

Title: Ban on the provision of maritime transportation and associated services for Russian oil. IA No: FCDO2209 RPC Reference No: RPC-HMT-5230 Lead department or agency: HM Treasury Other departments or agencies: BEIS, DfT, FCDO	Impact Assessment (IA)
	Date: 03/11/22
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Secondary legislation
Contact for enquiries: Sanctions@fcdo.gov.uk	
Summary: Intervention and Options	RPC Opinion: Green - fit for purpose

Cost of Preferred (or more likely) Option (in 2019 prices)

Total Net Present Social Value	Business Present Value	Net	Net cost to business per year	Business Impact Target Status
-£37.0m	-£37.0m		£4.7m	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 independence, sovereignty, and territorial integrity, 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, in order to deter further Russian aggression. It has already legislated for a ban on importing Russian oil into the UK.¹

The proposed measure includes a ban on the provision of services, including brokering services and financial assistance, related to the maritime transportation of Russian oil and oil products.² Additionally, it will prohibit UK vessels from transporting certain Russian oil and oil products between third countries.³ The prohibition will also capture non-UK vessels in the territorial sea.

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.

We consider that this measure fits clearly within the existing purposes of the Russia Regulations, namely "encouraging Russia to cease actions destabilising Ukraine or undermining or threatening the territorial integrity, sovereignty or independence of Ukraine". This is because the policy intention is to signal clearly to Russia that the measure has been imposed because of such actions and can be lifted should a change in policy take place (in line with the Russia Regulations, Regulation 4).

¹ [UK to phase out Russian oil imports - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/the-russia-sanctions-eu-exit-amendment), Chapter 41 of [The Russia \(Sanctions\) \(EU Exit\) \(Amendment\) \(No. 14\) Regulations 2022 \(legislation.gov.uk\)](https://www.legislation.gov.uk/uksi/2022/14/regulations)

² This ban will apply to conduct in the UK (by any person) or conduct elsewhere (by a UK person).

³ The ban will apply to oil and oil products under the commodity codes 2709 and 2710 that originate in Russia or are consigned in Russia. This definition applies to all further reference throughout this document to Russian oil and oil products.

FULL ECONOMIC ASSESSMENT

Price Base Year 2021	PV Base Year 2022	Time Period Years	Net Benefit (Present Value (PV)) (£m)	
		9	Low: £0	High: -73.9
			Best Estimate: -37.0	

COSTS (£m)	Total (Constant Price)	Transition Years	Average (excl. Transition)	Annual	Total (Present Value)	Cost
Low	£0	-	0		0	
High	£0	-	9.4		73.9	
Best Estimate	£0	-	4.7		37.0	

Description and scale of key monetised costs by ‘main affected groups’

The proposed measure includes a ban on the provision of services, including brokering services and financial assistance, related to the maritime transportation of certain Russian oil and oil products. Additionally, it will prohibit UK vessels from transporting Russian oil.

2021 ONS data on trade in services by service type and partner country indicates the value of UK services exported to Russia captured by this measure - totalling £924m. Services related to the maritime transport of Russian oil will only account for a portion of this figure – more granular data to determine the exact breakdown is not available – and the available data does not account for UK service provision to non-Russian firms involved in the transport of Russian oil, which this ban will prohibit.

Our central scenario calculations use the ONS data on sectoral trade alongside Russian maritime oil export GDP data estimating an opportunity cost of £4.7m of the measure for industry. We estimate negligible familiarisation costs.

Other key non-monetised costs by ‘main affected groups’

Non-monetised costs include future revenues that firms may have been able to generate through the winning of business related to, but distinct from, maritime shipping – e.g., land transport of oil, or shipment of other goods.

The measure, alongside its EU and US counterparts, could put upward pressure on the global price of oil. This is likely to have a range of knock-on impacts for UK businesses and consumers, the costs of which are challenging to estimate accurately, as: they would be far reaching with a chain of impact across supply chains; it is not possible to establish how far this has already been priced in to the markets and how much it will disrupt global supplies; and we would not be able to disaggregate the impacts of the UK ban from those of our partners such as the EU implementing in parallel.

However, mindful of the potential direct and indirect impacts on UK businesses and consumers, alongside this measure the UK and our allies intend to introduce an exception to the prohibitions to permit the provision of services for the maritime transport of Russian oil so long as it is sold below an agreed price cap. This is intended to mitigate some of the anticipated increases in the global price of oil while still reducing the amount of revenues the Russian state earns from the export of oil, thereby enabling it to fund an illegal war in Ukraine. The price cap measure, announced by the G7 on 2nd September, would thus build on the preferred Option 1 ban of ancillary services. This exception will be introduced in the form of a general licence.

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

Description and scale of key monetised benefits by ‘main affected groups’

It has not been possible to monetise the benefits provided by this policy, as data is not currently available to disaggregate the impact of a UK services ban from that of our G7 counterparts’, and therefore there is no way of assessing the benefits to UK firms in terms of lower compliance costs and sanctions breaching risks from aligning bans across jurisdictions. Given the counterfactual – i.e., allies, such as the EU, putting in place a maritime services ban that the UK is not aligned with – there are likely to be benefits to UK businesses from reducing the compliance burdens and legal risks associated with misalignment. Formalising the measure through Option 1 gives service providers and their customers greater certainty, including through invoking relevant force majeure clauses in contracts. **It is worth noting that sanctions measures like this help to protect the UK’s national security and business environment, in turn supporting sustainable longer-term growth.**

Other key non-monetised benefits by ‘main affected groups’

This measure targets a critical production sector of the Russian economy – seaborne oil accounted for ~7.5% of Russian GDP in 2021, while revenues from oil and gas-related taxes and export tariffs accounted for 45% of Russia’s federal budget in January 2022.^{1 2 3} The primary benefit to the UK will be the economic cost imposed on Russia, thereby constraining its ability to maintain its occupation of parts 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).

For example, UK-EU alignment is important to insurers, given the interconnected nature of the market. Formalising this in UK law makes this easier for firms and reduces legal uncertainty for insurers and their customers, with the concurrent additional compliance costs and legal risks this would entail.

Discount rate

3.5%

¹ Estimate based on - [Oil Market and Russian Supply – Russian supplies to global energy markets – Analysis - IEA & The Russian economy and world trade in energy: Dependence of Russia larger than dependence on Russia](#)

² Source: <https://www.iea.org/articles/frequently-asked-questions-on-energy-security>

³ Source: <https://www.reedsmith.com/en/perspectives/2022/06/impact-of-eu-and-uk-ban-on-russian-oil-and-insurance>

Key assumptions/sensitivities/risks	
Assumptions	
<p>In the absence of a more detailed breakdown, the ONS data used captures the value of sectors trading with Russia covered by the ban; however, it does not provide more detailed information regarding what value of that trade is related to Russian seaborne oil exports. HMG have made three assumptions in calculating the opportunity cost.</p> <ul style="list-style-type: none"> - First, we have taken a maximalist approach to this assumption. - Second, to account for the fact that only a subset of firms in affected sectors will be affected, depending on whether they provide services related to Russian seaborne oil exports, we have assumed the portion of relevant UK services to Russia affected will be equivalent to the value of seaborne oil trade's contribution to Russia's GDP (~7.5%).¹ - Third, to account for the fact that cost should be measured as an impact on profits, we have assumed a rate of return (15.3%) on the provision of these services.⁴ <p>For the central scenario, we have assumed that 50% of the impact of lost revenues results from the UK's actions, as opposed to the concurrent bans that the EU and other allies are putting in place. This assumption is to account for the fact that the impact of the UK measure versus the concurrent EU or US measure will vary substantially from UK business to UK business – many of the key firms in affected sectors, particularly the insurance sector, serve a large number of markets, and are likely to align with the legislative framework in their most important commercial market, which may not be the UK.</p> <p>In the absence of readily available data enabling us to estimate the dominant regulatory regime for each firm affected by this measure, we have used an assumption of 50%, which we consider readily defensible given the level of very high variability in firm market exposure across the affected businesses. The overall cost to UK business is sensitive to this assumption: changing this assumption from 50% to 75% would increase the net direct cost to business per year from £4.7m to £7.1m on an annualised basis; meanwhile decreasing the assumption to 25% would shift net direct costs down to £2.4m/year. To account for this sensitivity, we assume in the high cost scenario that 100% of the costs to UK business are directly caused by the UK ban.</p>	
Risks	
<p>If allies proceed with equivalent measures but the UK does not, this could create significant reputational damage for the government. The ban will reduce the UK's significant share of the global maritime insurance market (c60%) as the UK will be restricted from a section of the market.⁵ Additionally, there is a risk that those wishing to circumvent the ban will make use of 'shadow' services, such as state-backed alternatives, or operate without insurance to enable the transport of Russian seaborne oil. There is a risk that Russia may retaliate against this measure through economic and non-economic means, including the reduction in provision of goods and services to the UK and our allies – as evidenced by Russia's behaviour around the provision of gas to members of the European Union. However, we consider these risks to already be significant given the extensive nature of the UK's current sanctions against Russia. On balance, this measure does not significantly increase the level of risk.</p>	

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:				Score for Business Impact Target (qualifying provisions only) £m:
Costs:	4.7	Benefits:	0	
		Net:	-4.7	

⁴ This assumption is drawn from the [ONS Profitability of UK companies dataset](#), using an average of profitability for the services sector across Q1-4 2019.

⁵<https://www.maritimeuk.org/documents/11/the-uks-global-maritime-professional-services.pdf>

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 companies and traders might voluntarily choose not to engage in the maritime trade and shipment of Russian oil, activity is likely to continue in the medium-to-long term in the absence of sanctions measures to prevent this.** The private benefit from the trade of Russian seaborne oil 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 revenues from the oil trade would continue to flow into Russia, enabling the Russian government and entities to continue to benefit and fund their war effort and threaten the UK's core national security interests. 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 finance ministers' statement of 2 September 2022, allies, including the EU, are imposing similar prohibitions in concert.¹ Acting in unison reduces the likelihood of this measure being circumvented and will maximize the impacts of this measure by denying access to maritime services operating in coalition members' jurisdictions. It will also help provide consistency and certainty for UK businesses operating across jurisdictions. 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 significant degree of self-sanctioning that is already taking place with regards to UK businesses' approach to trading Russian oil. For example, Shell and BP have already withdrawn from the market.² Anecdotally, we understand that Protection and Indemnity (P&I) clubs, which insure ship owners against open-ended risks, have already stopped writing new business for Russian oil across all the jurisdictions in which they operate, in anticipation of sanctions measures on services announced by allies such as the EU, and in the expectation of the UK aligning with this in support of its international allies. Ahead of the UK's Russian oil import ban in Russia (Sanctions) (EU Exit) (Amendment) (No. 14) Regulations coming into force, the UK has already reduced its reliance on Russian oil. In June, the UK imported no fuels from Russia for the first time since records began.^{3 4}
5. HMT has approached the issue of direct impacts by drawing on two sources of information. The first is ONS data – "*UK trade in services: service type by partner country, non-seasonally adjusted Q1 2022*". This source captures the value of sectors trading with Russia covered by the ban; however, it does not provide more detailed information regarding what value of that trade is related to seaborne Russian oil. It has not been possible to source a more detailed breakdown of the Russian trade, as the ONS and HMRC do not publish any more granular data. This is because, though goods trade is HMRC administrative data (and therefore a more complete set of records), services data are generated from an ONS survey, and so they only take a sample of the entire set. As a result, a very granular quantity such as the maritime services referenced here (especially when this is narrowed

¹ [G7 Finance Ministers' Statement on the united response to Russia's war of aggression against Ukraine, 2/9/22](#)

² [Shell announces intent to withdraw from Russian oil and gas | Shell Global, bp to exit Rosneft shareholding | News and insights | Home](#)

³ [The impact of sanctions on UK trade with Russia - Office for National Statistics](#)

⁴ [UK to phase out Russian oil imports - GOV.UK \(www.gov.uk\)](#), Chapter 41 of [The Russia \(Sanctions\) \(EU Exit\) \(Amendment\) \(No. 14\) Regulations 2022 \(legislation.gov.uk\)](#)

to focus only on exports to Russia) cannot be accurately gauged by this method as it would rely on a very small sample.

6. ONS data on trade in services by service type and partner country indicates the value of types of services exported that are within the scope of this measure – financial, insurance, brokering services and shipping – totalled £924m in 2021.⁵ This is set out in Annex 1.
7. However, this £924m will include some UK exports that in reality are not affected by the measure – given the breadth of services covered under each of the ONS classifications. For example, the £924m figure includes all ‘other business services’ (£476m in 2021). Some of these exports will be completely unrelated to the Russian maritime oil trade – for example, they would capture a UK architecture firm supplying services to a Russian housebuilder – and therefore are not prohibited by this measure. In reality, only a subset would be in scope. **This makes the £924m figure a likely significant overestimate.** We have taken this more maximalist approach to offset some of the uncertainty we have elsewhere in our calculations - e.g., around the proportion of firms affected by the UK ban, vs. the concurrent EU and US bans. As such, we consider it optimal to present a more conservative figure for the firms affected, and therefore the overall costs of the UK business as a direct result of the measure.
8. In addition, 2021 data is likely to be an overestimate as it will not account for the significant degree of self-sanctioning that is already taking place with regards to UK businesses’ approach to trading Russian oil, which would suggest 2022 exports will already be smaller. As such, we can be confident that the impact analysis is of a reasonable worst-case scenario, capturing a larger section of industry than the ban will impact in practice. This is highlighted in our opportunity cost calculations below.
9. A limitation of the ONS data is that it does not account for UK maritime service provision to non-Russian firms involved in the transport of Russian oil. A notable example would be UK maritime services conducting business with Greek ships transporting Russian oil. However, there is no available data to capture this as it is not recorded elsewhere. We considered taking the percentage of Greek GDP covered by shipping, then applying a proportion for oil tankers as part of the Greek fleet, then assuming that a certain percentage of that fleet is involved in carrying Russian oil. However, given the number of assumptions involved, we did not consider this approach to be proportionate or useful. This does mean that overall estimates on the impact of UK maritime services provision may be lower than expected. However, by using a maximalist interpretation of the services in scope of the maritime services ban that we can monetise, as set out above, we intend to offset the risks of underestimating the number of businesses impacted by the measure through this element of the data.
10. In the absence of a more detailed breakdown of the value of sectors trading with Russia that relate to maritime oil export, this analysis makes use of data available on Russian oil exports’ as a proportion of GDP (10%), alongside IEA data on Russian oil export quantities (4.7m barrels of crude, 2.7m barrels of products), and BEIS estimates on the proportion of these exports that are seaborne (60% of crude and 100% of products – 75% overall), to estimate the share of the Russian economy accounted for by the maritime oil export trade (7.5%).^{6 7} This is used as a proxy for how much of the value of UK exports affected by this measure (£924m) interact with Russian maritime oil exports (~7.5%).⁸ These figures are from 2021, and therefore may be limited in that they may not account for the effects of wider sanctions on Russian maritime oil exports and revenues, and self-sanctioning as noted above.

⁵ See annex 1 - ONS: UK trade in services: service type by partner country, non-seasonally adjusted. This figure includes all sectors in groups 6 (insurance and pension), 7 (financial) and 10 (other business services); and sector 3.1 (sea transportation).

⁶ The Russian economy and world trade in energy: Dependence of Russia larger than dependence on Russia. Austrian Central Bank

⁷ Oil Market and Russian Supply – Russian supplies to global energy markets – Analysis - IEA

⁸ This is further explained in below in the section - *Monetised and non-monetised costs and benefits of each option, Context - Russian Oil Exports & UK services role in Russian Oil Exports:*

11. The second source of information used is an OECD simulation of July 2022, “*Who would bear the burden of embargoes on imports of Russian Oil?*”⁹ The policy brief is the most relevant available and published, to assess the short and medium-term economic impacts of G7 countries and Europe (including Ukraine) ceasing to import certain Russian oil and oil products. The data provided is used to analyse the potential benefits of Option 1 (costs to Russia). It is limited in that it does not simulate the impacts of Option 1, but the figures provide a useful benchmark to give them a sense of scale.
12. HMG have supplemented these sources by engaging with industry for qualitative evidence. This has included talking with financial institutions, P&I clubs and other insurance companies, shippers, port authorities, and other maritime representative bodies. We engaged with affected industries first, on the potential burden of compliance with the measure, and second, on their self-assessment of the value of trade related to maritime Russian oil they expect to be impacted. They have indicated that they do not have access to significant quantitative data, therefore, we have reflected their qualitative feedback and comments in our analysis below.

Description of options considered

13. The government has considered two options.
14. **Option 0:** Rely on the existing sanctions to erode the financial power of the Russian government, thereby constraining its ability to destabilise and invade sovereign nations, forcing it 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. As the policy options relate to international trade, both should be considered in the context of the international sanctions policy environment, it is likely that a ‘do nothing’ scenario would result in two outcomes, either,
 - i. allies proceed with similar bans without the UK, and UK based maritime services adjust their international business accordingly, most likely by withdrawing from the market to avoid breaching other jurisdictions sanctions measures; or
 - ii. by not imposing a ban, other coalition countries (G7, EU, US) do not impose similar bans and momentum slows to impose further sanctions measures on Russia. UK based maritime services would likely continue to support Russian maritime oil trade and the Russian state would continue to benefit from levies on significant oil revenues.

Given announcements by allies of intent to implement sanctions measures related to the maritime transportation of Russian oil, we assume i. to be the most likely outcome.¹⁰ As such, this scenario is used as the counterfactual for Option 1.

15. **Option 1 [preferred option]: A ban on UK persons providing services, including brokering services and financial assistance, related to the maritime transportation of certain Russian oil and oil products. Additionally, prohibiting UK vessels from transporting Russian oil.** We expect this measure to significantly degrade Russia’s ability to fund its war in Ukraine, threatening the UK’s core national security interests by impeding its ability to export oil by ship, thereby limiting its access to revenues generated by exports - a significant contributor to the Russian government’s budget. Revenues from oil and gas-related taxes and export tariffs accounted for 45% of Russia’s federal budget in January 2022.¹¹ Additionally, the measure would support a united international response, matching in substance allies’ respective bans, and ensure that UK businesses do not face the compliance and legal risks of misalignment between their key domestic and international markets.

⁹ *Who would bear the burden of embargoes on imports of Russian Oil? An OECD simulation – July 2022*

¹⁰ The EU has already legislated for a ban on services for the maritime transportation of Russian oil coming into force on 5 December, and oil products on 5 February 2023. The G7 has publicly stated its “intention to finalise and implement a comprehensive prohibition of services which enable maritime transportation of Russian-origin crude oil and petroleum products globally. See - [G7 Finance Ministers statement on Russia’s war of aggression against Ukraine - GOV.UK \(www.gov.uk\)](#), [EU adopts 6th package of sanctions against Russia \(europa.eu\)](#), [FACT SHEET: United States Bans Imports of Russian Oil, Liquefied Natural Gas, and Coal - The White House](#)

¹¹ Source: <https://www.iea.org/articles/frequently-asked-questions-on-energy-security>

Policy objective

16. 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 illegal war.
17. Imposing this 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. This sanction also targets a critical production sector of the Russian economy – seaborne oil accounted for ~7.5% of Russian GDP in 2021.¹² Revenues from oil and gas-related taxes and export tariffs accounted for 45% of Russia's federal budget in January 2022.¹³ The coordinated oil import and maritime services ban represents a serious expansion of sanctions that has global reach.¹⁴
18. 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.
19. HMG aims to constrain the Russian government's actions in Ukraine whilst minimising the unintended consequences of sanctions by putting in place appropriate licences (see below). It aims to limit the impact on the UK and its global partners to the greatest extent possible.

Summary and preferred option with description of implementation plan

20. The measure will be a statutory instrument, amending the existing Russia (Sanctions) (EU Exit) Regulations 2019. The Office of Financial Sanctions Implementation (OFSI) will be responsible for the ongoing operation and civil enforcement of the new arrangements.
21. It will be a criminal offence to contravene the new prohibitions, 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. 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).
22. The UK has already banned the import, acquisition (with the intention of those goods entering the UK) and supply and delivery of oil and oil products from Russia **to the UK**, as set out in The Russia (Sanctions) (EU Exit) (Amendment) (No. 14) Regulations. This also implemented a prohibition on the provision of the associated ancillary services in respect of these activities.
23. This measure adds a provision banning the provision of services, including brokering services and financial assistance, related to the maritime transportation of certain Russian oil and oil products between third countries. Additionally, this measure prohibits vessels from transporting Russian oil.¹⁵ The measure has been designed with industry partners, including insurers, shippers, and the oil industry.

¹²Oil Market and Russian Supply – Russian supplies to global energy markets – Analysis - IEA & The Russian economy and world trade in energy: Dependence of Russia larger than dependence on Russia

¹³ Source: <https://www.iea.org/articles/frequently-asked-questions-on-energy-security>

¹⁴ UK to phase out Russian oil imports - GOV.UK (www.gov.uk), Chapter 41 of The Russia (Sanctions) (EU Exit) (Amendment) (No. 14) Regulations 2022 (legislation.gov.uk)

¹⁵ Scope of the application of the measure will be as per the Russia Regulations and set out at s.21(1) SAMLA. UK persons is a defined term, see s.21(2) SAMLA.

24. We intend to minimise unintended consequences and impacts on critical energy supplies in certain circumstances. The primary use of the licensing grounds will be for the price cap exception (detailed in paragraph 66, with additional text on impacts on the policy package). HMT will also issue a licence to carve out specific third countries or activities from the scope of the ban. This will include where certain countries have critical energy security requirements and where alignment is required with allies also introducing these sanctions. Further potential uses of the licensing grounds, based on others used for sanctions against Russia, would likely focus on humanitarian issues; this would only affect a very small subset of services offered by UK firms.
25. The measure will come into force on 5 December with regard to oil and oil products under the commodity code 2709 and on 5 February 2023 with regard to oil and oil products under the commodity code 2710, but the statutory instrument will be laid in November. This is to ensure the measure comes into force at the same date as the EU, US and other G7 partners, whilst giving sufficient time for industry to wind down appropriately.

Monetised and non-monetised costs and benefits of each option

26. **Option 0** is a ‘do nothing’ option. As noted above the businesses affected by this measure are transnational in nature, therefore they would still bear costs associated with compliance or withdrawal from the market because of the announced bans from allies.
27. **For Option 1 (the preferred option)**, the costs of each component of the package are analysed below. The primary benefits of this option, the cost to Russia, are considered in context of its energy sector being key for the Russian economy and its vital role in funding its war effort in Ukraine.

Context - Russian Oil Exports & UK services role in Russian Oil Exports:

28. Russia is the world’s largest exporter of oil to global markets and the second largest crude oil exporter.¹⁶ Russia’s overall energy exports account for almost 50% of their total exports, or 14% of total GDP. Crude oil and oil products are a significant portion of this, with Russia exporting c4.7mb/d of crude oil and 2.7mb/d of products in 2021.¹⁷ This had an estimated worth of \$240bn, or 10% of GDP relating to oil & oil product exports.
29. Estimates from BEIS, based on pre-invasion data from the Russian Energy Agency, suggest around 60% of Russian crude and 100% of Russian oil products are exported via sea. Matching this with IEA data on export volumes in the paragraph above suggests that around 5.6 mb/d of Russian oil is exported via sea and could be affected by these measures, accounting for 75% of Russia’s total oil exports – or 7.5% of Russian GDP.
30. The UK maritime services market is significant internationally. In particular, the UK’s insurance services underwrite critical sectors such as global shipping. The UK is a key global provider of maritime insurance services which facilitate the transportation of Russian oil and oil products. The Prudential Regulation Authority (PRA) estimate the global marine and energy market to be some \$32bn of Gross Written Premiums (GWP) in 2021, with London having an estimated 20% market share (\$6bn of GWP – of which shipments of Russian oil are a small subset) overall, but dominating in key areas e.g., the UK writes 60% of P&I International Group insurance.^{18 19}
31. The International Maritime Organization (IMO) requires vessels to have Protection and Indemnity (P&I) insurance to operate, ensuring they are covered against third party liability claims; 90% of global P&I cover is provided by International Group (IG) clubs which operate as mutuals that pool

¹⁶ [The Russian economy and world trade in energy: Dependence of Russia larger than dependence on Russia – 15/4/22](#)

¹⁷ [Oil Market and Russian Supply – Russian supplies to global energy markets – Analysis - IEA](#)

¹⁸ International Union Marine insurers (IUMI) stats 2021 <https://iumi.com/statistics/public-statistics#>, Tysers, the P&I report Special Olympics, Staff calculations

¹⁹ <https://www.maritimeuk.org/documents/11/the-uks-global-maritime-professional-services.pdf>

the liabilities of ship owners and are protected by an international reinsurance programme. This is enforced by ports who request club certificates as a condition of entry.

32. Many UK based financial services are also facilitating services. For example, investment firms provide loans to finance the processing and shipment of oil, brokers organise and execute transactions, and exchanges provide a platform for commodities, including oil, to be traded. The same can be said of the provision of wider maritime business services.
33. UK vessels play a modest role in transporting Russian oil and oil products to third countries. Their inclusion in the measure is to avoid scenarios whereby UK vessels, underpinned by services provided by third countries, could continue to transport Russian oil exports, thereby contributing to the funding of the Russian state's war in Ukraine. The prohibition also covers non-UK vessels in the territorial sea.

Costs

Costs - Cost to UK Maritime Services Trade:

34. 2021 ONS data on trade in services by service type and partner country, indicates the value of services provided to Russia relevant to this measure totalled £924m.²⁰
35. This represents UK exports of the relevant types of services to the entire Russian economy. Services related to the maritime transport of Russian oil will only account for a portion of this figure. As explained in paragraph 5, we do not currently have access to more granular data to determine the exact breakdown. Even after engaging with industry, they were unable to provide these figures. It has not been possible for stakeholders to identify granular premium data to capture lost revenues and/or profit/loss for services facilitating the maritime transportation of Russian oil/oil products due to commercial sensitivities and complexities in calculating this figure.
36. However, in the short term, we expect the loss of business to UK marine reinsurers to be limited (the marine exposures for the seaborne trade in Russian oil are estimated to be small relative to overall marine exposures). Furthermore, UK insurers were already in the process of "de-risking" and withdrawing cover arrangements to shipowners engaged in the Russian oil trade to third countries, following cross-jurisdictional sanctions against Russia causing operational complexities and moral and reputational concerns about facilitating Russian trade that funds its war in Ukraine. Insurers typically align their sanctions posture across jurisdictions to reduce mismatch in their reinsurance protections (i.e., the way in which insurers 'reinsure' or pool risk across jurisdictions) and for ease of operations. The degree of self-sanctioning undertaken by UK businesses serves to further reduce the impact of the UK ban.
37. In the longer term, there could be a risk of market fragmentation relative to the current status quo of highly globalised marine reinsurance markets. For example, this could affect the extent to which limited additional insurance capacity emerges in non-G7-aligned alternative markets/jurisdictions. Stakeholders also raised the long-term consequences of using western incorporated, regulated, and domiciled financial services as an instrument of sanctions policy e.g., perceptions of reliability of western-based insurance products relative to products offered in alternative jurisdictions which do not share the same political objectives (nor sanctions measures) upheld by G7/G7-aligned countries.
38. However, G7/G7-aligned P&I clubs account for 90% of the total third-party liability written globally. It is unlikely non-G7 commercial markets can backfill all, or even a significant proportion of, the cover for the global maritime trade following the withdrawal of G7 providers. It is also unlikely that states could offer similar types of insurance capacity at the scale of that provided by the P&I clubs, at least in the short term. For example, the reinsurance programme drawn upon by P&I clubs provides up to \$3.1bn of coverage for any one loss. To replace this P&I coverage, it is likely a state-backed solution would need to provide similar levels of coverage. The P&I clubs and marine insurers pool risk across

²⁰ UK trade in services: service type by partner country, non-seasonally adjusted - Office for National Statistics

a highly internationalised set of policyholders. A more localised offering would also be less cost-effective at providing similar coverage.

39. Shipowners and ship charterers also value the additional services (e.g., coordination of rescue and salvage operations, operational advice) provided by the P&I clubs, in addition to the P&I insurance. Given the historical standing of the P&I clubs, it is likely that new clubs or state-backed alternatives would find it difficult to offer similar infrastructure in the short-to-medium term. Given the cover offered by the P&I clubs has dominated the market for so long, it is also unlikely that the global marine transportation system would have the same level of confidence in the quality and reliability of newly established alternatives and may be reluctant to use them. These factors serve to limit the longer-term market fragmentation risk in terms of the development of new alternative commercial/state-backed insurance solutions.

Opportunity cost

40. **Option 0:** In Option 0, a significant section of industry would move to comply with G7 jurisdictions prohibitions on provision of services to Russian oil, due to the global and interconnected nature of the industry.
41. **Option 1:** Based on available evidence, we judge that the range of estimates fall between:
- i. **“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 services enabling the maritime transport of Russian oil.
 - ii. **“Central” scenario: [£4.7m]** assuming that the UK’s ban is responsible for 50% of the losses faced by UK business from withdrawing their services – with the other 50% resulting from concurrent ban from the EU and US. This is included to account for the fact that the impact of the UK measure versus the concurrent EU or US measure will vary substantially from UK business to UK business – many of the key firms in affected sectors, particularly the insurance sector, serve a large number of markets, and are likely to align with the legislative framework in their most important commercial market, which may not be the UK.
 - iii. **“High cost” scenario: [£9.4 million]**, this assumes that the UK’s measure is fully responsible for the losses faced by UK service providers from the ban.
42. **Please refer to annex 2 for the full calculations, which are summarised below:**
- As indicated earlier, the ONS data shows that the value of UK exports to Russia of the types of services in scope of the measure was £924m in 2021.²¹ This, however, captures exports of these types of services to the entire Russian economy, not just those supporting the Russian maritime oil trade, which will only be a small subset.
 - We can, however, estimate the value of the seaborne oil trade to the Russian economy, at around 7.5% of Russian GDP (noted above). In the absence of more disaggregated export data, we make a broad assumption that the share of the above UK exports that relates to maritime oil exports, is the same as the sector’s contribution to the Russian GDP.²² That is, we assume that, as the maritime oil trade is estimated to make up 7.5% of Russia’s economy, it also consumes 7.5% of Russia’s imports from the UK. In reality, it is likely that the proportion of services provided to firms involved in Russian maritime oil export will vary significantly across the service groups covered by the ban.
 - Assuming a rate of return (15.3%) on the provision of these services, the opportunity cost to industry is roughly £9.4m annually on an average basis (high cost scenario).²³ We assume 50% of this cost directly results from the UK ban as opposed to the concurrent EU and US ban (for the reasons outlined above) - this gives a figure of £4.7m annually (central scenario).

Familiarisation & training costs

²¹ This is a fair assumption as the over-coverage of firms directly affected will be offset by the limited sight available of firms offering services to

Oil Market and Russian Supply – Russian supplies to global energy markets – Analysis - IEA & The Russian economy and world trade in energy: Dependence of Russia larger than dependence on Russia

²³ ONS Profitability of UK companies’ dataset, using an average of profitability for the services sector across Q1-4 2019.

43. **Option 0:** The ‘do-nothing’ scenario assumes that there would be no costs for business from not going ahead with the measure. Firms would continue their ongoing requirements of their staff to undergo training to ensure compliance to new designations under existing regimes, or new regimes by other nations.
44. **Option 1:** Compliance screening software is available for prices ranging from ≈£1,000/year to upward of £20,000/year and beyond, depending on the required volume of annual checks.²⁴ The number of checks required by a business varies with the number of customers that a business has. Most software is used to screen for anti-money laundering, adverse press, and anti-bribery (among others), as well as for sanctions compliance. Furthermore, most software will screen for compliance to UN, US, and EU sanctions (among others), at the same time as for UK sanctions. Subscriptions are paid for on a per-user basis. Given this cost structure, once a certain grade screening software is purchased, the software cost does not vary with the number of sanctions measures in the UK’s regime.
45. Therefore, while there may be significant fixed software costs associated with sanctions compliance, businesses are likely to have already incurred these to comply with existing global sanctions regimes. The level of preparation will vary across sectors but in general larger companies engaged in cross border trade such as insurers, shippers, and brokers, are likely to have these systems already in place. For example, with respect to the maritime insurance sector, stakeholders report that compliance costs (including familiarisation and training) are already something insurers must bear. These compliance functions have been built up by previous experience of applying sanctions on the trade of Iranian oil. The addition of extra sanctions into existing screening protocols is not directly correlative to costs.
46. Similarly to the insurance sector, investment banks and exchanges have had to familiarise and comply with previous sanctions and therefore do not think the familiarisation and training costs of complying with an oil price cap will be significant. This is because they already have employees who are familiar with how sanctions should be applied; how they impact the business; and systems in place to deal with them. Firms we have spoken to have said that having greater certainty about how Russian oil should be traded would help to reduce legal risk and have also noted that because they are largely self-sanctioning, they expect the costs to be low. **Therefore, the marginal compliance costs from the Regulations are expected to be negligible. The effects on small and micro businesses are examined below.**
47. Firms already require their staff to undergo training to ensure compliance to 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.**

Non-Monetary costs

48. Non-monetised costs include future revenues that firms may have been able to generate through winning business related to, but distinct from, maritime shipping – e.g., land transport of oil, or shipment of other goods. Given the uncertainty around whether this business would materialise in the absence of HMG’s measures and noting the parallel bans in other jurisdictions, these costs cannot be estimated.
49. Any assessment of the long-term impacts on the UK’s competitive position is necessarily subjective and will depend on the extent to which international marine markets become more fragmented. In terms of long-term consequences, some stakeholders drew attention to the adverse impacts on the perceived reliability of western based insurance products if they are instrumentalised by sanction regimes.

²⁴ Based on prices from a representative supplier available online - [Compliance Screening: Risk management solution prices from AEB](#)

Benefits

Cost to Russian Oil Exports

50. We expect Option 1 to significantly degrade Russia's ability to fund its war in Ukraine by impeding its ability to export oil by ship, thereby limiting its access to revenues generated by oil exports, a significant contributor to the Russian government's budget.
51. It is very difficult to estimate, if there is a significant withdrawal of services, how easily or quickly shipping companies that wish to continue exporting Russian oil would be able to source alternatives to continue transporting Russian oil.
52. The OECD estimates the following costs to Russia in oil exports in the case of an outright UK oil import ban, alongside G7 allies, rather than the services ban outlined in Option 1.²⁵
 - i. In the short- and medium-term, the costs to Russia would be high. In the short-term, if Chinese purchases of Russian oil do not increase beyond current levels, Russia would annually lose export revenues of USD 67 billion (over half of total oil revenue and 19% of total Russian exports pre-embargo).
 - ii. In the medium term, even if China increases purchases, Russia would lose \$51 billion in export revenue (42% of total oil revenue and 15% of total Russian exports pre-embargo).
53. This analysis provides the best available benchmark for the impact of Option 1. It is not an equivalent scenario; however, the figures help contextualise the scale and importance of oil exports to the Russian economy and how much impact UK and allies' measures related to Russian maritime oil trade could have on Russia's ability to fund its war. Option 1 would make it more difficult for Russia to export its oil by sea and thus constrain the Russian war machine.
54. Given the relative size and importance of UK services in the global maritime oil market, we expect that the impact of these prohibitions would have an amplified impact on Russian oil trade and services that are indirectly linked to Russian oil. This ban will have a material negative impact on Russian revenues used to support its war on Ukraine, running into the billions of dollars.
55. However, the overall impact on Russia derives 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 subset of UK action).

Clarity for industry

56. **As noted above, due to the global nature of oil trade, misalignment in sanctions across jurisdictions is difficult for many maritime service providers.** For example, UK-EU alignment is important to insurers, given the interconnected nature of the market. The EU ban on ancillary services pertaining to the marine transport of Russian oil/oil products means EU based reinsurers will, as of 5 December with regard to oil and oil products under the commodity code 2709 and as of 5 February 2023 with regard to oil and oil products under commodity code 2710, not be able to pay reinsurance claims in connection to Russian interests as this will be sanctioned. UK-based insurers, who commonly use EU reinsurance, would be significantly exposed as they would have to manage the gross (rather than net) losses.
57. UK insurers are already in the process of "de-risking" and withdrawing cover arrangements to shipowners engaged in the Russian oil trade to third countries, following cross-jurisdictional

²⁵ *Who would bear the burden of embargoes on imports of Russian Oil? An OECD simulation – July 2022*

sanctions against Russia causing operational complexities and moral and reputational concerns about facilitating Russian trade which fund its war in Ukraine. Option 1 gives service providers and their customers greater certainty, including through invoking relevant force majeure clauses in contracts – potentially providing benefits to UK firms relative to the UK not enacting the ban.

Assumptions

58. As noted above, the ONS data provides the value of the types of services exported to Russia covered by the ban (£924m). This however captures exports of these types of services to the entire Russian economy, not just those supporting the Russian maritime oil trade, which will only be a small subset. The ONS data does not provide more detailed information regarding the proportion of this trade that relates to Russian oil exported by sea. In the absence of a more detailed breakdown being available, we have made two assumptions in calculating the opportunity cost.
59. First, we make a broad assumption to proxy for the share of the UK exports that relate to the maritime oil trade, by assuming it is the same as the oil trade's contribution to the Russian economy at large (~7.5%).²⁶ That is, we assume that – because the maritime oil trade represents 7.5% of Russian GDP – that it also consumes 7.5% of Russian imports from the UK. This is a broad proxy in the absence of a more disaggregated estimate.
60. Second, to account for the fact that the cost to business is considered in terms of the impact on profits, we have assumed a rate of return (15.3%) on the provision of these services in line with ONS data on the profitability of UK services firms.^{27 28} For the central scenario, we have assumed that 50% of the impact of lost revenues results from the UK's actions, as opposed to the concurrent bans that the EU and US are putting in place. This is included to account for the fact that the impact of the UK measure versus the concurrent EU or US measure will vary substantially from UK business to UK business – many of the key firms in affected sectors, particularly the insurance sector, serve a large number of markets, and are likely to align with the legislative framework in their most important commercial market, which may not be the UK.

Risks

61. **Due to the expansive nature of the package of sanctions being developed, there remain inherent risks given the potential for indirect and unintended consequences.** For the measures covered by this IA, we identify the following as the main risks:
62. **If allies proceed with equivalent measures but the UK does not, this could create significant reputational damage for HMG,** having announced it would collaborate with the EU and US at the G7 statement on 2nd September. Additionally, continuing to operate in the market following allies' bans risks damaging the UK's maritime services' reputation and potentially breaching allies' sanctions regimes, resulting in enforcement action by allied agencies.
63. **The ban will reduce the UK's P&I market share. Additionally, there is a risk that actors wishing to circumvent the ban will make use of 'shadow' services, such as state backed alternatives, to enable the maritime transport of Russian oil.** This in turn risks fragmenting the maritime service industry, making potential further related measures less effective.
64. IMO rules require vessels to hold a P&I (third-party liability) certificate of coverage to enter the waters of most countries and for access to most ports. **It is uncertain whether the ban will encourage oil**

²⁶ [Oil Market and Russian Supply – Russian supplies to global energy markets – Analysis - IEA & The Russian economy and world trade in energy: Dependence of Russia larger than dependence on Russia](#)

²⁷ This assumption is drawn from the ONS Profitability of UK companies dataset, using an average of profitability for the services sector across Q1-4 2019.

<https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/bulletins/profitabilityofukcompanies/octobertodecember2019#private-non-financial-corporations-net-rate-of-return>

²⁸ [ONS Profitability of UK companies dataset](#), using an average of profitability for the services sector across Q1-4 2019.

transportation illegally without insurance or with new and untested insurance policies (which given the scale of capital involved could lead to underinsurance in which the sum insured does not cover the full liabilities). This will limit the impact of Option 1 on Russian oil exports if similar quantities of oil are being transported without P&I insurance but could heighten uninsured oil spill risks.

65. **The UK is working with the G7 on mechanisms to enhance the effectiveness of sanctions measures and mitigate risks.** For example, the UK confirmed its joint commitment with the G7 on 2nd September to finalise and implement a price cap mechanism. This would serve as an exception to the maritime services ban whereby the purchase of Russian seaborne oil and petroleum products would only be allowed if they were purchased at or below a price (“the price cap”) determined by the broad coalition of countries adhering to and implementing the price cap. The price cap is specifically designed to constrain the Russian war machine whilst limiting the impact of Russia’s war on global energy prices, particularly for low and middle-income countries, by only permitting service providers to continue to do business related to Russian seaborne oil and petroleum products sold at or below the cap. The price cap measure would thus build on the preferred Option 1 ban of ancillary services, ensuring coherence through a strong global framework. It is likely to significantly reduce the costs on business associated with the measure, as UK firms will be able to continue offering services related to Russian oil transported under the cap.

Impact on small and micro businesses (SMBs)

66. **The recommended policy option will apply to small and large businesses in the same way,** as they will all have to comply with these regulations. The ban primarily impacts service providers involved in the global maritime oil trade, exporting their services to overseas markets. The small and micro businesses that are doing business in this market do so already with significant levels of risk related to sanctions compliance and familiarisation and are likely to have structured their business flexibly to accommodate new sanctions measures.
67. In the maritime insurance sector, the market presence of SMBs is limited by the degree of specialism and level of capitalisation typically required to operate. For example, stakeholders report that the smallest insurer in the Lloyd’s marketplace holds c. £100m in capitalisation. As of February 2021, the smallest UK P&I Club collected c. £119m in annual premiums. The 13 major international P&I Clubs insure about 90% of world merchant tonnage for third party liability risk.²⁹ Cargo and Hull and Machinery cover are also written from the UK, largely through large brokers and insurers who are participating in the Lloyds marketplace. The compliance burden may be greater for smaller firms (relative to premium intake and capital reserves), but all the marine insurers would have benefited from their previous experience of applying the sanctions on the trade of Iranian oil.
68. The majority of firms that provide trade finance are large wholesale companies and there are no SMB exchanges that offer oil contracts. However, financial services firms vary in size, and it is possible that some smaller trade financing firms may be impacted by this measure. As smaller firms have also had to comply with previous sanctions, we expect these entities to have experience and systems in place to comply with sanctions.
69. **The regulations do not include any exemptions for small and micro-businesses (‘SMBs’).** We do not believe it would be appropriate to exempt small and micro businesses from this framework as this would create confusion (thereby undermining the policy objective), lead to inconsistent application of the law, and allow some UK businesses to continue to alleviate the burden of the Kremlin’s war on Ukraine through oil trade – undermining the measure’s effectiveness and stated aims.
70. All UK sanctions, including these Regulations, are accompanied by guidance, aimed at reducing the familiarisation costs to SMBs.

²⁹ <https://www.maritimelondon.com/service/insurance>

Wider & Trade impacts

71. The impacts of these sanctions should be considered within the context of the UK's services sectors' global strength, with overall exports of £206 billion for 2021 across the sectors considered in scope of this IA.³⁰ As such, Russia represents a small segment of the market for the UK services sectors affected by this measure. It should, though, be noted that specific sub-sectors or businesses with a high exposure to the Russian market may be disproportionately affected.
72. 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 overcompliance. This could influence the UK's reputation as a global centre for finance and insurance. 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 undertake business, which in turn helps to create an attractive environment to support longer term growth. Businesses' reputational risk will be reduced by no longer supporting a key element of Russian state revenue flows that enable the continuation of atrocities in Ukraine.
73. **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. The G7's proposed oil price cap aims to build on these opportunities by stabilising global oil prices, protecting energy security in LMICs as well as the UK, as well as potentially constraining energy driven inflation. If implemented, it is likely that there will be longer term economic benefits to insulating the global oil market from shocks related to Russian political actions.
74. **The UK has already legislated for a forthcoming ban on Russian oil imports which was due to come into force on 31 December 2022. This SI brings forward the implementation date of the import ban to 5 December to align with our allies, so further sanctions will not directly impact the UK's expected oil trade. However, UK consumers are exposed to changes in global oil markets.** Crude oil prices are affected by complex interconnected global oil supply and demand changes. The prices of refined oil products (e.g., petrol and diesel) are determined by related, but ultimately separate, regional product markets. It is these markets that determine the price at the pump for UK consumers.
75. **Maritime services sanctions will almost certainly impact the trade of oil products more severely than the trade of crude oil.** Russia's seaborne crude exports are more likely to be displaced from UK/EU/US to third countries. The UK/EU/US have legislated to introduce bans on the import of Russian crude and oil products. These import bans will substantially reduce the size of the global market for Russian oil and product exports. The new import market for Russia's crude oil has largely made itself apparent since the self-sanctioning of many European countries began. This is particularly apparent at the discounted prices for sales that Russian crude grades (namely Urals and Sokol) are able to achieve compared to alternative crude oil grades. Assuming no major additional market shocks, we consider that countries outside UK/EU/US that have demonstrated willingness to maximise their volumes of Russian crude imports would likely continue to do so despite sanctions constraints.
76. However, there are many moving parts in estimating future Russian exports and the impact to global markets. Russian exports of energy products have varied since the beginning of the war, as have

³⁰ ONS: UK trade in services: service type by partner country, non-seasonally adjusted. This figure includes all sectors in groups 6, 7 and 10; and sector 3.1.

global prices – which impacts overall revenues. The ease with which Russia may overcome hurdles to their oil exports is to a large extent determined by the prevailing price of oil and oil products, with higher prices affording them a greater degree of flexibility in offering discounts or absorbing transport costs.

77. On the other hand, the main buyers of displaced Russian crude oil (China and India) are highly unlikely to become significant importers of Russian refined oil products as both countries are net product exporters. Russia will likely need to source importers from further afield, adding to constraints on product shipping. Oil product ships that Russia will likely be able to access following the bans are far fewer in number compared to crude ships, significantly smaller in ship size and all mainly trade short-haul. It is unlikely this fleet would be able to grow effectively to meet export markets that will be considerably further afield.
78. **Costs of crude and processing have increased in 2022 at a time when demand for finished fuels is strong and spare global crude refining capacity low – leading to tight and expensive markets.** Broader international sanctions could both materially increase the price of crude and of oil transport and put even greater strain on refining capacity – creating significant upward pressures on European product markets (and therefore UK and European consumer prices). The impacts of partner countries' sanctions are not within the scope of this IA, however.
79. **There is potential for circumvention of the maritime services ban which would undermine the effectiveness of the measure.** Although the UK and EU currently provide the majority of insurance and shipping services to Russia, it is likely Russia will be able to continue exporting a proportion of their oil via a 'shadow fleet' of tankers using services provided by non G7 countries and via ship-to-ship transfers. As in any sanctions regime, monitoring for compliance and enforcing non-compliance will play an integral role in ensuring the integrity of the sanctions to achieve policy goals. By introducing the measure alongside the US and EU there will be opportunities for information sharing to strengthen enforcement across our jurisdictions.
80. **There are also indirect retaliatory risks associated with the introduction of sanctions measures against Russia.** Whilst the risks of tit-for-tat measures over maritime oil trade 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.
81. **There are likely to be some limited resource costs for entities involved in ensuring compliance with these measures. These costs are expected to be negligible when compared to the costs firms already face in complying with existing sanctions measures.**
82. Similar to ensuring compliance with existing sanctions regimes, shipping companies will require resource to ensure compliance with the ban on Russian oil and associated services of Russian oil, for example, by carrying out due diligence. Shipping companies may incur familiarisation costs associated with reviewing and understanding the new measures imposed on the provision of services associated with the maritime transportation of Russian oil. Familiarisation costs associated with introducing these new measures should be minimal as they have been widely reported in the media and HMG has been communicating potential sanctions with the shipping industry representatives at stakeholder engagement meetings.
83. With respect to insurers, due diligence processes are already largely built into firms' business models. To mitigate the risk of increased costs linked to burdensome due diligence processes associated with checking the origin of oil shipments, we have engaged industry to ensure the measure fits their existing business model to minimise the administrative burden as far as possible. For example, insurers can apply existing due diligence processes to comply with the measure (such as relying on existing sanctions clauses in contracts which ensures the counterparty must act in accordance with relevant sanctions regimes or risk voiding their cover).

84. Investment firms and exchanges already have systems in place to monitor transactions proactively and most firms have been self-sanctioning in the absence of official sanctions. Firms have told us that they think current systems could largely be used to implement the oil price cap, subject to final technical details about how the cap will work.
85. As a result of the mitigations set out above, we expect compliance and familiarisation costs (e.g., the costs of compliance screening software set out in paragraph 45) to be negligible in comparison to the overall costs set out in the IA.
86. There will be some increased resource requirements for UK public agencies to proactively monitor transactions and vessels carrying oil for potential circumvention of these measures, including vessels in the UK EEZ and UK-bound vessels.

Monitoring and Evaluation

87. The Economic Crime (Transparency and Enforcement) Act 2022 has amended the Sanctions and Anti-Money Laundering Act 2018 and removed section 30 of that Act requiring review of the measures on an annual basis.
88. 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 overall sanctions package will draw on the Office of Financial Sanctions Implementation (OFSI)'s reporting on the number of applications for licences.
89. 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. HMG also has regular engagement with UK businesses in the affected sectors for this set of measures. This will provide another channel through which information on the impact of the sanctions on UK businesses is fed back to HM Government.
90. 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. HM Government will continue to coordinate with international partners, including on the future of the regime.

Annex 1 – Selected ONS Data – UK Trade in Services by service type and partner country 2021.
Non-Seasonally Adjusted, Current Prices (£ millions)

Russia	3.1: Sea transportation	6: Insurance and Pension	7: Financial	10: Other Business Services	Total
Exports	11	123	314	476	924
Imports	37	36	116	399	588
					1512

Annex 2 – Calculation of quantitative estimates of annualised costs to business. Current prices (£ millions)

Step	Calculation	Explanation & assumptions	Sources used
<p>Step 1: estimation of value of UK service exports to Russia in the affected UK sectors</p>	<p>i) £11m + £123m + £314m + £476m = £924m</p>	<p>All UK service groups affected by the ban are included within the identified ONS groups: Sea transportation, Insurance and Pensions, Financial, Other Business Services.</p>	<p><u>ONS: UK trade in services: service type by partner country, non-seasonally adjusted.</u></p>
<p>Step 2a: estimation of the value of the maritime oil trade to the Russian economy at large</p>	<p>ii) 10% * (5.6/7.4) = 7.5%</p>	<p>The IEA estimate that Russia exported 4.7mb/d of crude oil and 2.7mb/d of oil products in 2021 – <u>7.4mb/d in total</u>. BEIS calculations indicate around 60% of Russian crude and 100% of Russian oil products are exported via sea. Applying this to the IEA data indicates around <u>5.6mb/d of Russian oil is exported via sea</u>, three quarters of the total (7.4mb/d). Total Russian oil exports had an estimated worth of \$240bn, <u>or 10% of GDP</u>. As seaborne oil accounts for three quarters of the volume of Russian oil exports, we assume it also accounts for three quarters of the value of Russian oil exports. This then suggests seaborne oil exports account for <u>7.5% of Russian GDP</u>.</p>	<p>International Energy Agency (IEA)</p> <p>BEIS calculations of 2021 seaborne oil exports as % of total oil exports, based on historical Russian Energy Agency data (not currently publicly available)</p> <p>Austrian Central Bank (OENB): <u>The Russian economy and world trade in energy: Dependence of Russia larger than dependence on Russia.</u></p>
<p>Step 2b: estimation of the value of UK services exports to Russia in the affected UK sectors, that in turn support the maritime trade of Russian oil.</p>	<p>£924m * 7.5% = £69.3m</p>	<p>We do not know what share of UK services exports in scope of the measure (step 1) relate to seaborne Russian oil (which will be banned) versus unrelated parts of the Russian economy (which are unaffected by this measure). As a broad proxy, we assume that UK services exports go to the different sectors of the Russian economy proportionate to their share of Russian GDP. That is, we assume that as the maritime oil trade makes up 7.5% of Russia's economy, it also consumes 7.5% of Russia's imports from the UK. Therefore, exports in scope are in line with the proportion of the seaborne oil trade to the Russian economy as a</p>	<p>Step 1 and 2a</p>

		whole (step 2a). This suggests around 7.5% = £69.3m of these exports could be affected.	
Step 3: estimation of the rates of return affected by the measure	iii) £69.3m * 0.153 = £10.6m	We assume the rate of return of UK firms affected by the ban is in line with overall services sector profitability.	<u>ONS Profitability of UK companies dataset</u> , using an average of profitability for the services sector across Q1-4 2019.
Step 4: estimation of the disaggregated impact of the UK measure on service firms rate of return	iii) £10.6m * 0.5 = £5.3m Averaged out across 9 years, and adjusted for a discount rate of 3.5%, the final annualised figure is £4.7m	For the central scenario, we assume the impact of the UK ban represents 50% of the overall impact of G7 service firms on UK firms – to account for the fact that the impact of the UK measure versus the concurrent EU or US measures will vary substantially from UK business to UK business – many of the key firms in affected sectors serve a large number of markets, and are likely to align with the legislative framework in their most important commercial market, which may not be the UK.	Assumption based on data limitations