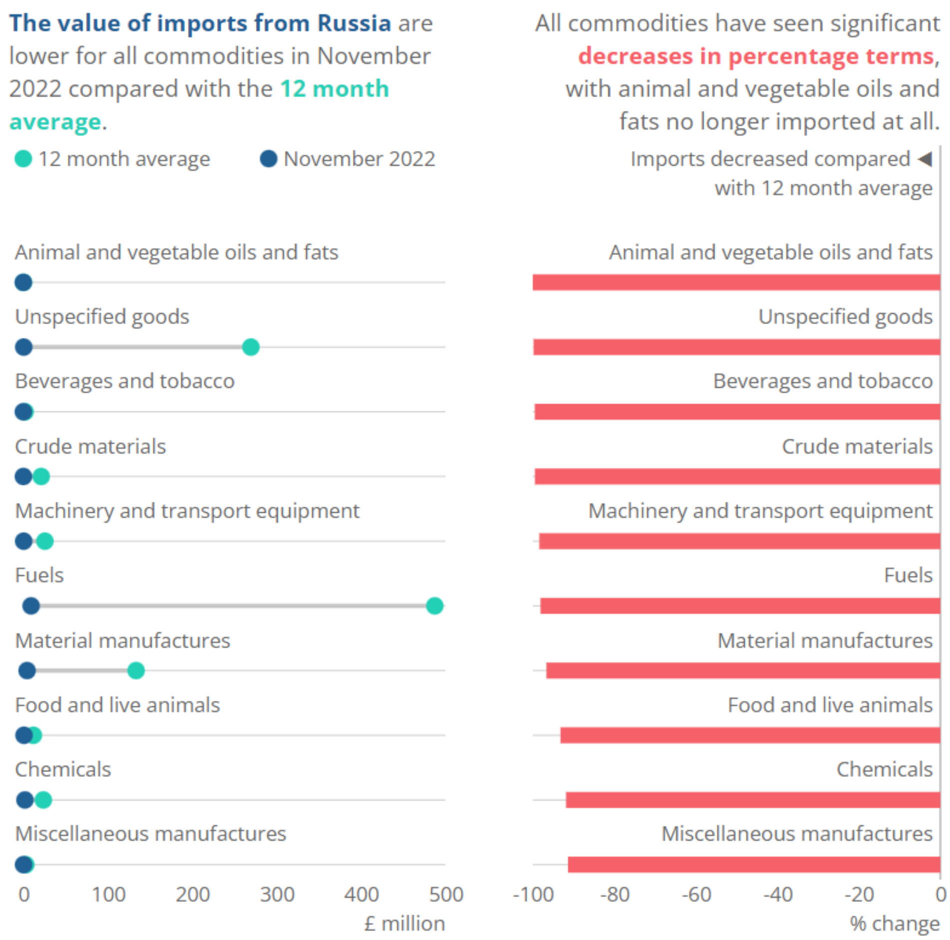
[13] UK market share: imports from the UK as a percentage of all the goods and services imported by Russia. These market share statistics are derived by the Department for International Trade using publicly available data from the ONS (value of imports from the UK) and UNCTAD (total imports) and are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

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

[15] OECD (2021) Trade in Employment (TiM) 2021 ed, available from: https://stats.oecd.org/Index.aspx?DataSetCode=TIM_2021# [Accessed 24/05/2022]. These figures include both those whose jobs are supported directly by exports to Russia (I.e. in the export industry) and those whose jobs are supported indirectly by exports to Russia (I.e. in supply chains).

41) Using ONS data, imports of all broad commodity groups had seen notable reductions relative to the monthly average over the 12 months to November 2022. Figure 4 shows a breakdown of changed in UK imports from Russia by commodity type. All commodity types decreased, many by over 90%.

Figure 4: Imports of goods from Russia by commodity type, value (£ million) and percentage change, November 2022 compared with the monthly average in the 12 months to February 2022



Source: ONS data – UK trade statistics, current prices, non-seasonally adjusted.

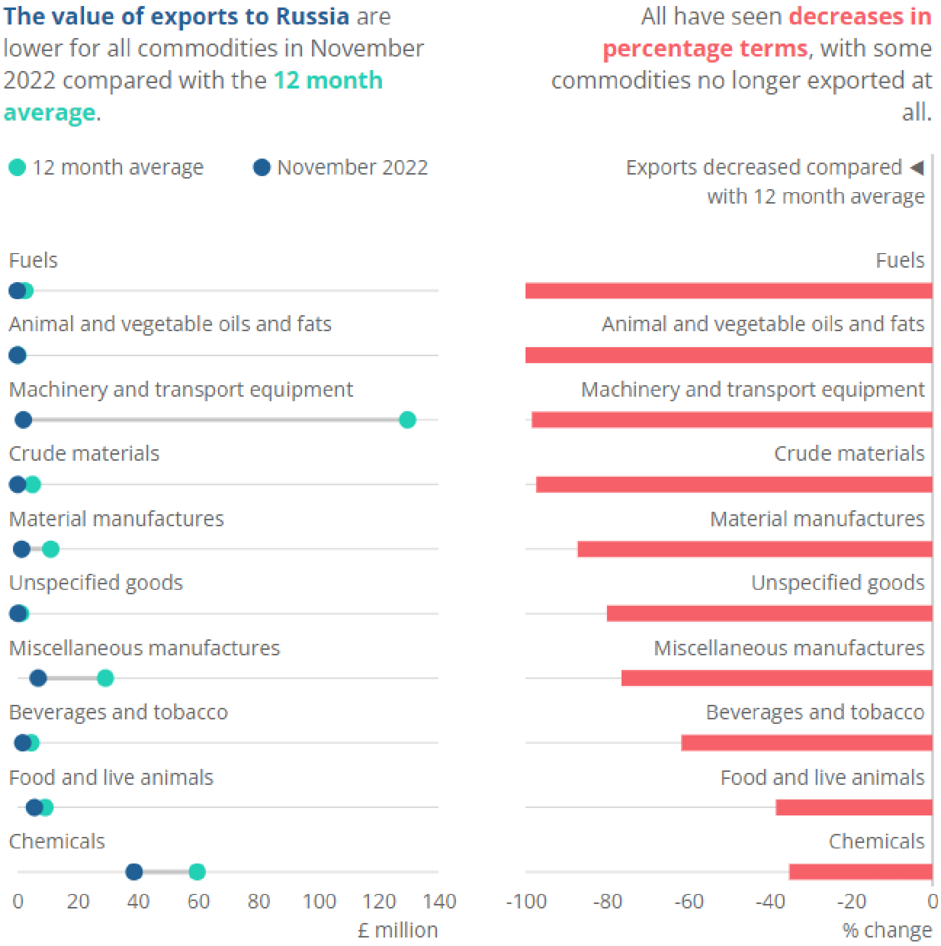
42) UK goods exports to Russia totalled £209.6m between November 2022 and January 2023, 69.4% lower than the total between November 2021 and January 2022 (£684m). Exports of most commodity types to Russia had fallen notably by June 2022, with machinery and transport equipment decreasing by £118m (91.3%). Figure 5 below shows total UK goods exports from Russia January 2021 to November 2022.

Figure 5: Total value of UK goods exports from Russia, January 2021 to November 2022

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.

43) Exports of most commodities to Russia had decreased notably by November 2022. The largest decrease by value was seen in exports of machinery and transport equipment, which fell by £127.7 million (98.5%) when compared with the 12 months to February 2022 (Figure 6). Bans were placed by the UK government on various goods in this commodity group, including export bans on dual-use goods and aviation- and space-related goods in March 2022. Exports of luxury goods were banned from April and a ban on exports of chemicals, plastics, rubber and machinery was announced in May.

Figure 6: Exports of goods to Russia by commodity type, value (£ million) and percentage change, November 2022 compared with the monthly average in the 12 months to February 2022



Source: ONS data – UK trade statistics, current prices, non-seasonally adjusted. Notes: The main UK chemical exports included medicines, beauty products and paints.

3.2.3 UK nations and regions trade with Russia

42) The UK exported around £2.8bn in goods to Russia in 2021.[16] Table 2 shows a breakdown of these exports across UK nations and regions. The West Midlands had the greater relative share of the exports to Russia – 19% of all the UK goods exports to Russia in 2021 came from the region. 9% of the UK businesses exporting to Russia in that year were located in the region as well.[17] The South East had the greatest share of businesses exporting to Russia – 18% of all the UK exporters to the country in 2021 were located in the region.

43) The UK exported £1.7bn in services to Russia in 2021[18]. A breakdown of services trade into UK regions and nations is not available for specific destinations so we cannot assess the geographical distribution of service exports to Russia. At the global level, based on ONS experimental data, in 2020, 48% of all UK service exports were from London, with the South East of England second with 14% of all service exports. Similarly, 50% of UK exports in Professional,

[16] HMRC overseas trade data for 2021
[17] A trader is here defined as a business or private individual uniquely identified via their VAT number. The regional information for each trader and its export value has been identified generally using its registered head office address.
[18] ONS UK trade in services: service type by partner country, non-seasonally adjusted https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/datasets/uktradeinservicesservicetypebypartnercountrynonseasonallyadjusted

scientific and technical activities, which includes accounting, management and business consulting and public relations, came from London, with South East England the second largest region with 19% of exports[19].

Table 2: UK Nations and Regions' goods exports to Russia in 2021[20]

UK Region or Nation	Russia Exports Value	Russia Exports Value (%)	Russia Exporters Population[21]	Russia Exporters Population (%)
West Midlands	£522.7m	19%	459	9%
South East	£445.8m	16%	893	18%
North West	£284.5m	10%	539	11%
East of England	£252.6m	9%	579	11%
London	£175.1m	6%	710	14%
Scotland	£173.4m	6%	289	6%
North East	£170.2m	6%	126	2%
South West	£155.6m	6%	378	7%
East Midlands	£150.3m	5%	359	7%
Yorkshire & the Humber	£143.9m	5%	390	8%
Wales	£109.2m	4%	144	3%
Other[22]	£101.8m	4%	137	3%
Northern Ireland	£52.2m	2%	58	1%
N/A[23]	£40.3m	1%	N/A	N/A

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

44) The UK imported an estimated £18bn in goods from Russia in 2021.[24] Table 3 shows a breakdown of these imports across UK nations and regions. 34% of the value of all UK imports from Russia were assigned to London – more than double the share of the next region (the South East). Nevertheless the percentage of the overall number of UK traders importing from Russia is broadly the same across these two regions (16% of these traders are located in London and 17% in the South East).

45) The UK imported £0.8bn in services from Russia in 2021[25]. As for exports, breakdowns of services trade to Russia disaggregated to UK nations and regions are not available. At the global level, based on ONS experimental data, in 2019, 41% of all UK service imports were to London, with the South East of England second with 13% of total imports. 42% of UK exports in Professional, scientific and technical activities, which includes accounting, management and

[19] ONS Subnational Trade in Services https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/datasets/subnationaltradeinservices
[20] Source: HMRC Regional Trade Statistics, using 2021 figures (https://www.gov.uk/government/statistical-data-sets/regional-trade-statistics-analysis-fourth-quarter-2021).
[21] These data are using the proportion method, where a business will be counted as a fraction in each region they trade based on the proportion of their employees in each region.
[22] Traders not registered to a UK region, including Isle of Man, Channel Islands and non-UK addresses.
[23] Trader details, including registered address, are not provided for these traders.
[24] HMRC overseas trade data for 2021, accessed in April 2022, available on https://www.uktradeinfo.com/trade-data/ots-custom-table/
[25] Office of National Statistics (ONS): UK total trade data (seasonally adjusted). https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktotaltradeallcountriesseasonallyadjusted

business consulting and public relations, were to London, with the East of England the second largest region with 20% of imports[26].

Table 3: UK Nations and Regions' goods imports from Russia in 2021[27]

UK Region or Nation	Russia Imports Value	Russia Imports Value (%)	Russia Importers Population[28]	Russia Importers Population (%)
London	£2,375.5m	34%	227	16%
South East	£1,087.5m	16%	243	17%
Yorkshire & the Humber	£831.7m	12%	116	8%
North West	£543m	8%	141	10%
Other	£376.4m	5%	53	4%
East of England	£365.9m	5%	160	11%
Wales	£354m	5%	44	3%
Scotland	£331.8m	5%	90	6%
West Midlands	£283.4m	4%	104	7%
South West	£194.4m	3%	98	7%
North East	£116.3m	2%	35	2%
East Midlands	£79.7m	1%	104	7%
Northern Ireland	£58.6m	1%	38	3%
N/A	£5.2m	0%	N/A	N/A

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

3.2.4 UK trade with Russia by business size

46) In terms of the exposure of the business population to trade with Russia, in 2020, around 3,800 UK VAT-registered businesses exported goods to Russia, down from 5,500 in 2014. Almost 67% of goods exports, by value, came from businesses with over 250 employees. These large firms only accounted for 14% of businesses that exported goods to Russia in 2020, suggesting that this fewer number of firms account for the bulk of high value trade.[29]

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

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

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

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

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

Table 4: UK exports of goods to Russia by firm size

Business Size (No. of Employees)	Number of businesses		Percentage change between 2014 and 2020		Share of business exporting goods to Russia in 2020
	2014	2020	Number of business exporting goods to Russia	Value of goods exports to Russia	
0 to 49	3,056	1,970	-36%	-83%	52%
50 to 249	1,340	985	-26%	-31%	26%
250 +	713	547	-23%	-34%	14%
Unknown	342	280	-18%	-16%	7%
Total	5,451	3,782	-31%	-47%	100%

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

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

Business Size (No. of Employees)	Number of businesses		Percentage change between 2014 and 2020		Share of business importing goods to Russia in 2020
	2014	2020	Number of business importing goods to Russia	Value of goods imports to Russia	
0 to 49[30]	467	626	34%	*	50%
50 to 249	204	252	24%	19%	20%
250 +	225	236	5%	301%	19%
Unknown	55	128	133%	*	10%
Total	951	1,242	31%	196%	100%

Source: HMRC UK trade in goods by business characteristics. Experimental estimates of Trade in Goods data matched with registered Businesses from the Inter-Departmental Business Register (IDBR) for Exporters. Excludes unregistered businesses. Note some data is supressed due to disclosure issues. https://www.gov.uk/government/collections/uk-trade-in-goods-statistics-by-business-characteristics#historical-releases.

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

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

[30] * Suppressed for confidentiality.

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

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

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

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

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

52) Equivalent data are not available for services trade with Russia. In 2021, 99.4% of accounting, management and business consulting and public relations firms were small and medium sized businesses, these accounted for 56.5% of all employment within these sectors[34].

Table 7: Percentage of import value and number of goods importers from Russia in 2020 by business size[35]

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

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

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

3.3 Impacts specific to export measures

3.3.1 Economic impacts of export measures aimed at Russia

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

54) Based on 2021 trade flows, the additional value of UK goods exports to Russia covered by the proposed measures in the legislation is £281.1m, representing 10% of all UK goods exports to Russia in 2021[36].

55) Table 8 shows, based on 2021 trade values, the annual value of UK exports to Russia of the commodity codes covered by the proposed measures.

Table 8: Additional value of UK goods exports to Russia covered by the proposed measures (based on 2021 trade flows)

Measure	Value of goods exports to Russia	Proportion of goods exports to Russia relative to total goods exports to Russia
Additional export bans	£281.1m	10%

Source: DBT analysis based on HMRC data on UK exports to Russia in 2021. Commodity codes that were in scope for export prohibitions in previous Statutory Instruments are assumed to have zero export value.

56) The value of UK exports of any ancillary services that would be affected by these measures has not been estimated here due to data limitations. Services data is 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.

57) Table 9 presents details on the regional distribution of the traders that exported to Russia in these codes in 2021. Overall, 722 traders exported goods from the UK to Russia in the sanctioned codes in 2021.

58) The South East is the region most impacted in terms of the value of exports to Russia in the sanctioned codes – worth £20.1m, 7% of the total, in 2021.The South East is also the region most impacted in terms of the number of traders who exported to Russia in the sanctioned codes in 2021 – with 149 traders making up 21% of the total.

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

60) There were more medium sized businesses (220) 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 £172.8m (62% of the total) in 2021 - even though they only accounted for 18% of traders impacted.

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

Table 9: Export Value and Number of Exporters to Russia in 2021 in commodity codes partially or wholly sanctioned, by region[37,38]

UK Region or Nation	Value (£m)	Share of value (%)	No. of Traders	Share of number of traders (%)
North East	*	*	18	2%
North West	£9.1m	3%	63	9%
Yorkshire & the Humber	£3.1m	1%	51	7%
East Midlands	*	*	52	7%
West Midlands	£19.7m	7%	83	11%
East of England	£6.4m	2%	91	13%
London	*	*	57	8%
South East	£20.1m	7%	149	21%
South West	*	*	51	7%
Wales	*	*	17	2%
Scotland	£13.0m	5%	58	8%
Northern Ireland	*	*	12	2%
Other[39]	£2.9m	1%	20	3%

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

Table 10: Export value, business size and number of exporters to Russia in 2021 in commodity codes covered in this regulation [40,41]

Business Size	Value (£m)	Share of value (%)	No. of Traders	Share of number of traders (%)
Large	£172.8m	62%	127	18%
Medium	£22.7m	8%	220	30%
Small	£25.6m	9%	216	30%
Micro	£7m	3%	117	16%
Zero[42]	*	*	*	*
Unknown[43]	*	*	*	*

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

[37] When a small number of traders or high concentration of trade in a few traders is associated with a category, providing the value of the trade in that category could be disclosive. In other words it would be possible to identify the company using the information on the table. When that is the case an asterisk was used instead of the value of exports.
[38] Source: derived from analysis of HMRC microdata on 2021 trade data.
[39] 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.
[40] 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').
[41] Source: derived from analysis of HMRC microdata on 2021 trade data.
[42] * Suppressed for confidentiality.
[43] Trader details, including business size, are not provided for these traders.

3.3.2 Regulatory impact of export measures aimed at Russia

61) 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.

62) The set of proposed measures in this Statutory Instrument are also subject to exceptions and licences.[44] But they are expected to be minimal (see section 3.3.3) and non-significant.

63) To calculate regulatory impacts this Impact Assessment based its approach on the RPC's guidance on implementation costs.[45] Familiarisation costs - incorporating the potential dissemination of information throughout the business, IT system changes or possible training costs - are estimated.

64) 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 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 3.5.1 also contribute to the expectation that UK – Russia trade will be significantly reduced if compared to 2021 and we assume that many companies expect that the products they trade with Russia could be sanctioned soon if that has not already taken place.

65) 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 over 722 by the UK average wage for one hour (based on the ONS' provided median weekly pay in April 2021 - £611 – rebased to 2019).[46,47] A 35-hour weekly number of hours worked is assumed.

66) 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.

67) Overall regulatory costs for the group of goods exporters affected by these measures are estimated to be £16,039.

68) 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.

3.3.3 Administrative and enforcement impacts of export measures aimed at Russia

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

70) The set of measures in this Statutory Instrument are subject to exceptions and licensing grounds.[48] They are necessary to reduce unintended consequences, bring the presumed impact

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[44] 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/.
[45] https://www.gov.uk/government/publications/rpc-short-guidance-note-implementation-costs-august-2019
[46] Source for number of traders: derived from analysis of HMRC microdata on 2021 trade data.
[47]https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2021
[48] 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/.

on the UK of the associated sanctions measures into tolerable bounds, support wider HM Government interests overseas and mitigate risks of divergence with partners. Further information on the licensing grounds and exceptions can be found in the statutory guidance.[49]

71) 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.

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

73) Rationale for this expectation include:

   a. As Table 1 (recent ONS 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 3.5.1).[50]

   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.

74) 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.

75) There may also be some additional 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.

3.3.4 Additional factors to consider on export measures

76) 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

77) 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. Section 3.5.2 presents the aggregated (exports and imports) impacts.

78) As detailed in section 1.3.2, there are several import measures in scope for this package of sanctions. The Statutory Instrument extends existing prohibitions on the import into the UK, acquisition of, or provision of ancillary services associated with import into the UK, to: additional iron and steel codes; third country processed iron and steel; and certain revenue generating goods, including the supply and delivery of certain revenue generating goods to third countries.

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

[50] 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.

79) 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.[51]

80) The UK has already banned some iron and steel imports via the Russia (Sanctions) (EU Exit) (Amendment) (No. 8) Regulations 2022 from Russia to deprive the Russian state of a key revenue stream in a key strategic industry.[52] Banning the rest of these iron and steel imports will continue to deny the Russian state this revenue is likely to further disrupt their capability to intervene militarily in conflicts. The ban on ancillary services related to iron and steel is also a key contribution to this objective.

3.4.1 Economic impacts of ban on goods imports

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

82) Based on 2021 trade flows, the total additional value of UK goods imports from Russia prohibited by the proposed measures in the legislation is £146.1m, representing 1% of all UK goods imports from Russia in 2021[53]. Of this, £129.6m are revenue generating goods and £16.5m are iron and steel goods. Table 11 shows, based on 2021 trade values, the annual value of UK imports from Russia of the commodity codes covered by the proposed measures.

Table 11: Additional value of UK goods imports from Russia prohibited by the proposed measures (based on 2021 trade flows)

Measure	Value of goods imports from Russia in 2021	Proportion of goods imports from Russia relative to total goods import from Russia
Additional revenue generating goods	£129.6m	0.7%
Additional iron and steel goods	£16.5m	0.1%

Source: DBT analysis using HMRC data (2021). Commodity codes that were in scope for import prohibitions in previous Statutory Instruments are assumed to have zero import value.

83) The value of UK imports of any ancillary services that would be affected by these measures has not been estimated here due to data limitations. Services data is 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.

84) Table 12 presents details on the regional distribution of the traders that imported from Russia in these codes in 2021. Overall, 601 traders imported goods from Russia to the UK in the sanctioned codes in 2021.

85) Outside of other, the East of England is the region most impacted in terms of the value of imports from Russia in the sanctioned codes – worth £17.6m, 12% of the total, in 2021.The South East is the region most impacted in terms of the number of traders who imported from Russia in the sanctioned codes in 2021 – with 122 traders making up 20% of the total.

[51] https://www.legislation.gov.uk/uksi/2022/395/contents/made
[52] https://www.legislation.gov.uk/uksi/2022/452/contents/made
[53] HMRC Overseas Trade Statistics: https://www.uktradeinfo.com/trade-data/overseas/

86) Table 13 presents details on the business size of the traders that imported from Russia in these codes in 2021.

87) There were more micro sized businesses (136) 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 £33.7m (23% of the total) in 2021 - even though they accounted for 20% of traders impacted.

Table 12: Import Value and Number of importers from Russia in 2021 in commodity codes partially or wholly sanctioned, by region[54,55]

UK Region or Nation	Value (£m)	Share of value (%)	No. of Traders	Share of number of traders (%)
North East	*	*	11	2%
North West	£3.2m	2%	52	8%
Yorkshire & the Humber	£3.3m	2%	40	7%
East Midlands	*	*	39	6%
West Midlands	£17.4m	12%	52	9%
East of England	£17.6m	12%	70	11%
London	£9.5m	6%	88	15%
South East	£16.7m	11%	122	20%
South West	£7.9m	5%	43	7%
Wales	*	*	12	2%
Scotland	£13.4m	9%	38	6%
Northern Ireland	*	*	5	1%
Other[56]	£37.1m	25%	29	5%

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

Table 13: Import value, business size and number of importers from Russia in 2021 in commodity codes covered in this regulation [57,58]

54 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.
55 Source: derived from analysis of HMRC microdata on 2021 trade data.
56 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.
57 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').
58 Source: derived from analysis of HMRC microdata on 2021 trade data.

Business Size	Value (£m)	Share of value (%)	No. of Traders	Share of number of traders (%)
Large	£33.7m	23%	119	20%
Medium	£27.1m	19%	125	21%
Small	£19.4m	13%	131	22%
Micro	£20.1m	14%	136	23%
Zero[59]	*	*	*	*
Unknown[60]	*	*	*	*

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

88) Banning revenue generating goods and iron and steel imports from Russia will deprive the Russian state of a key revenue stream in a key strategic industry. Denying the Russian state this revenue is likely to further disrupt their capability to intervene militarily in conflicts.

3.4.2 Regulatory impact of import measures aimed at Russia

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

90) 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 (601) by the UK average wage for one hour (based on the ONS' provided median weekly pay in April 2021 - £611 – rebased to 2019).[61,62] A 35-hour weekly number of hours worked is assumed.

91) 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.

92) Overall regulatory costs for the group of goods importers affected by these measures are estimated to be £13,351.

3.4.4 Administrative and enforcement impacts of import measures aimed at Russia

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

95) 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.

[59] * Suppressed for confidentiality.
[60] Trader details, including business size, are not provided for these traders.
[61] Source for number of traders: derived from analysis of HMRC microdata on 2021 trade data.
[62]https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2021

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

3.5.1 Assumptions and caveats

93) This analysis is subject to a number of 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 trade in November 2022 to January 2023 with the same period a year earlier. 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. Profitability only considers the profit impact to the final supplier in the supply chain. There may be further profit loss to firms, both in the UK and overseas, producing inputs to the final product that have not been captured in these estimates.[63]

d. The commodity codes used to analyse the impact of Russian sanctions reflect our best understanding of the goods and services that are in scope for these measures but may not exactly reflect the Statutory Instrument. Reflecting data available the analysis has to assume that all the trade associated with a code is subject to the sanctions, when in reality only a part of it may be so.[64] This is likely to lead to an overestimation of the economic impact.

94) 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.[65] 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.

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

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

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

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

d. **"Chilling effect":** Whilst many businesses have elected to embargo exports to Russia beyond the formal sanctions in response to the invasion of Ukraine, there may be some residual exports that are stopped due to uncertainty around whether their goods or services are captured by this set of measures. Similarly, some businesses may be uncertain if their trade associated with Russia is captured in previous regulations related to the invasion; or will be covered in forthcoming measures by HM Government. It is not possible to disaggregate this impact from the wider risk appetite of businesses caused by the situation that has precipitated this intervention to use additional trade sanctions against Russia.
UK trade with Russia fell by 30.6% between 2014 and 2016 following the imposition of sanctions resulting from the Russian annexation of Crimea. In the following period, a decrease was seen across almost all goods exported to Russia, demonstrating the possible scale of the chilling effect.
We might expect a similar chilling effect to occur now, both as a result of the situation in Ukraine and also following the imposition of sanctions. As Table 1 above shows, total UK goods trade with Russia has notably fallen since the Russian invasion of Ukraine.
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.

95) This is an assessment of the direct economic cost for the UK economy, but these sanctions are not being deployed in isolation. Instead, they further the existing measures that the UK has put in place, the impacts of which are yet to be fully seen in data. Additionally, the UK, in acting with partner countries, is part of a much larger group of measures which, cumulatively, are designed to impact the Russian economy. However, this assessment does not seek to quantify to impact of partners' actions on UK exporters or importers.

96) 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.

97) 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

[66] 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.

be substituted to be imported from alternative destinations. There may be some additional emissions associated if there are increased transport distances.

3.5.2 Aggregated monetised impacts of proposed measures

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

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

100) The primary cost to UK businesses will be the opportunity cost of future profit they may have made from the export or import of goods and services that will be subject to restrictions under the new measures.

101) Table 14 below presents an estimate of the costs associated with the trade in goods affected by this set of measures.

102) As there are no monetised benefits associated with this Statutory Instrument the costs that incorporate profitability ("Average annual cost (2023-2031) incl. profitability" and "Total cost (2023-2031) incl. profitability" columns) are also an estimate of the profits.

Table 14: Aggregate economic costs of measures, 2019 prices

	Low	Central	High
Transition costs (2023)			
Goods import measures	£1m	£1.1m	£1.1m
Regulatory cost to importers	£13,351	£13,351	£13,351
Regulatory cost to exporters	£16,039	£16,039	£16,039
Ongoing costs (2023 -2031)			
Goods export measures	£154.4m	£190.4m	£197.7m
Total NPSV	-£155.4m	-£191.5m	-£198.9m

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.

3.5.3 Aggregated non-monetised impacts of proposed measures

103) 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.

104) 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 in 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 Wider impacts of trade measures

3.6.1 Supply chains and employment

105) 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 14) 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.

106) According to OECD TIVA data, 109,200 UK persons' employment[67] and $9.2 billion (approximately £6.9 billion[68]) of UK value add was embodied in Russian final demand in 2018 (3.1% of total foreign value add embedded in Russian final demand).[69] This is equivalent to around 1.6% of total UK employment – and 1.6% of total UK value add – embedded in final demand from all international trade partners. While this estimates the level 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 15 presents the value added across all sectors at different levels of aggregation. The goods in scope of these measures are particularly concentrated in the manufacturing sector.

107) TiVA data also allows identification of the share of value added in Russian exporting industries accounted for by exports from the UK[70]. The most relevant sub sector for the goods export packages is Machinery and equipment not elsewhere classified (nec). which does not contribute more than 5% of value added to any given Russian sector. The UK motor vehicles, trailers and semi-trailers sector contributes at least 2% of value added to 16 of 70 Russian sectors.

Table 15: UK exports supply chain linkages with Russia's final demand[71]

TiVA Industry (SIC code)	UK value add as a share of foreign value add in Russia final demand (2018)	UK value in Russian final demand ($USD millions, 2018)	UK employment embodied in Russian final demand (Persons, Thousands, 2018)
DTOTAL: TOTAL	3.1	9,245.1	109.2
D01T03: Agriculture, hunting, forestry and fishing	0.2	37.0	0.8
D05T09: Mining and quarrying	1.4	180.2	0.4

67 OECD Trade in employment (TiM) Principal indicators for UK employment embodies in Russian final demand. FFD_DEM: Domestic employment embodied in foreign final demand.
68 Value was converted from US Dollars to Pounds Sterling using the 2018 annual average spot exchange rate (Bank of England).
69 OECD Trade in Value Added (TiVA) ed: Principal Indicators for UK share of foreign value add in Russian final demand. Data for 2018 are latest available. FFD_DVA.
70 The OECD refers to exporting industries as those industries of origin of the exports from a country or imports to a country, see https://www.oecd-ilibrary.org/science-and-technology/guide-to-oecd-tiva-indicators-2021-edition_58aa22b1-en .
71 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

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

Source: OECD Trade in Value Added (TiVA) 2021 ed: Principal Indicators for UK share of foreign value add in Russian final demand. Data for 2018 are latest available. FFD_DVA. OECD Trade in employment (TiM): Principal indicators for UK employment embodies in Russian final demand. FFD_DEM: Domestic employment embodied in foreign final demand. 2015 data are latest available

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

3.6.2 Impact on protected groups

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

110) 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.[72]

111) 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.

112) 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.[73]

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

[72] 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.
[73] Evaluating the impact of exports on UK jobs and incomes

a. Sex: 47% of those in employment in the UK are female and 53% are male.[74]
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).[75]

4. Risks and assumptions

114) 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[76] 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.

115) As highlighted on page 6, 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. However, to account for this uncertainty, sensitivity analysis has been conducted to check how the total PV costs over 9 years will change if this rate is different. See Table 16 for details.

Table 16: Total net present social value with ranging one-off adjustment costs to businesses

One-off adjustment cost to businesses	Total cost to importers (£m)	Net direct cost to business per year (£m)	Total net present social value (£m)
1%	0.1	24.5	192.5
5%	0.6	24.5	193
10%	1.3	24.6	193.5
25%	3.1	24.8	195.1
25%	6.3	25.1	197.8

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.

5. Monitoring and evaluation

116) 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.

117) 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

[74] According to DBT Analysis of the ONS three-year pooled Annual Population Dataset (2016-2018).
[75] It is possible that non-response to this question in the Annual Population Survey affects the estimated proportion.
[76] Office of National Statistics (ONS): UK total trade data (seasonally adjusted).
https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktotaltradeallcountriesseasonallyadjusted.

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.

118) 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.

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

120) The policy intention is to keep sanctions on Russia in place until Russia has ended its occupation of Ukraine, withdrawn its troops from Ukrainian soil, ended its support for the separatists, and enabled the restoration of peace and security along the Ukraine-Russia border, and HM Government is assured that Russia's current behaviour of threatening Ukraine's sovereignty and destabilising the rules-based international conventions has ceased. The FCDO will continue to coordinate with international partners, including on the future of the regime.