Title: Ban on new outward investments to Russia **IA No:** FCDO2206 **RPC Reference No:** **Lead department or agency:** HMT **Other departments or agencies:** **FCDO/DIT/BEIS**	**Impact Assessment (IA)** **Date: 11/07/22** **Stage:** Development **Source of intervention:** Domestic **Type of measure:** Secondary legislation **Contact for enquiries:**
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**
£-328.9m	£-328.9m	£38.2m	Non qualifying provision

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

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

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

HM Government is working to deepen the sanctions measures we have imposed on Russia following their invasion of Ukraine by prohibiting new investments in the Russian Federation by UK persons or other persons in the UK from the date on which the regulations implementing the ban come into force

The purpose of the ban is to encourage the Russian government to: (i) cease destabilising activities and withdraw their military deployment in Ukraine; and (ii) respect international law and the territorial integrity of sovereign nations, democratic principles and institutions. The measure will contribute to the strong signal the UK and its allies have sent to the Russian government. It will demonstrate the UK's continued willingness to stand-up for the international rules-based system and to take action against transgressors, sending a deterrent signal to others.

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

The government has considered two options:

Option 0: Do nothing. Rely on the existing sanctions to erode the financial power of the Russian government and to constrain its ability to destabilise and invade sovereign nations, forcing 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.

Option 1 [preferred option]: Ban on new outward investments in Russia. A ban on new investment in Russia by restricting direct or indirect acquisitions of any ownership interest in land in Russia and in entities connected with or otherwise having a place of business in Russia; and by prohibiting the establishment of commercial arrangements such as branches in Russia and joint ventures with persons connected with Russia. The instrument also prohibits investment services directly related to those activities.

Prohibiting new investments in Russia will close off revenue streams that the Russian government could leverage in the future to grow its military-industrial complex and reduce the availability of international capital available for the Russian government to expand energy production, bolster military capabilities and offset the impacts of financial sanctions. This measure will also prevent any associated benefits accruing to Russia including jobs, research and development investment, local spill-over effects and tax takes.

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

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

Signed by the responsible Minister: Rehman Chishti MP Date: 14/07/2022

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2020	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -960.4	High: 0	Best Estimate: -328.9

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0	0	117.6	**960.4**
High	0		0	**0**
Best Estimate	0		40.3	**328.9**

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

The key cost to UK business will be the opportunity cost from lower returns on prevented investment that businesses would have chosen to undertake in Russia were these sanctions not in place. Whilst some prevented investment will be directed toward substitute countries, this is not a direct effect of the measure.

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

- Marginal familiarisation and compliance costs are expected to be negligible given the extensive sanctions already in place
- The UK has moderate sized companies with high or near full exposure to Russia. It is likely that, if the UK forces these companies to cease future investment, they may choose to move their headquarters and redomicile to a third country that does not impose sanctions on Russia. If this were to occur, then the UK could lose repatriated earnings and headquarters jobs which are supported by Russian FDI projects. However, this is not a direct implication of the policy which is designed not to force divestment.

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

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

We do not expect there to be any economic benefits to UK business or to wider society.

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

The primary benefit to the UK will be the economic cost imposed on Russia, thereby exerting pressure on the regime to change its behaviour, constraining its ability to maintain occupation of Ukraine and signalling disapproval of its destabilising actions in respect of Ukraine. The overall impact on Russia will derive from the overall set of sanctions imposed by the international community, of which the UK is only one part (and this IA only covers a sub-set of UK action).

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

Assumptions: It is assumed that average capital expenditure would have continued at around levels seen in 2014-15 (following the Russian invasion of Crimea) and in 2021 over the appraisal period. An FDI return rate of 4.9% per annum is assumed.
Risks: 5 out of 6 of the largest UK investors in Russia have the majority of their global FDI jobs in Russia. If the firms move their headquarters and redomicile to a third country which doesn't impose sanctions on Russia, UK firms will face costs. However, we intended to mitigate this through guidance to specify that divestment is not required. This would be an indirect risk of the policy.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:						**Score for Business Impact Target (qualifying provisions only) £m:**
Costs:	**38.2**	**Benefits:**	0	**Net:**	38.2	191.1

Evidence Base

Problem under consideration and rationale for intervention

1. **Russia's assault on Ukraine is an unprovoked, premeditated attack against a sovereign democratic state**. By deepening the sanctions measures we have imposed on Russia, HM Government hopes to deter further Russian aggression in Ukraine and encourage Russia to the negotiating table.

2. **Whilst some might voluntarily choose not to make new investments in Russia, investments may continue in the medium to long term in the absence of sanctions measures to prevent this.** The private benefit from new investments in Russia would not factor in the wider societal costs to both the Ukrainian and Russian populations, and the cost to the rules-based international system. Without intervention, it is likely that new investment into Russia would continue, enabling the Russian government and entities to continue to benefit from this investment. Therefore, HMG intervention is necessary to remedy this and ensure a coordinated approach.

3. **Given the nature of the issue, there is no appropriate non-governmental or private sector solution to the issue at hand**. As announced in the G7 leaders' statement of April 7th, allies are imposing similar prohibitions. Acting in unison reduces the likelihood of this measure being circumvented and will maximize the impacts of this measure on Russia by denying access to investment pools across the G7. Failure to join the international community would undermine the UK's reputation as an upholder of international law, human rights, freedom of expression and democracy.

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

4. **The level of analysis used in this IA reflects the relatively limited exposure of the UK to the Russian economy**, coupled with the high degree of self-sanctioning that is already taking place with regards to UK businesses' approach to investing in Russia.
5. **Russian inward and outward FDI plays a marginal role on a global scale, accounting for 1-1.5% of global FDI stock**. In recent years, Russia's share of global FDI has been significantly lower than in the 2000s. This is likely due to a combination of the limited rule of law and property rights in Russia and sanctions imposed on Russia in reaction to its previous aggression in Ukraine. The IMF estimate that UK businesses hold £24 billion of assets in Russia, accounting for just 1.1% of total FDI.[1]
6. **Over 450 major multinationals have already taken steps towards divesting their operations in Russia.** These include companies from a wide array of industries (consumer goods, energy, food, media, tech, goods & retail, travel, and finance). Divestment announcements came within days of the adoption of the first round of sanctions.[2]
7. **Domestically, analysis conducted by the Department for International Trade (DIT) identifies that at least 17 UK multinationals have already announced full disinvestment or delayed or cancelled investments in Russia**[3]. These businesses are based in the following sectors: coal, oil and gas, financial and professional services, wholesale and retail trade, tobacco, medical and industrial machinery. <u>*We estimate that these announced disinvestments are equivalent to between 30-55% of the UK's stock of investment in Russia,*</u>

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[1] *Coordinated Direct Investment Survey*, 2021

[2] *International investment implications of Russia's war against Ukraine,* OECD 2022

[3] Household names who have announced disinvestments or delayed or cancelled investments include BP, Royal Dutch Shell, Unilever, HSBC and three of the 'big four' professional services businesses (Deloitte, PwC and EY).

or over £10bn. It should be noted that these figures rely on publicly available data and announcements, and the true figure is likely to be much higher.

8. **It has not been possible to consult UK businesses on potential impacts due to the sensitive nature of the measures, both commercially and in the interests of UK foreign policy**. However, based on the analysis, data and evidence provided by DIT, the IMF and the OECD, we believe the impacts will be limited. Given the estimated level of impact, it has not been considered proportionate to fully monetise all impacts while sensitivity analysis has been carried out for each measure to demonstrate levels of uncertainty.

Policy objective

9. The UK, in concert with allies, has condemned the Russian government's actions in Ukraine and already imposed various sanctions against Russia in response. The purpose of these measures is to further **constrain the Russian government's access to resources to fund their war effort.**

10. A new outward investment ban in Russia will disrupt operations for industries that are critical to the Russian economy, including the energy sector, by limiting the engagement and funding of UK businesses in sectors that are strategic and profitable for the Russian government.

11. Imposing another financial sanction in addition to the sanctions already imposed will send a strong signal to Russia and the wider international community that Russian territorial expansionism is unacceptable and will be met with a serious response. Sanctions act as a powerful deterrence to not only the target country but more widely.

12. **Overall, these measures aim to coerce Russia, by forcefully incentivising a change in behaviour.** Targeting longer-term economic interests and denying the opportunity for Russian industries to benefit from international investment can apply economic pressure to the Russian government to change course. This pressure could stem from the Russian population or elites. Additionally, the easing of sanctions and resumption of investment activity could incentive the regime from taking action or lead to withdrawal.

13. HMG aims to constrain the Russian government's actions in Ukraine whilst minimising the unintended consequences of sanctions by putting in place appropriate licenses and exceptions (see below for detail). It aims to limit the impact on the people of Russia, the UK and its partners to the greatest extent possible. We will apply this measure on a forward-looking basis to ensure that we are not preventing trading of assets that were issued to the market prior to the regulations coming into force.

Description of options considered

14. **Option 0: Do nothing.** Rely on the existing sanctions 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.

15. **Option 1 [preferred option]: Ban on new outward investments in Russia.** A ban on new investments in the Russian Federation by UK persons or other persons in the UK from the date on which the legislation comes into force, by restricting direct or indirect acquisitions of any ownership interest in land in Russia and in entities connected with or otherwise having a place of business in Russia and by prohibiting the establishment of commercial arrangements such as branches in Russia and joint ventures with persons connected with Russia.. It would allow trading on the secondary market to continue where the initial investment was made prior to the regulations coming into force. The ban will also apply to acquisitions of ownership interests in non-Russian companies for the purpose of making funds available to or for the

benefit of a person connected with Russia or for use at a place of business in Russia. The instrument also prohibits investment services directly related to those activities.

Summary and preferred option with description of implementation plan

16. **Since the Russian invasion, HMG have legislated for a prohibition on providing loans to and dealing with transferable securities and money market instruments issued by persons connected with Russia**. This already covers a portion of new investment by preventing UK persons anywhere in the world and other persons in the UK from dealing in these types of transferable securities and money market instruments. Additionally, it is prohibited to make loans available to or enter credit arrangements with persons connected with Russia (where there is a maturity exceeding 30 days). This measure only applies to loans, transferable securities and money market instruments that were granted or issued since the date on which the prohibitions came into force and does not therefore restrict the trading of existing investments on the secondary market.

17. **This measure will build on these pre-existing measures** by prohibiting direct acquisition of any ownership interest in Russian land and in persons connected with Russia. It will also prohibit indirect acquisition of any ownership interest in Russian land and persons connected with Russia for the purpose of making funds or economic resources available to or for the benefit of a person connected with Russia. Additionally, it will prohibit direct or indirect acquisition of any ownership interest in non-Russian companies which have a place of business in Russia for the purpose of making funds or economic resources available to or for the benefit of a person connected with Russia. The measure will also prohibit establishing joint ventures with persons connected with Russia, opening a representative office, branch or subsidiary in Russia as well as providing investment services in relation to all of these prohibited activities.

18. **Taking this approach will ensure we are preventing new investments in Russia by UK persons whilst also preventing transactions that have the intention of investing in Russia via third countries, thereby reducing the risks of circumvention.** We also intend to include exceptions for acts done in satisfaction of obligations arising under a contract concluded prior to the date on which the regulations come into force and for dealing with certain types of transferable securities. We also intend to include licensing grounds (under which persons may make an application to OFSI for permission to conduct activity that is otherwise prohibited by these measures) for the following purposes: extraordinary situations, humanitarian assistance activity, medical goods and services, food, diplomatic missions, safety and soundness of a firm and space.

19. **The measure will be implemented through secondary legislation via an amendment to the Russia (Sanctions) (EU Exit) Regulations 2019 ('the Russia Regulations')**. The appropriate vires for this prohibition is under section 3 of the Sanctions and Anti-Money Laundering Act 2018 (SAMLA), which permits the imposition of these restrictions. The relevant sections are section 3 ((1) (b), (d) ,(g) and (2)) as well as section 5 (and further to that paragraph 9(b) of Schedule 1).

20. **After the proposed amendments, the Russia Regulations will continue to be appropriate for their purposes,** which are set out as encouraging Russia to cease actions destabilising Ukraine or undermining or threatening the territorial integrity, sovereignty or independence of Ukraine.

21. **The ban will only apply to investments made after the date on which the regulations enter into force**.

Enforcement

22. **It will be a criminal offence to contravene the new prohibitions, as well as to enable or facilitate a contravention or circumvention of them**. This is in line with what is currently provided in relation to the existing measures.

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

Assumptions

24. **In our central scenario, it is assumed that in our "do nothing" – or baseline – scenario. average capital expenditure would have continued at around levels seen in 2014-15 (following the Russian invasion of Crimea) and in 2021 over the appraisal period[4].** This represents a substantial fall in investment compared to the 2015-19 average, but recognises that continued investment in Russia is still possible in the absence of the policy. The cost of the policy represents an average of capital expenditure into Russia of £149.5m per year between 2023 and 2032 over the appraisal period relative to this central baseline assumption.

25. This compares to £436.5m in our "high cost" baseline scenario, where average annual capital expenditure is assumed to follow the 5-year average seen between 2015-19.

26. Across both scenarios, it is assumed that 100% of future investment flows to Russia are prevented by this policy and are unable to be redirected elsewhere.

27. Within our "low-cost" scenario, we assume that the impact of the war and the packages of sanctions that have already been imposed will have already reduced investment flows into Russia to zero before this policy comes into force. This is based on widespread commitments from UK firms to divest and not to seek out future investments in Russia (see above), reducing the opportunity cost to firms as a consequence of this policy to zero.

28. Across all scenarios, an FDI return rate of 4.9% per annum is assumed. This is based on ONS figures for global implied rate of return on UK FDI assets from 2016 - 2018. Implied rates of return indicate how much income is generated per pound of investment. This includes returns on investments made in previous years. In the time available to complete this assessment, we have not been able to derive a more recent or Russia-specific estimate for the rate of return on FDI. [5]

Risks

29. **Due to the expansive nature of the package of sanctions being developed, there remain inherent risks given the potential for indirect and unintended consequences**. However, the majority of these fall beyond the scope of the specific measures within scope of this IA

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44 *FDI Markets*, Financial Times Ltd 2022

5 *UK FDI Trends and Analysis*, ONS 2020 https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/articles/ukforeigndirectinvestmenttrendsandanalysis/impliedratesofreturnfebruary2020#implied-rates-of-return-on-uk-fdi

because they are indirect, not direct, effects of the policy. For the measures covered by this IA, we identify the following as the main risks:

a. 5 out of 6 of the largest UK investors in Russia have the majority of their global FDI jobs in Russia. If firms divest of Russian assets as a result of these sanctions because they can no longer invest further, these firms may move their headquarters and redomicile to a third country which doesn't impose sanctions on Russia. These firms are estimated to account for over 47,000 jobs globally, of which 31% are based outside of Russia.[6]
b. A potential risk is that these measures could lead to a sharp correction in the price of publicly traded Russian securities with costs to existing investors. However, this risk is minimal due to the following:
   i. The measure is forward-looking (i.e. trading of publicly issued existing investments is still generally allowed on the secondary market);
   ii. UK exposures to Russian securities have already seen a sharp decline since the outbreak of the conflict and since the prohibition on dealing with transferable securities and money market instruments issued by persons connected with Russia came into force, so markets have to a large extent priced in divestment
   iii. Markets have withstood more significant disruption at the outbreak of the conflict and have held up well; and
   iv. UK authorised funds investing in Russian assets have been suspended since early March, locking in over £1bn of liquidity according to Interactive Investor. This limits further potential impact through this channel.

30. **There are also indirect retaliatory risks associated with the introduction of sanctions measures against Russia**. However, given Russian inward and outward FDI play a marginal role on a global scale (accounting for 1-1.5% of global FDI stock), we expect any impacts to the UK deriving from restricted inward FDI flows to be minimal. Whilst the risks of tit-for-tat measures over FDI are limited, the complex nature of trading relationships mean it is possible that the Russian government could choose to respond in an asymmetric manner. These costs are unquantifiable at this stage as they depend on the actions Russia chooses to take.

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

31. Option 0 is a 'do nothing' option, so the marginal costs and benefits would be zero. For the preferred option (option 1), the costs of each component of the package are analysed below. The benefits of this option (i.e. the cost to Russia) are considered in the round throughout this document.

Opportunity cost

32. Based on available evidence, we judge that the range of estimates fall between:

a. **"Low-cost" scenario**: **£0**, assuming that in a baseline scenario firms' own choices and existing sanctions mean that even without this package, there would be no UK FDI into Russia over the appraisal period;

b. **"Central" scenario**: **£402.9 million**, with baseline FDI assumed to follow levels seen in 2014-15 (following the Russian invasion of Crimea) and in 2021 over the appraisal period. This equates to a *£40.3 million (unadjusted)* annual opportunity cost; and

c. **"High-cost" scenario: £1.2 billion**, if baseline average FDI stock growth follows the 5-year average seen between 2015-19. This equates to a *£117.6 million (unadjusted)* annual opportunity cost.

[6] *Analysis of FDI markets*, DIT 2022

Familiarisation & training costs

33. Minimal: £350 – £1749.8 in total per year (£15.9 - £79.5 per firm per year). Assuming 1-5 people per firm must familiarise themselves with the measure. This assumes that the number of firms engaged in outward investment to Russia would have remained at levels seen prior to the 2014 invasion of Crimea. Given the degree of self-sanctioning already taking place, this should be considered an upper-bound estimate.

Assumptions:

a. Based on average number of projects taking place per year in Russia between 2003-2019, assume that 22 businesses will need to familiarise themselves with the measure[7]

b. Assumed it takes a person 50 minutes to read and familiarise themselves with the measure[8]

c. Assumed hourly wage of £16.57[9]

d. Non-wage cost factor of 1.2x[10]

34. These represent a direct cost to business. However, given they are minimal, we have not included them within the cost-benefit analysis outlined previously. Firms already require their staff to undergo training in order to ensure compliance with new designations under existing regimes, or new regimes by other nations. Therefore, there is unlikely to be significant additional training required (on top of existing training), due to these regulations, so the cost is expected to be negligible.

Impact on small and micro businesses

35. **The recommended policy option of a comprehensive ban on new outward investments will apply to small and large business in the same way**, as they will all have to comply with these regulations

36. **The regulations do not include any exemptions for small and micro-businesses ('SMBs').** Exemptions for SMBs would reduce the effectiveness of the measures, as they would allow some UK businesses to continue to support the Russian economy through investment.

37. **Given the scale of outward investment projects undertaken (with an average capital expenditure of £45.5m and creation of 256 jobs), we do not expect SMBs to be largely affected by these sanctions**. Nonetheless, there is a chance that SMBs will be affected to a greater degree if they decide to move divestments away from Russia and are unable to absorb the costs associated with this. Data on FDI flows by size of company are not available, so it is not possible to accurately monetise the direct opportunity cost of prevented investment that falls on SMBs. However, given the already limited flows of outward investment between the UK and Russia[11], the impacts on UK SMBs, are expected to be low. The few businesses with significant interests in these sectors are typically large companies who will be able to absorb (or avoid via relocation) any costs associated with moving investment.

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[7] *FDI Markets*, Financial Times Ltd 2022

[8] Assuming a reading time for technical text as 100 wpm. *Evaluating the cost savings to business from revised EA guidance – method paper* BIT Appraisal guidance, EFTEC 2013 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/609201/business-impact-target-guidance-appraisal.pdf

[9] *Employee Earnings Survey*, ONS 2020

[10] *Business Impact Target Statutory Guidance, BEIS 2019* .https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/776507/Busines__Impact_Target_Statutory__Guidance_January_2019.pdf

[11] Only 2 projects were undertaken in 2021, with a capital expenditure value of £177.6m, compared to an average of 28 projects per year, with average capital expenditure of £1.3b, in 2003-2013 (prior to the 2014 invasion of Crimea).

38. All UK sanctions, including these Regulations, are accompanied by guidance, aimed at reducing the familiarisation costs to SMBs.

Wider impacts (consider the impacts of your proposals)

39. **The impacts of these sanctions should be considered within the context of an estimated UK exposure to Russia of £17.5 billion in greenfield outward direct investment between 2003 and 2021,** making Russia the UK's 9th largest market for ODI and equal to 2.4% of total UK greenfield project investment. The only notable M&A exposure is BP's 19.75% stake in Rosneft, currently valued at £12 billion. Therefore, in total, analysis conducted by DIT suggests UK businesses have around £30 billion FDI assets in Russia.

40. **Despite the UK's limited exposure, Russia accounts for a very high or full share of business activity for the few UK businesses operating there**. Taking this into account, the businesses that remain in Russia are likely to be resistant to disinvesting from existing arrangements precipitated by an inability to invest further due to these sanctions. Anticipating business responses to economic disruption is highly speculative, however, they could move their headquarters to Russia or a third country if the measures were to incentivise divesture of Russian assets. In this case, the UK rather than Russia would incur the economic costs intended by the sanctions, although this loss would be minor in macroeconomic terms.

41. **In conjunction with other sanctions, the measures could affect the UK's reputation as a place to do business.** There may be a reputational cost to the UK resulting from higher risk and perceived compliance burden of doing business in the UK – particularly if there is over-compliance. This could influence the UK and City of London's reputation as a global financial centre. These effects will likely last longer than the sanctions themselves. However, the cost will be offset by enhancing the UK's reputation as a 'clean' place to do business. Businesses' reputational risk will be reduced by no longer investing in Russian individuals and entities associated with serious corruption.

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

A summary of the potential trade implications of measure

43. **With the exceptions of existing announcements by BP and Shell, we do not expect any further reduced or cancelled investments to have a significant impact on repatriated earnings, dividends, and stock market valuations at the macroeconomic level**. UK investment exposure to Russia is limited, accounting for less than 2% of UK outward direct investment by capital expenditure, and even less by other metrics such as projects and jobs.

Monitoring and Evaluation

44. 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.

45. While FCDO does not intend to undertake a formal post-implementation review, all Russia and Belarus sanctions will be kept under continuous review and will be adapted when the context changes. FCDO is developing a monitoring and evaluation framework to assess how sanctions meet UK objectives. Such an assessment will include the continued collection of

open source and classified information to monitor the political and economic situation in Belarus and Russia as well as any unintended impacts, including on UK businesses that become evident. Assessments of the regulatory and administrative costs of the sanctions package will draw on the Office of Financial Sanctions Implementation (OFSI)'s reporting on the number of applications for licences. 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 HMG.

46. Published data from both the ONS and HMRC now covers the period since the invasion, and by autumn, published data will cover the period following the introduction of these measures. Bilateral trade between the UK and sanctioned nations since the invasion of Ukraine will then form a central pillar of the monitoring framework for these measures. Additional use of HMRC microdata could allow for impacts to be monitored at a business level and identify any disproportionate impacts across business characteristics. HMG 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 HMG.

47. 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 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.

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