Title: The Russia (Sanctions) (EU Exit) (Amendment) (No. 8) Regulations 2022 **IA No:** FCDO2203 **RPC Reference No:** **Lead department or agency:** Foreign, Commonwealth & Development Office **Other departments or agencies:** Department for International Trade	Impact Assessment (IA) **Date:** 13/04/2022 **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 cost to business per year**	**Business Impact Target Status**
-£5,918.2m	-£5,918.2m	£116.0m	Qualifying provision

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

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

HM Government has already introduced a package of trade, financial and transport measures which affect economic activity with Russia and which are being operationalised through amendments to the Russia (sanctions) (EU Exit) Regulations 2019. To deliver the HM Government objective to deepen trade measures, we are implementing a new and intensified set of measures to further influence Putin's regime and signal our continued condemnation of Russian military aggression against Ukraine. This a strategic, targeted package of sanctions that delivers against our Russia objectives.

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

HM Government's objectives of our sanction package against Russia is to **constrain** Russia, by disrupting industries that are critical to the Russian economy, limiting access to goods required by the Russian military-industrial complex to maintain and develop its capabilities. Extending measures to include quantum and advanced manufacturing materials, we will further limit Russia's military advancement and influence our coalition of partners to adopt this measure.

Our package will continue to **signal** to Russia and the wider international community that Russian territorial expansionism is unacceptable and will be met with a serious response. Our measure on luxury goods will limit Russian elites access to Western consumer items and make clear we are unwilling to maintain normal trading relations with Russia under the current political environment.

Finally, these measures will continue to **coerce** Russia by targeting longer-term economic interests and affecting the everyday lives of Russian elites, influencing the Russian government to change their course of action. Cutting off Russian access to strategic supplies critical to key exporting markets, including in the energy sector, will further increase the economic pressure on Putin's regime, weakening political support for Russia's aggression towards Ukraine.

The measures will remain in place until HM Government is satisfied with Russia's change of action and intent toward Ukraine.

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

Option 0: Do nothing. Rely on existing sanctions to erode the financial power of the Russian Government and to constrain the Russian state's ability to destabilise and invade sovereign nations, therefore encouraging them to change course. Continue to act through diplomatic channels and multilateral fora to signal to the Russian Government that such actions are unacceptable and represent serious breaches of international law. However, existing sanctions packages have been insufficient to coerce the Russian government to change course and dissuade decision makers from taking aggressive and destabilising actions against Ukraine. We can also not determine how long UK business will continue to self-sanction. Implementing no further sanctions will also go against UK objectives to deepen our package, in coordination, as far as possible, with a broad coalition of partners.

Option 1: Implement trade sanctions measures [Preferred option]. As part of the UK's deepening pillar of the Russia sanctions strategy, implement 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. These new trade measures include prohibiting the export, supply, delivery, making available and transfer of additional categories of goods to, or for use in, Russia (as well as for some specific measures (i) and (ii) below, related technical assistance, financial services, funds and brokering services). The measures are:

i. Quantum computing and advanced materials goods and technology
ii. Oil refining goods and technology
iii. Luxury consumer goods

The UK will also prohibit the import, supply, delivery and acquisitioin of certain iron and steel products. This will build on the 35% increase on tariffs that came into force on 25 March 2022 and will be similar to the EU import ban on iron and steel goods.

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

Is this measure likely to impact on international trade and investment?		Yes		
Are any of these organisations in scope?	**Micro** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent – not this is for imports only, not estimated for exports)		**Traded:** 0.23 Mt		**Non-traded:** N/A

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

Signed by the Responsible Minister: Vicky Ford MP Parliamentary Under Secretary of State Foreign, Commonwealth & Development Office Date: 13 April 2022

Summary: Analysis & Evidence Policy Option 1

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

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2022	Time Period Years 9	Net Benefit (Present Value (PV)) (£m)		
			Low: -£5,636.9m	**High:** -£6,214.7m	**Best Estimate:** -£5,918.2m

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	0	0	£640.9m	£5,768.2m
High	0		£783.8m	£7,054.3m
Best Estimate	0		£688.1m	£6,192.7m

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

The primary cost to UK exporters will be the opportunity cost of future profit they may have made from the export of goods and services that will be subject to restrictions under the new measures. The measures will prohibit UK businesses from exporting luxury consumer goods, oil refining goods & technology and quantum computing & advanced materials & technology to Russia. These measures will also prevent UK businesses from importing iron & steel from Russia requiring them to find alternate supplies, with associated costs.

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

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

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition)	**Total Benefit** (Present Value)
Low	0	0	£14.6m	£131.3m
High	0		£93.3m	£839.6m
Best Estimate	0		£30.5m	£274.5m

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

Banning imports of certain iron and steel products could potentially protect the competitiveness of upstream UK steel producers from relatively cheaper Russian imports; while reducing the access of UK businesses using these intermediate products as inputs into their own production. However, any positive impacts of an import ban are expected to be offset by negative impacts on users of imported steel.
UK services exports to Russia could be negatively affected when sold as part of a combined package associated with goods in the proposed measures or due to self-sanctions.

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

These measures are designed to support the restoration of peace, supporting security and economic development. Security and stability, together with upholding international law and the broader rules-based system, also brings longer-term economic benefits. There is a potential positive reputational impact on the UK, demonstrating that we are ready to take principled action in response to violations of international law and human rights.

Key assumptions/sensitivities/risks	**Discount rate (%)**	3.5%

Assumptions for export measures

- For the low scenario, we have assumed low economic costs based on applying low projections for Russia goods import demand to the value of UK's goods exports to Russia.
- For the central scenario, we have applied central estimates of the growth rate of Russia goods import demand to the value of UK's goods exports to Russia.
- For the high scenario, we have assumed high economic costs based on applying high projections for Russia import demand of UK goods to the value of UK's goods exports to Russia.

Assumptions for import measures

The counterfactual (in absence of these measures) for the import measures assumes a 35% uplift in MFN tariffs for iron and steel imports in scope for a ban (announced on 15 March 2022); and assumes the EU has implemented a similar import ban of iron and steel.

- For the low scenario, it is assumed that UK imports in iron and steel from Russia between 2022 and the end of the appraisal period would be 50% of the value of imports in 2021 with no trade diversion.
- For the central scenario, it is assumed that UK imports in iron and steel from Russia between 2022 and the end of the appraisal period would be the same as the value of imports in 2021 with no trade diversion.
- For the high scenario, it is assumed that UK imports in iron from Russia between 2022 and the end of the appraisal period would be the same as 2021, and also assumes a 5% trade diversion in steel from the EU.

It is assumed, in absence of these measures, exports of iron and steel from Russia to the UK would grow in line with the estimated world demand for Russian exports.

Risks

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

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs:	**Benefits:**	**Net:**	
£116.0m		£116.0m	£580.2m

Rationale

Policy background

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

2) The UK continues to reiterate its support for Ukraine and in addition to withdrawing its troops from Ukrainian soil, has called on Russia to end its support for the separatists, and enable the restoration of security along the Ukraine-Russia border under effective and credible international monitoring. UK policy is focused on ending the crisis in Ukraine and on assisting Ukraine to secure its borders against Russia's aggressive actions, ensuring a stable, prosperous and democratic future for all its citizens. The UK has been unwavering in its support for Ukraine's territorial integrity and sovereignty.

3) These sanctions are part of a broader policy of measures which includes: diplomatic pressure; other trade sanctions; economic and financial sanctions and designations. Change will therefore be sought through diplomatic pressure, and other measures, supported by implementing sanctions in respect of actions undermining the territorial integrity, sovereignty and independence of Ukraine. Sanctions are an important national security and foreign policy tool. These trade sanctions measures will:

    a. Limit Russia's access to quantum and advanced materials, further limiting Russia's military capability advancement.

    b. Fulfil our announcement through the G7 to implement an export ban on luxury goods, depriving Russian elites access to these goods.

    c. Prohibit the export of certain goods used for oil refining.

    d. Prohibit the import of certain steel and iron products from Russia into the UK, weakening Russia's ability to operate in key industries.

4) UK sanctions action, in concert with the US, EU and other G7 partners, also send a strong signal to the Russian government that failure to respect the territorial integrity of and sovereignty of Ukraine, and conform to the international rules-based conventions, incurs significant costs to both the government and any entities linked to this malign behaviour. More broadly, it also demonstrates the UK's willingness to stand-up for the international rules-based system and to take action against transgressors, sending a deterrent signal to others.

Problem under consideration and rationale for intervention

5) Whilst some businesses might choose to reduce economic ties with Russian individuals or entities in response to its invasion of Ukraine, this would happen in an uncoordinated and incomplete manner. More generally, the private benefit accruing to UK businesses from trading with Russia does not factor in the wider societal cost to the 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.

6) Given the nature of the issue, there is no appropriate non-governmental or private sector solution to the issue at hand. HM Government intervention in the form of these trade prohibitions is necessary to reconcile the disparity between the private costs and benefits found in trading the listed goods with Russia, and the wider societal costs. This will ensure UK

businesses cannot directly or indirectly provide these goods, technical assistance or financing to the Russian government military and strategic sectors helping to support destabilising activities in Ukraine. Failure to join the international community and impose sectoral sanctions would also undermine the UK's reputation as an upholder of international law, human rights, freedom of expression and democracy.

Policy Objectives

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

8) HM Government's objectives of the Russia (Sanctions) (EU Exit) (Amendment No. 8) Regulations 2022 are to:

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

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

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

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

Description of Options Under Consideration

Option 0: Do nothing counterfactual

10) Rely on existing sanctions by both the UK and our partners to erode the financial power of the Russian Government to constrain the Russian state's ability to destabilise and invade sovereign nations, and to force them to change course. Continue to act through diplomatic channels and multilateral forums to signal to the Russian Government that such actions are unacceptable and represent serious breaches of international law. However, existing sanctions packages have been insufficient to coerce the Russian government to change course and dissuade decision makers from taking aggressive and destabilising actions against Ukraine and it is not clear how much longer UK businesses will continue to self-sanction.

11) Not implementing any further sanctions will also go against UK objectives to align our package with those of a broad coalition of partners in order to maximise the impact of sanctions taken and avoid creating opportunities for circumvention of sanctions. For example, on 8 April 2022, the EU published a set of additional restrictive measures in view of Russia's actions (council regulation 2022/576). The iron and steel products in this Statutory Instrument are in step with that set of EU measures, delivering against HM Government's priority to implement measures in coordination with partners, and ensuring our actions are compliant with the EU Withdrawal Agreement.

Option 1: Implement trade sanction measures [Preferred option]

12) Our package will complement HM Government efforts to broaden the coalition of partners implementing trade sanctions, aligning as far as we can with the US and EU and influencing wider G7 partners.

13) The new measures will include the following:

a. **Prohibit the export, supply and delivery, making available and transfer of Quantum computing and advanced materials-related goods and technology** to, or for the use in, Russia, or to a person connected with Russia (as well as related technical assistance, financial services, funds and brokering services). This would have a limiting effect on Russia's ability to develop certain strategic capabilities through its sovereign military-industrial complex.

b. **Prohibit the export, supply and delivery, making available and transfer of oil refining goods and technology (including oil catalysts)** to, or for use in, Russia, or to a person connected with Russia (as well as related technical assistance, financial services, funds and brokering services). This measure would frustrate Russia's ability to develop its oil industry, thus inhibiting the ability of the Russian state to generate revenue that would likely enable the continuation of financing of military action. In particular, the measure targets items that would undermine Russia's ability to refine oil to the standard required for it to be imported into the EU and UK.

c. **Prohibit the export, supply, delivery, making available and transfer of certain luxury goods** to, or for use in, Russia, or to a person connected with Russia. Acting in concert with G7 partners (and the rest of the EU), this would restrict the access that Russian elites have to certain 'western' consumer items. This would apply to a subcategory of luxury consumer goods in scope above certain thresholds, designed to discount goods that are used by non-elites. As such, this measure would signal to elites in Russia that the UK and its allies are unwilling to continue normal trading relations with Russia in the current political context, and thereby encourage those elites to use their influence on the Russian government to change the policy towards Ukraine.

d. **Prohibit the import, acquisition, supply and delivery of certain iron and steel products originating in or consigned from Russia.** This would build on the increase in tariffs on these products which came into force on 25 March 2022, and reflect the introduction of similar measures by the EU on 13 March 2022. Implementing this measure to broadly the same effect that the EU not only mitigates but also removes the risk resulting from the current disparity in approach where displaced Russian steel products could enter the UK market and damage UK producers.

14) Trade sanctions measures are most effective when coordinated with the UK's partners; as such, the UK will align with the US, EU and other G7 partners in introducing these measures. Although sectoral measures apply more broadly than designations, this package of measures is targeted to ensure that they have maximum impact on Russia's strategic economic interests and its armed forces while minimising direct harmful impact on the Russian civilian population. Some measures can also be subject to licensing and exceptions to enable otherwise prohibited activities to continue where they are in line with the objectives of UK sanctions on Russia.

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

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

Implementation Plan

Secondary legislation

17) 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. The arrangements will come into effect on 14 April 2022.

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

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 currently provided in relation to the existing measures. Breaches of sanctions are a serious criminal offence. Offences of breaching the new trade sanctions measures will be triable either way and carry a maximum sentence on indictment of 10 years’ imprisonment or a fine (or both).

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

20) The evidence compiled in this Impact Assessment has been compiled by DIT, drawing on consultation with relevant government departments including HMT, FCDO, BEIS and CO.

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

Economic Impacts

22) 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 £4.3 billion in the four quarters to the end of Q3 2021, making it the UK’s 26th largest export market accounting for 0.7% of total UK exports. Of all UK exports to Russia in the four quarters to the end of Q3 2021, £2.6 billion (61.6%) were goods and £1.7 billion (38.4%) were services.[1]

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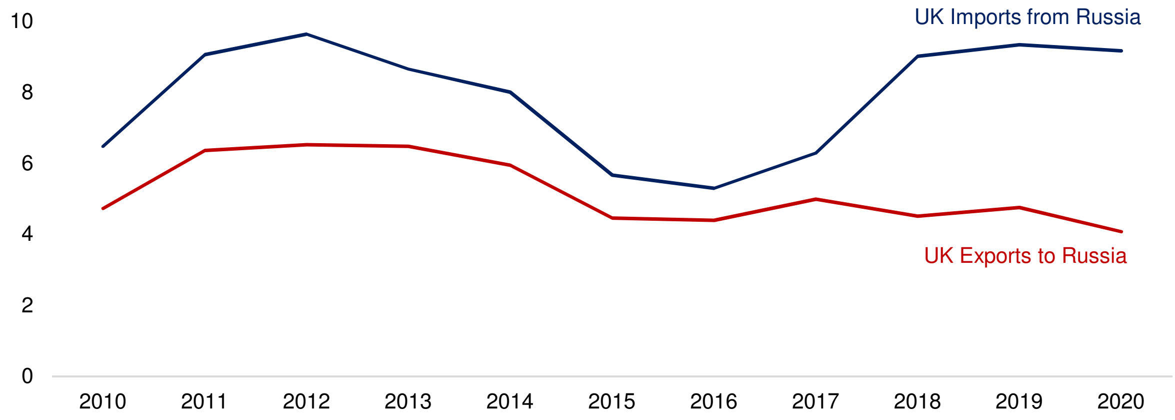
[1] Office of National Statistics (ONS): UK total trade data (seasonally adjusted). https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktotaltradeallcountriesseasonallyadjusted

Figure 1: UK Trade in Goods and Services with Russia, £ Billion



23) Since 2014, the UK market share of Russian import demand has fallen by 0.6 percentage points, from 2.3% to 1.7% 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.[2] Over the same period, Russia's share of UK imports has increased, albeit marginally: in 2020, Russia accounted for 1.5% of UK imports[3], compared to 1.4% in 2014. This growth was driven by an increase in Russia's share of UK goods imports.

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

Assessment of the costs and benefits

25) The assessment of the potential impact of the intervention makes use of projections of Russian economic growth to better understand how the sanctions outlined in this legislation might impact on value of UK trade.

   a. As a destination for global imports, the Russian economy was worth $469.7 billion in 2013. Following subsequent rounds of sanctions, Russia's imports of goods and services from the world declined to less than $300 billion in 2015 and have since been growing gradually, reaching $353.6 billion prior to the onset of the Covid-19 pandemic.[5] Prior to the latest deployment of Russian military force in Ukraine, the Department for International Trade published projections for global trade. In this it estimated that the import demand in Russia would continue to grow 2.7% per year in real terms (3.6% in nominal terms) through the course of the next decade; reaching over $520 billion USD by 2030.[6]

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

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

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

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

[6] 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

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 have since been growing, reaching $482.6 billion prior to the onset of the Covid-19 pandemic. Prior to the latest deployment of Russian military force in Ukraine, the Department for International Trade published projections for global trade. In this it estimated that the export demand from Russia would continue to grow 1.6% per year in real terms (2.1% in nominal terms) through the course of the next decade; reaching over $607 billion USD by 2030.[7]

26) The UK has already taken significant action against Russia following the invasion of Ukraine. Financial sanctions have been implemented, in addition to trade sanctions focusing on: Military goods and technology (as specified in Schedule 2 to the Export Control Order 2008); Provision of technical assistance, armed personnel, financial services or funds, or associated brokering services where such provision enables or facilitates the conduct of certain military activities; Any goods which falls within Chapter 93 of the Goods Classification Table, other than military goods; Critical-industry goods and technology (as specified in Schedule 2A to the Regulations); Aviation and space goods and technology (as specified in Schedule 2C to the Regulations); Energy-related goods (as specified in Part 2 of Schedule 3 to the Regulations); Energy-related services; Goods originating in non-government controlled Ukrainian territory; Infrastructure-related goods (as specified in Part 3 of Schedule 3 to the Regulations); Services relating to a relevant infrastructure sector in non-government controlled Ukrainian territory; Services relating to tourism in non-government controlled Ukrainian territory; Denying Russia access to Most Favoured Nation tariff for hundreds of their exports.

27) The objectives of these sanctions have been to constrain the development of the Russian military-industrial complex and strategically-important sectors, and these new measures seek to further constrain Russia's strategic and economic capabilities. As described above, the proposed measures will include:

a. Prohibiting the export, supply, delivery, making available and transfer of additional categories of goods to, or for use in, Russia of:
   i. Quantum computing and advanced materials goods and technology.
   ii. Oil refining goods and technology.
   iii. Luxury consumer goods.

b. Prohibiting the import, acquisition, supply and delivery, directly or indirectly, of certain iron and steel products into the UK if they have originated in Russia or have been consigned from Russia.

28) Data sources do not yet demonstrate the reduction in trade occurring as a direct result of existing sanctions measures, so this assessment focuses on the costs and benefits of these additional measures with an indicative assessment of the marginal changes based on 2021 levels of trade:

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

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

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

[7] 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

29) The standard period for assessing the economic impact of regulatory measures is 10 years. However, given the unpredictability of the situation which has led to this package of measures being proposed, it is impossible and would be unwise to put a time limit on how long these measures might or should remain in effect. The appraisal period chosen for this assessment is the nine years 2022 to 2030 inclusive, with the end-date aligning with the Global Trade Outlook[8] given the projections are a key assumption for the assessment.

30) 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 trade that may be disrupted. The true value may differ from these estimates. For the purposes of the analysis, the relevant commodity codes, 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 have been removed from the analysis of this Statutory Instrument to avoid duplication. This analysis has been undertaken based on trade figures that follow HS 2017 goods classification nomenclature. Trade values may differ under an HS 2022 goods classification nomenclature.

31) 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 transactions below these thresholds will not appear in the data 2021 trade data used for this analysis.

Assessment of costs and benefits of export measures

<u>Economic impacts for export measures</u>

32) In 2021, the total value of UK goods exports to Russia under the commodity codes covered by the proposed measures in the legislation was £775.9m, representing 27.9% of all UK goods exports to Russia in 2021[9] broken down as follows:

Table 1: Total value of UK goods exports to Russia under the commodity codes covered by the proposed measures (2021)

Measure	Value of goods exports to Russia (2021, £m)	Proportion of goods exports to Russia relative to total goods exports to Russia (2021, %)
Oil refining goods and technology	£5.8m	0.2%
Quantum computing and advanced materials goods and technology	£3.5m	0.1%
Luxury consumer goods	£766.5m	27.6%

33) For the purposes of this assessment the direct economic cost of the preferred policy option in comparison to the baseline is considered to be the trade value directly captured by these sanctions until 2030. Using the Global Trade Outlook (GTO)[10] a (pre-invasion) projected growth rate for Russia's global import demand for goods has been applied to the commodity codes in scope for this assessment over the period to 2030. This growth rate is based on nominal USD levels of Russian import demand. Given the Covid-19 pandemic has led to considerable disruption to global trade, 2020 is not a representative year for assessment so a growth rate from 2019-30 has been used. The high and low scenarios both show half a standard deviation either side of the central scenario; a 10-year rolling average growth rate was used to strip out some of the volatility seen in Russia's historic data. Please refer to the

[8] 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
[9] HMRC Overseas Trade Statistics: https://www.uktradeinfo.com/trade-data/overseas/
[10] 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

technical annex of the most recent GTO publication for more detail on how the central growth rate was calculated.[11]

34) Direct economic cost estimates have been assessed under three potential scenarios underpinned by different assumptions around Russia's demand for UK goods imports. It is not possible to accurately estimate how long these sanctions will remain in effect. Absent other factors, the measures should remain in effect until the policy objective has been achieved.

   a. **Low-impact estimate:** assumes low economic cost based on low projections for Russia goods import demand from the UK. In the low estimate, half of the standard deviation of the 10-year rolling average growth rate in Russia's import demand is subtracted from the GTO's central forecast of import demand. This adjusted growth rate is then applied to the value of UK exports to Russia of the goods in scope in the proposed measures, thereby creating a lower estimate of the value of UK exports captured by the sanctions between 2022 and 2030.

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

   c. **High-impact estimate:** assumes high economic costs based on high projections for Russia import demand of UK goods. In the high estimate, half of the standard deviation of the 10-year rolling average growth rate in Russia's import demand is added to the GTO's central forecast. This adjusted growth rate is then applied to the value of UK exports to Russia of the goods in scope, thereby creating a higher estimate of the value of UK exports captured by the sanctions between 2022 and 2030.

35) The proposed measures are expected to have an impact on the profitability of UK companies that currently export to Russia. To estimate the possible impact on profits we used the central scenario for growth in Russian import demand (based on nominal values) used for the calculation of the economic costs and apply it to the 2021 UK goods exports to Russia. This approach assumes that UK exports would grow in tandem with the growth in Russian goods import demand. We then apply the ONS profitability gross annual rate of return for the manufacturing sector private non-financial corporations (estimated to be 10.8% in the four quarters up to Q3 2021) to the appraisal period chosen for this assessment 2022 to 2030 inclusive) to calculate an estimate of profitability loss.[12]

36) The initial gross estimates include the estimated exports for all HS codes covered in the Statutory instrument associated with this Impact Assessment. But some of these codes have been covered in previous Statutory Instruments. To reach a net figure we use the exports figures for the netted codes.

Table 2 – Potential Impact on Profitability by Measure[13]

Potential impact on profitability (£m)	2022	2023	2024	2025	2026	2027	2028	2029	2030	Total
Quantum computing and advanced materials goods and technology	-£0.4m	-£0.4m	-£0.4m	-£0.4m	-£0.4m	-£0.5m	-£0.5m	-£0.5m	-£0.5m	-£4.1m

[11] Note that for any currency conversions between USD and GBP has been undertaken using a 2021 average from the Bank of England [Link]
[12] ONS Profitability of UK companies: October to December 2019. https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/bulletins/profitabilityofukcompanies/octobertodecember2019.
The gross annual rate of return was used as the net annual rate of return refers to the rate of return after having accounted for the current value of capital consumed and capital stocks, which is not the case in these calculations.
[13] Please note deflator and discount rates have not been applied to these calculations, and that they have been calculated applying the Central scenario assumptions.

Oil refining goods and technology	-£0.6m	-£0.7m	-£0.7m	-£0.7m	-£0.7m	-£0.8m	-£0.8m	-£0.8m	-£0.9m	-£6.7m
Luxury consumer goods	-£85.2m	-£87.8m	-£90.7m	-£93.7m	-£97.3m	-£100.7m	-£104.5m	-£108.7m	-£113.3m	-£881.7m

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

a. Currently many UK businesses are embargoing their own exports but do not have as yet data to evidence this. Therefore it is more likely that growth of UK exports, if any would be below the growth in Russian import demand.

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

c. Not all exports under commodity codes used to define luxury consumer goods will be in scope for export prohibitions. This analysis covers transactions that are below threshold activity which are not subject to these measures. As only products above a certain value will be in scope for an export prohibition, these estimated are likely to be an overestimation.

d. The prohibition of catalysts is based on the description of the catalyst. CN8 code 3815 90 90 is used to proxy the potential impact of an export prohibition of catalysts and is incorporated into the Oil Refinery Goods and Technology NPSV.

e. 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.[14]

f. The analysis covered commodity codes for Quantum computing and advanced materials goods and technology that may have a slight disparity to the products listed in the Statutory Instrument. This will have resulted in a marginal discrepancy to the Net Present Social Value.

g. The commodity codes used to analyse the impact of Russian sanctions reflects our best understanding of the goods that are in scope for these measures, but may not exactly reflect the Statutory Instrument.

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

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

a. **Associated services:** Some goods are sold with a 'package' of services, for example maintenance services, or insurance or other financial products. Data from the OECD shows that in 2018 15.9% of the value of UK exports to the world were driven by indirect domestic value add from the UK services industry.[15] It has not been possible

[14] Office for National Statistics. Profitability of UK companies data – rates of return January 2022: https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/datasets/profitabilityofukcompanies.
[15] OECD Trade in Value Added (TiVA) 2021 ed: Principal Indicators, EXGR_IDC: Indirect domestic value added content of gross exports.

to identify the value and volume of services that might be affected by this intervention and therefore the assessment relates only to the value of goods traded.

b. **Supply chain effects:** Given the UK is aligning with partner countries to impose these measures; we recognise there may be both positive and negative ramifications for UK businesses via their integration into complex multinational supply chains. For example, where UK goods (and services) may feed into the production of these goods within a country that has also deployed sanctions to prevent export to Russia. It is known though that, in 2018, 1.5% of the value of Russian imports from the EU-27 and 0.4% of Russian imports from the United States was derived from value add generate in the UK. Further detail on the potential impact via supply chains is outlined in the wider impacts section below.

c. **Displacement and potential business closure:** It is possible that the inability to export to Russia because of these sanctions (directly or indirectly) may lead to the closure of some UK businesses. For example, the number of businesses exporting to Russia in 2020 was 31% fewer than the number of businesses exporting to Russia in 2014, when previous sanctions were applied.[16] Alternatively, businesses may seek to shift their exports to other markets or to domestic consumption to mitigate against the loss of export value and reduce the overall cost of the impact of the sanctions. It is not possible to make any credible assumptions on which of these may prove to deliver the greater impact other than that the former (closure) is likely to happen in the shorter term, while the latter (displacement) would likely happen over a longer time frame (but within the appraisal period) as global demand shifts and the time it may take for UK businesses to identify and establish in new export partners.

d. **"Chilling effect":** 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 intervention, posing an additional cost. It is not possible to disaggregate this impact from the wider declining risk appetite of businesses caused by the situation that has precipitated this intervention to use additional trade sanctions against Russia. UK trade with Russia fell by 30.6% between 2014 and 2016 following the imposition of sanctions resulting from the Russian annexation of Crimea.[17] In the following period, a decrease was seen across almost all goods exported to Russia, demonstrating the possible scale of chilling effects. We might expect a similar chilling effect to occur now, both as a result of the situation in Ukraine, but also following the imposition of sanctions. Such effects may come from wider uncertainty and risk aversion associated with trading with Russia, plus additional impacts may materialise through global market movements (for example, energy or specific commodity markets) or via exchange rate movements, as markets adjust to internalise new assessments of relative risk between countries.

Table 3: Net Present Social Value by Export Measure, Central Scenario (£m)

Measure	Net Present Social Value £m, 2022-2030
Oil refining goods and technology	-£44.4m
Quantum computing and advanced materials goods and technology	-£26.9m
Luxury goods	-£5,847.0m

39) This is an assessment of the direct economic cost for the UK economy, but these sanctions are not being deployed in isolation, they are further to the existing measures that the UK has put in place, the impacts of which are yet to be seen in data. Further, the UK, in acting with

[16] 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.
[17] Office of National Statistics (ONS): UK total trade data (seasonally adjusted). https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktotaltradeallcountriesseasonallyadjusted.

partner countries, is part of a much larger package of measures which, cumulatively, are designed to impact the Russian economy. However, this assessment does not seek to quantify to impact of partners actions on UK exporters.

40) An estimation of the emissions impact of the proposed set of export measures was seen as not 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.

Regulatory impacts for export measures

41) The Impact Assessment FCDO2201 [The Russia (Sanctions) (EU Exit) (Amendment) (No.3)] outlined an estimated regulatory cost for the proposed measures in that Statutory Instrument.[18] To reach that estimate a number of assumptions were used:

   a. That the regulations proposed allowed for certain exceptions.

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

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

   d. Estimated cost of application for a licence.

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

43) The set of proposed measures in this Statutory Instrument are also subject to exceptions and licences.[19] They are necessary to reduce unintended consequences, bring the presumed impact on the UK of the associated sanctions measures into tolerable bounds, support wider HM Government interests overseas and mitigate risks of divergence with partner. Further information on the licences and exceptions can be found in the statutory guidance.[20] Nevertheless, the calculation of an estimate of the cost of potential licences for the set of export prohibitions proposed in this set of measures – or the associated exceptions and licences – was not considered robust. Rationale:

   a. The set of proposed measures in the Impact Assessment FCDO2201 were an extension of previous prohibitions and were therefore able to be licensed, as restrictions were already in place. This is not the case for the proposed restrictions in this Impact Assessment – the current proposed set of measures only includes products that currently do not require export licencing.

   b. We do not have a benchmark on how many licences could be needed, which was available for the IA FCDO2201. We also do not know what type of businesses will be applying for these licences.

   c. It is unlikely that the cost of licensing for the currently proposed measures would be a significant addition to the estimated NPSV and EANDCB figures.[21] It is also worth noting that the current trend of companies self-embargoing exports to Russia would also depress the number of licences that would be required.

[18] https://www.legislation.gov.uk/uksi/2022/195/impacts.

[19] 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/.

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

[21] For example the regulatory costs in the IA FCDO2201 were estimated as less than £0.2m, against an overall Present Social Cost in 2022 of £308m – about 0.06%.

44) Nevertheless, it is possible that there may be a higher (non-monetised) learning cost for companies that decide to apply for exports licences against the set of proposed measures. This would be because such companies may have limited experience in licensing process as the current set of proposed measures only includes products which currently do not require export licences. Therefore, these companies have not been previously subject to a licensing regime.

Administrative and enforcement impacts for export measures

45) Following the introduction of the proposed set of measures in this Impact Assessment additional applications for licence exports are expected. There is a direct cost to HM Government for assessing these applications and enforcing the additional licences.

46) IA FCDO2201 utilised a number of assumptions to reach an estimated cost to the public sector:

a. Partly based on unit estimates drawn from a 2008 impact assessment[22], administrative costs were defined as costs incurred to process a single additional application of £560.[23]

b. An enforcement cost, incurred to investigate and potentially prosecute additional exporters. It was not possible to reach a robust estimate for these costs.

c. Total administrative costs calculated as the product of new licence applications and the unit administrative cost per licence.

47) The currently proposed set of measures will also incur costs to the public sector – either administrative costs of processing new applications for exports or for the associated enforcement. Nevertheless it has not been possible to make a reliable assessment of these potential costs.

48) Mainly this is because, as mentioned above, we do not have a benchmark on how many licences could be needed for the prohibitions in this set of measures. Therefore we are not able to reach the overall cost of processing the additional applications that are expected to be submitted as a consequence of the new measures.

49) Additionally the combined administrative and enforcement cots to HM Government are, similar to the regulatory costs, expected to be relatively small. Partly this is due to the expectation of receipt of a significantly reduced number of applications that require processing due to self-embargoing of companies that usually would trade with Russia.

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

50) The following assumptions and methodology was followed to develop a Net Present Social Value for exports:

a. The counterfactual used followed the import demand projections from Russia published in DIT's Global Trade Outlook (GTO) (2021). These projections are pre-invasion, so do not capture any wider impacts on exports that would result in a change to import demand even in the absence of Government intervention.

b. The published GTO projections include the **total** import demand estimates for UK goods in Russia, but we were able to access the disaggregated **goods only** import demand to align with the goods only analysis captured in the valuation.

[22] BERR, July 2008 https://www.legislation.gov.uk/ukia/2008/181.
[23] Based on £420 cost per SIEL used in used in the Export Control Act 2002 Review of Export Control Legislation (2007) Impact Assessment July 2008, uprated to 2019 prices using GDP deflators at market prices, and money GDP December 2021 (Quarterly National Accounts).

c. The projections are calculated in **nominal USD**, so the 2021 valuations derived above were converted into USD using the 2021 average GBP/USD conversion rate. Values were then projected out in line with the GTO estimates.

d. To convert back to GBP, the projected import values were converted in the exchange rate of the **respective year**. The GTO includes a projection of the 2030 GBP/USD exchange rate, and a linear growth has been assumed between the 2021 average rate, and the 2030 projected rate. This step gave the GBP values in the respective year's prices.

e. Next, the GBP values were deflated to 2019 figures. From 2022-2026, the OBRs projections were used, with the latest estimates, 2026, used for 2027-2030.

These values were then discounted in line with Green Book guidance.

Assessment of costs and benefits of import measures

Economic impacts of iron and steel import measures

51) The counterfactual for an iron and steel import ban assumes that all specified goods are subject to the 35% uplift in tariffs above MFN rates. The counterfactual also assumes the EU has implemented a similar import ban to the ban the UK is proposing. The resulting imports in iron and steel from Russia to the UK in this scenario is uncertain. Evidence suggests Russian production costs of iron and steel is amongst the lowest in the world.[24] Currency fluctuations and relatively lower input costs (such as relatively lower energy costs and raw material costs) could further depress Russian production costs relative to production costs in the EU and UK. A counterfactual where the UK does not implement an import ban could enhance the risks of trade diversion from the EU. If this were to occur, relatively lower Russian steel prices could potentially negate the impact of increased tariff prices. Given the uncertainty surrounding counterfactual import volumes, three scenarios have been modelled:

a. **Low-impact estimate:** Assumes UK value of imports from Russia in subject iron and steel commodity codes reduces by 50% for each year until the end of the appraisal period compared to the value of imports in 2021. Also, in the low-impact estimates, half of the standard deviation of the 10-year rolling average growth rate in Russia's export demand is subtracted from the GTO's central forecast of export demand. This adjusted growth rate is then applied to the value of UK imports to Russia of iron and steel goods in scope in the proposed measures, thereby creating a lower estimate of the value of UK imports captured by the sanctions between 2022 and 2030. This scenario reflects the potential reduction in imports due to UK firms choosing to reduce or stop imports due to uncertainty and ethical reasons, and due to higher import costs as a result of higher tariff prices.

b. **Central-impact estimate (best estimate):** Assumes UK value of imports from Russia in subject iron and steel commodity codes are the same as imports in these goods in 2021 for each year until the end of the appraisal period. Also, in the central-impact scenario, central estimates of the growth rate of Russia goods export demand have been used to estimate a best-estimate assumption of Russia's future exports. GTO's central forecast for the increase in Russia's global export demand of goods is applied to the UK import to Russia of iron and steel goods in scope.

c. **High-impact estimate:** Assumes that 5% of the value of Russian exports to the EU in 2021 is diverted to the UK for each year until the end of the appraisal period. This reflects the potential increase in iron and steel imports from Russia as a result of trade diversion from the EU to the UK as a result of lower input prices and currency fluctuations. It also assumes the UK value of imports over the period grows by the

[24] See for example European Commission: Production costs from iron and steel industry in the EU and third countries https://www.eurofer.eu/assets/news/eu-technical-report-on-production-costs-from-the-iron-and-steel-industry-in-the-eu-and-third-countries/production_costs_from_the_iron_and_steel_industry_-_final_online.pdf.

equivalent of the GTO's central forecast for Russian export demand plus half the standard deviation of the 10-year rolling average growth rate in Russia's export demand in subject iron and steel commodity codes applied to the 2021 value of Russian imports.

Table 4: UK and EU imports of specified iron and steel codes in scope for a UK import ban, 2021[25]

	UK		EU	
	Value	**Volume**	**Value**	**Volume**
Imports from Russia in 2021	£69.3m	113.4k tonnes	£2,784.4m	4,369.0k tonnes
Imports from all countries in 2021	£4,756.8m	5,232.9k tonnes	£225,974.2m	261,469.1k tonnes

52) Banning imports from Russia to the UK in subject commodity codes denies downstream users of iron and steel from accessing cheaper iron and steel from Russia. These firms would likely need to source these commodities either from domestic steel producers or from countries potentially with higher production costs. However, banning cheaper imports from Russia could potentially protect profits of upstream domestic steel producers as a result of trade diversion thereby protecting their competitiveness. As such, the overall net impact to businesses as a result of an import ban is likely to zero-to-marginal and has therefore not been monetised in this impact assessment.

53) However, despite the estimated net impact of the import ban being zero-to-marginal, the ban may increase production costs to downstream firms who may have benefitted from relatively lower costs of steel. The additional cost to these businesses has therefore been monetised to estimate an EANDCB. The average UK import price of a tonne of steel in subject commodity codes from Russia is assumed to be £611.[26] The average UK import price of a tonne steel in subject commodity codes from the World is assumed to be £909. If downstream firms can no longer source steel from Russia, it is assumed that they would need to source it from other steel producers, which would mean their import costs could potentially increase by £298 per tonne. The annual cost to downstream business could therefore be £31.9m in 2022 (in nominal prices) in Scenario 2. The annual average net present cost in 2019 prices in this scenario is estimated to be £30.5m. This could lead to higher costs to consumers of finished iron and steel products.

54) Note that this analysis is uncertain, and subject to a number of assumptions:

a. This assumes downstream firms import steel from other countries at the average import price in 2021. Downstream firms could also purchase steel from domestic UK upstream producers. Some steel that would have been purchased by downstream firms may be on-shored so is produced in the UK.

b. This assumes there is perfect substitution between steel produced in Russia vs steel that is produced in the rest of the world.

c. This assumes the import price of steel remains relatively flat until the end of the appraisal period. This may not be the case, given the diverging price of steel in 2022.

55) It is thought that the overall net impact to UK businesses of a ban on iron and steel in commodity codes subject to the legislation would be marginal-to-zero. Any negative impacts to downstream steel users would likely be offset by potential positive impacts to protection of competitiveness of upstream steel producers. It is assumed that the monetised benefit to these upstream steel producers would mirror the negative costs to downstream steel users. As such, the Net Present Social Value of an iron and steel import ban is estimated to be zero

[25] For UK Trade Data. HMRC Overseas Trade Statistics: https://www.uktradeinfo.com/trade-data/ots-custom-table/. For EU Trade Data, Eurostat EU Trade since 1988: https://ec.europa.eu/eurostat. EU imports by value converted from Euro to GBP using Bank of England Annual Average Exchange Rate.

[26] HMRC Overseas Trade Statistics: https://www.uktradeinfo.com/trade-data/ots-custom-table/. Export price estimated to dividing the value of imports in 2021 (£69.3m from Russia to UK) by the volume (mass) of imports in 2021 (113.4k tonnes from Russia to the UK).

in this Impact Assessment. This assumption is uncertain and the benefit to upstream steel producers could differ from the estimated benefit.

56) Given the uncertainty surrounding future imports of iron and steel in the counterfactual baseline, sensitivity analysis has been undertaken to estimate the potential cost to business to different scenarios. Whilst the NPSV for each of these scenarios is assumed to be zero-to-marginal due to benefits to upstream producers and costs to downstream producers, costs to downstream producers as a result of potentially higher input costs has been calculated:

   a. **Sensitivity 1:** Assumes UK value of imports in subject iron and steel commodity codes from Russia mirrors imports in 2021 and also assumes that 10% of the value of Russian imports in these goods to the EU gets diverted to the UK for each year until the end of the appraisal period. In this scenario, the average annual present cost (2022-2030) to downstream producers increases to £139.6m.

   b. **Sensitivity 2:** Assumes UK value of imports in subject iron and steel commodity codes from Russia mirrors imports in 2021 and also assumes that 15% of the value of Russian imports in these goods to the EU gets diverted to the UK for each year until the end of the appraisal period. In this scenario, the average annual present cost (2022-2030) to downstream producers increases to £186.6m.

   c. **Sensitivity 3:** Assumes UK value of imports in subject iron and steel commodity codes from Russia mirrors imports in 2021 and also assumes that 20% of the value of Russian imports in these goods to the EU gets diverted to the UK for each year until the end of the appraisal period. In this scenario, the average annual present cost (2022- 2030) to downstream producers increases to £261.6m.

57) The potential increase in UK steel production may potentially increase UK steel emissions. It is assumed the average emissions of a tonne of steel produced is around 2.0 tonnes of CO_2 Equivalent per tonne (including indirect emissions from imported electricity and heat generation).[27] Assuming all 113.4k tonnes of steel that would be disrupted in the Central scenario is produced in the UK, the import ban could increase UK emissions by around 226.8k tonnes. Note that the ban is unlikely to increase global emissions, as it is assumed that total global production of steel remains flat over the appraisal period. This also assumes UK emissions in steel is equal to average emissions in the rest of the world, which is uncertain. This also does not take into account the potential impact to transport emissions as a result of shifting production to the UK.

58) Banning 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.

Regulatory impacts of the iron and steel import measures

59) Regulatory costs to businesses of complying with a ban on imports of subject iron and steel is likely to be minimal:

   a. There are no exceptions to the new prohibitions. Businesses who signed contracts prior to the ban coming into force but where steel is delivered after it comes into force, up until a certain date will be exempt from the ban, this will be operationalised through licensing but there will be no other grounds on which business can apply for a licence.

   b. Businesses may face further administrative costs in trying to find new suppliers in unsanctioned countries. On 6 April 2022, the Trade Remedies Authority launched a

[27] International Energy Agency Energy Technology Perspectives 2020 https://www.iea.org/reports/energy-technology-perspectives-2020#:~:text=Energy%20Technology%20Perspectives%202020%20is,climate%20and%20sustainable%20energy%20goals.

review of steel tariff quotas from Russia and Belarus on whether tariff-rate quotas for Russia and Belarus should be re-allocated[28]. If quotas are reallocated, UK businesses may face additional administrative costs to find new suppliers to continue importing trade at reduced tariff rates. However, these costs are thought to be minimal and so have not been monetised.

As such, the regulatory costs of the iron and steel import ban assumed to be zero in this impact assessment.

<u>Administrative and enforcement impacts of an iron and steel import measures</u>

60) Aside from the exemption to provide for contracts completed before 14 April for steel delivered up to a certain point in time, there are no licenses associated with this import ban to allow exceptions to import. As such, the administrative costs associated with this measure are assumed to be marginal-to-zero.

61) There are likely to be additional enforcement costs to identify, disrupt and dispose 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.

Wider impacts of trade measures

62) The impact of the proposed set of measures on trade and supply chains would not be limited to those exporting directly to Russia and would vary across sectors of the UK economy. Using Trade in Value Added (TIVA) data from the OECD reveals how UK industries (upstream and downstream in a value-chain) are connected to consumers and businesses in Russia, including even when no direct trade relationship exists. Analysis using the OECD TiVA dataset 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 both export controls and ongoing conflict. These are shown in Table 5. TiVA data offers advantages over traditional ways of measuring trade and are complementary to conventional trade statistics.

63) According to OECD TIVA data, 109,200 UK persons' employment[29] and $9.2 billion (approximately £6.9 billion) of UK value add was embodied in Russian final demand in 2018 (3.1% of total foreign value add embedded in Russian final demand).[30] This is equivalent to around 1.6% of total UK employment embedded in foreign demand and 1.6% of total UK value add embedded in foreign final demand. Due to data limitations, we cannot identify the proportion of trade in value added that would be impacted by UK sanctions of the export of goods in scope. However, the table below identifies the UK sectors where UK value add in Russian final demand is greatest.

[28] Trade Remedies Authority: UK launches review of steel tariff quotas for imports from Russia and Belarus. https://www.gov.uk/government/news/uk-launches-review-of-steel-tariff-quotas-for-imports-from-russia-and-belarus
[29] 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.
[30] 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.

Table 5: Value add in UK final demand

	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	109.2
D69T82: Other business services	7.6%	2,291	36.5
D64T66: Financial and insurance activities	8.0%	1,083	6.1
D45T47: Wholesale and retail trade; repair of motor vehicles	2.5%	1,059	18.1
D49T53: Transportation and storage	2.6%	662	7.4
D62T63: Computer programming, consultancy and information services activities	5.4%	494	5.0
D20T21: Chemicals and pharmaceutical products	2.3%	349	1.5
D29: Motor vehicles, trailers and semi-trailers	3.0%	295	1.7
D58T60: Publishing, audiovisual and broadcasting activities	6.1%	263	2.0
D85: Education	12.4%	246	4.5
D28: Machinery and equipment n.e.c	2.0%	231	1.9

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

64) Due to data limitations, it is also not possible to identify how the impacts of the sanctions on goods in scope of the legislation will be distributed across the UK. However, when looking at the value of exported goods in aggregate to Russia, they are of highest concentration in the West Midlands, the South East of England and the North West of England. When looking at the value of imported goods in aggregate from Russia, they are of highest concentration in the London, the South East of England and Yorkshire and the Humber.

Figure 2: UK goods imports and exports to and from Russia in 2020 by UK Countries and English Regions[31]

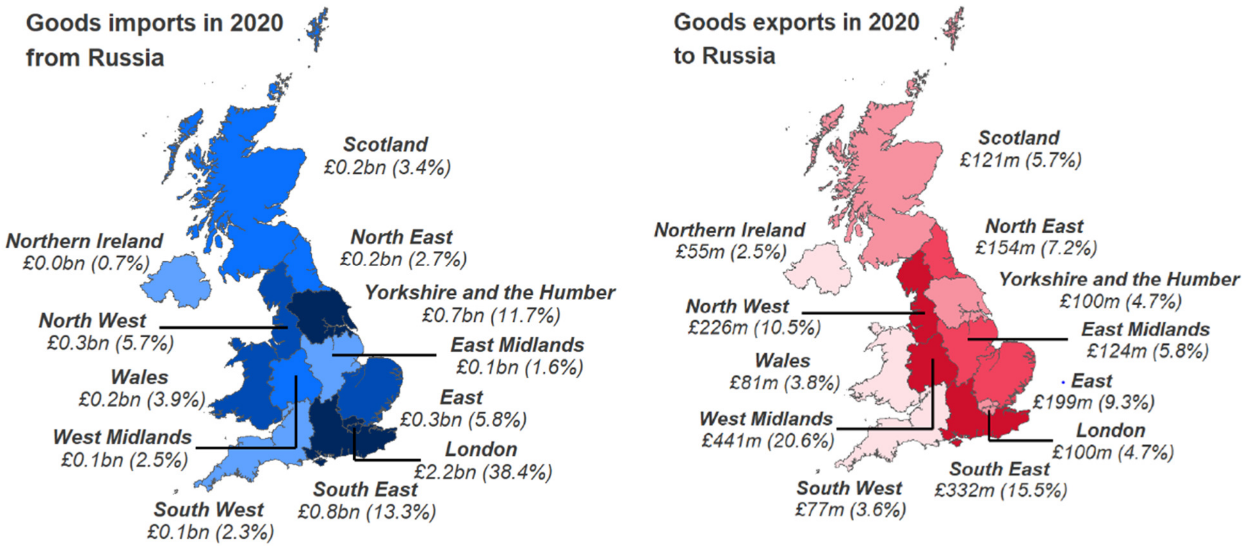

Table 6: UK goods exports and imports to and from Russia in 2020 by UK Countries and English Regions[32]

UK country or English region	North East	North West	Yorkshire and the Humber	East Midlands	West Midlands	East of England	London	South East	South West	Wales	Scotland	Northern Ireland
Value of goods exports to Russia, £m	£153.8m	£225.6m	£100.2m	£124.2m	£441.2m	£198.7m	£99.9m	£332.4m	£77.5m	£80.6m	£121.3m	£54.7m
Percentage of total goods exports to Russia	7.2%	10.5%	4.7%	5.8%	20.6%	9.3%	4.7%	15.5%	3.6%	3.8%	5.7%	2.5%
Value of goods imports from Russia, £m	£156.5m	£328.3m	£675.9m	£90.0m	£143.8m	£337.2m	£2,225.5m	£768.8m	£135.4m	£226.2m	£198.8m	£43.3m
Percentage of total goods imports from Russia	2.7%	5.7%	11.7%	1.6%	2.5%	5.8%	38.4%	13.3%	2.3%	3.9%	3.4%	0.7%

Impact on small and micro businesses

65) 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.

66) Around half of businesses importing goods to Russia in 2020 also employed fewer than 50 employees. Unlike exporters, the total number of UK importers importing from Russia has

[31] HMRC Regional Trade Statistics, (data extracted from the spreadsheet download using the HMRC interactive tables). Contains Ordinance Survey and National Statistics data © Crown copyright and database right [2017].
[32] HMRC Regional Trade Statistics, (data extracted from the spreadsheet download using the HMRC interactive tables). Note that these figures from HMRC are reported on a physical movement basis and are not directly comparable to trade data from ONS which are reported on a change of ownership basis.

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.

Table 7: UK exports in goods with Russia by firm size

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

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

Table 8: UK Imports in goods with Russia by firm size

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

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

Aggregate Monetised Impacts of the Proposed Measures

Table 9: Aggregate economic costs of measures (£m)

(£m, 2019 prices)		Costs in Year 1 (2022)	Average annual cost (2022-2030)	Average annual benefits (2022 - 2030)	NPSV	EANDCB
Total	**Low**	**£738.1m**	**£640.9m**	**£14.6m**	**-£5,636.9m**	**£94.0m**
	Central	**£761.5m**	**£688.1m**	**£30.5m**	**-£5,918.2m**	**£116.0m**
	High	**£831.1m**	**£783.8m**	**£93.3m**	**-£6,214.7m**	**£191.9m**
Export Measures						
Oil refining goods and technology	Low	£5.4m	£4.7m	£0.0m	-£42.2m	£0.6m
	Central	£5.5m	£4.9m	£0.0m	-£44.4m	£0.6m
	High	£5.5m	£5.2m	£0.0m	-£46.6m	£0.6m
Quantum computing and advanced materials goods and technology	Low	£3.3m	£2.8m	£0.0m	-£25.6m	£0.4m
	Central	£3.3m	£3.0m	£0.0m	-£26.9m	£0.4m
	High	£3.3m	£3.1m	£0.0m	-£28.2m	£0.4m
Luxury consumer goods	Low	£713.6m	£618.8m	£0.0m	-£5,569.1m	£76.4m
	Central	£720.9m	£649.7m	£0.0m	-£5,847.0m	£80.2m
	High	£728.1m	£682.2m	£0.0m	-£6,139.9m	£84.2m
Import Measures						
Iron and steel	Low	£15.8m	£14.6m	£14.6m	£0.0m	£16.7m
	Central	£31.9m	£30.5m	£30.5m	£0.0m	£34.9m
	High	£94.1m	£93.3m	£93.3m	£0.0m	£106.6m

67) We have not monetised any benefits to UK business as a result of export measures. 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.

68) We would expect upstream iron and steel firms to potentially benefit from an iron and steel import ban as it would protect the competitiveness of these firms from diverging iron and steel prices from Russian made steel. Whilst these firms may potentially benefit from an import ban, downstream producers may face higher input costs, meaning the NPSV of this measure is likely to be marginal and therefore assumed to be zero. The costs to downstream firms have been estimated to calculate an EANDCB because of this measure.

69) No direct benefits to UK industry have been identified. This option will protect and advance UK interests by deterring and constraining the capability of Russia to undertake further aggression against Ukraine and undermine Russia's capabilities to take aggressive action against the UK and its partners. It will reinforce the UK's support for democracy, the international rule of law, and peace and security in Europe.

Risks and Assumptions

70) There is a risk that the policy discourages exporting activity in firms who are not in scope of the policy. The cost associated with businesses that stop exporting to Russia due to uncertainty around whether their goods or services are captured in the sanction package; the so-called "chilling effect". It is not possible to disaggregate this impact from the declining risk appetite of businesses caused by the Russian invasion. UK trade with Russia fell by 30.6% between 2014 and 2016 following the imposition of sanctions resulting from the Russian annexation of Crimea.[33] A decrease was seen across almost all goods exported to Russia demonstrating the possible scale of chilling effects. To what extent this chilling effect is persistent over time and trade rebounds is uncertain.

Monitoring and Evaluation

71) 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.

72) Sanctions are kept under continuous review and will be adapted when the context changes. FCDO analysis looking at the totality of the sanctions package assesses the rationale for needing to impose the sanctions, the impact that sanctions are having on the target country, as well as unintended consequences. Such assessment will include the continued collection of open source and classified information to monitor the political and economic situation in Russia, rationale for imposing the sanctions as well as any unintended impacts, including on UK businesses, that come to light. Assessments of the regulatory and administrative costs of the sanctions package could for instance draw on the Office of Financial Sanctions Implementation (OFSI)'s reporting on the number of licences applied for.

73) 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.

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