Title: The Russia (Sanctions) (EU Exit) (Amendment) (No.17) Regulations 2022 **IA No:** FCDO2210 **RPC Reference No:** **Lead department or agency:** Foreign, Commonwealth & Development Office **Other departments or agencies:** Department for International Trade**,** Department for Business, Energy & Industrial Strategy**,** HM Treasury, Department for Digital, Culture, Media & Sport	**Impact Assessment (IA)** **Date:** 14/12/2022 **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Primary legislation **Contact for enquiries:** Sanctions@fcdo.gov.uk
Summary: Intervention and Options	**RPC Opinion:** Awaiting scrutiny

Cost of Preferred (or more likely) Option (in 2019 prices)			
Total Net Present Social Value	**Business Net Present Value**	**Net cost to business per year**	**Business Impact Target Status** Qualifying provision
-£200m	-£200m	£25.4m	£127m

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

HM Government (HMG) is continuing to develop the package of sanctions imposed on Russia. By bringing these measures and designations into force, HMG hopes to deter further Russian aggression in Ukraine and encourage Russia to the negotiating table.

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

To deliver HMG objectives, we are implementing a new and intensified set of measures to further influence Putin's regime and signal our continued condemnation of Russian military aggression against Ukraine.

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

The policy objectives are:

- to pressure the Russian Government to change its policy towards Ukraine by targeting its strategic and economic interests.
- to constrain the Russian military-industrial complex, in terms of its ability to maintain the occupation of Ukraine, by influencing decision makers and elites; and,
- to signal to Russia and the wider international community that the UK considers Russia's actions in Ukraine as unacceptable.

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

The measures in this Statutory Instrument will remain in place until HM Government is satisfied with Russia's change of action and intent towards Ukraine. We have aligned with EU and other G7 partners where possible to maximise the impact of these measures on Russia.

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

Option 0: Do nothing. Rely on existing sanctions to erode the financial power of the Russian Government and to constrain the Russian state's ability to destabilise and invade sovereign nations, therefore encouraging them to change course. Continue to act through diplomatic channels and multilateral fora to signal to the Russian Government that such actions are unacceptable and represent serious breaches of international law. Previous sanctions have not yet dissuaded Putin's regime to halt its military aggression against Ukraine.

Option 1: Implement additional proposed sanctions measures [Preferred option]. Implement a further set of trade measures to increase pressure on the Russian Government and encourage it to change its policy of aggression towards Ukraine. Further measures will also ensure no reversal of actions by UK businesses where they have self-sanctioned or reduced their business with Russia in response to the war or its wider chilling effects on global markets. Additional trade sanctions will:

- **Deepen** the impact on Putin's regime, deny it the resources and revenues to finance its illegal invasion, and signal the UK's continuing condemnation. This is a strategic, targeted package of sanctions that delivers against our Russia objectives.
- Ensure that the UK response is **aligned and coordinated** with a broad coalition of EU and G7 partners, to maximise the impact of sanctions on Russia.
- **Sharpen** the impact of trade sanctions through effective enforcement.

The new measures in the sanctions package support HMG's objectives by prohibiting the export of auditing services, architectural and engineering services, advertising and marketing services and IT consultancy and design services. These measures will further disrupt and degrade the capability of Russian businesses to keep pace in the international market, inflicting serious economic costs on the Russian government and hindering its military-industrial complex, including in technological development.

It includes prohibitions on provision of services related to trusts or similar arrangements ("trust services") to persons designated for the purpose of the measure or persons connected with Russia. This intends to prevent avoidance or evasion of UK sanctions using trust services.

The measures also propose suspending the recognition of certain Russian resolution action by disapplying the requirement on the Bank of England to respond to recognition requests in respect of third-country resolution action where the resolved institution is either (i) a designated person for the purposes of the asset freeze under the Russia Regulations or (ii) owned or controlled directly or indirectly (within the meaning of regulation 7 of those regulations) by such a designated person.

The measures also include amendments that will close loopholes identified in the Russia (Sanctions) (EU Exit) Regulations 2019, in regulations 16 (restrictions on dealing with transferable securities and money market instruments), 17 (restrictions on making loans and credit arrangements to persons connected with Russia) and 18B (restrictions on investments in relation to Russia). These amendments will ensure that the overall policy intent of preventing new investments in Russia, as framed in regulation 18B, is met.

Finally, the measures include prohibiting the export, supply, delivery making available and transfer of additional categories of goods to, or for use in, Russia. The additional goods are electronic and production equipment for a range of purposes and specialised or advanced materials. Expanding the list of goods captured in this prohibition will further restrict Russian access to strategic goods identified as critical to their military and economic ambitions.

1. **Will the policy be reviewed?** It will be reviewed. **If applicable, set review date:** Policy constantly under review.

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

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

Signed by the responsible Minister: Anne-Marie Trevelyan MP Date: 14/12/2022

Summary: Analysis & Evidence

Policy Option 1

Description: Sanctions against Russia prohibiting the export of certain strategic services

FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low:	**High:**	**Best Estimate:**
2019	2020	9	-£162.0m	-£208.3m	-£200.0m

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	£0.003m	1	£20.5m	£162.0m
High	£0.003m		£26.6m	£208.3m
Best Estimate	£0.003m		£25.5m	£200.0m

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

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

Approximately £210 million worth of UK services exports and £1.8 million worth of UK goods exports to Russia in 2021 that were not previously wholly or partially sanctioned are now covered by sanctions in this set of regulations. This imposes an opportunity cost of revenues that would otherwise be generated and additional implementation costs for UK businesses.

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

(i) *Impact of service sanctions on Mode 3 Trade*

The services sanctions cover exports to Russia provided through all modes of supply, including Mode 3; services provided within a country by a locally established affiliate, subsidiary, or representative office of a foreign-owned and controlled company (bank, hotel group, construction company, etc.). UK-owned foreign affiliates captured within the scope of these sanctions are unable to legally operate within Russia. Administrative costs to UK firms from divestment or closure of entities operating in Russia and reduced overseas income from these firms are not captured. This is due to data on income from foreign affiliates being excluded from ONS Trade in services export estimates and limited data on the number of UK owned foreign affiliates within these sectors operating in Russia.

(ii) Impact of measures relating to auditing services:

Impacts relating to auditing services sanctions and measures to close loopholes have not been considered within this IA, as for reasons related to the way services exports are reported, these impacts were reported in IA ref no. FCDO2207.

(iii) Impact of measures relating to trust services:

The key cost to UK business arising from measures related to trust services will derive from lost income from providing trust services to individuals connected with Russia (including persons ordinarily residing in Russia). However, given declining economic ties between the UK and Russia it is unlikely the impact will be substantial. Furthermore, existing arrangements with persons connected with Russia continue to be permitted meaning where persons are already in receipt of trust services they will not be required to winddown that arrangement. The opportunity cost of future profits for those affected by the trust services sanctions have not been monetised due to limited data. The export sanctions may also have impacts on their wider UK supply chain which have not been accounted for.

(iv) Impact of measures relating to recognition:

Recognition of third-country resolution action by definition applies to non-UK firms. As a result, the impact to UK firms and the financial sector overall is deemed to be minimal. The measure will apply to the Bank of England only. Given its role as the UK resolution authority and therefore its familiarity with this area of regulation, the anticipated familiarisation and compliance costs will be marginal.

(v) Impact of measures relating to amendments to regulations 16, 17 and 18B:

The amendments to regulations 16, 17 and 18B are designed to close off loopholes in these regulations to ensure that the overall policy objective of prohibiting new investments in Russia is being met. As these are amendments are incremental and are designed to make that measure more robust, we have not been able to conduct an assessment of the specific impact of these changes.

(vi) Administrative and enforcement impacts:
The cost to HM Government of processing licence applications and enforcing these under the updated regulatory framework. These have not been monetised due to limited data.

(vii) Regulatory impacts:
The cost to UK firms to comply with the proposed measures and enforcement and implementation costs incurred by HMG were not included for measures relating to services trade, trusts or recognition due to data constraints.

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

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

This analysis has not monetised any benefits to UK business as a result of the measures. We do not expect UK businesses to directly benefit from the export measures, as in most cases it restricts their abilities to trade services to Russia.

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

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

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

In terms of implementation and enforcement, the recognition measure will have material benefits for the Bank of England as it will need to dedicate fewer resources and less time to processing any request which pertains to a designated person (or to a person who is owned or controlled directly or indirectly by such a person) under the Russia Regulations. The benefits to the Bank should therefore outweigh the costs.

Key assumptions/sensitivities/risks	**Discount**	3.5%

Assumptions

- For the central scenario, we have applied the IMF's World Economic Outlook (WEO) October 2022 estimates of the growth rate of Russian goods and service export demand for UK's goods and services exports to Russia.
- The low scenario is based on applying low growth projections for Russia's goods and services import demand to the value of UK's exports to, and imports from, Russia.
- The high scenario is based on applying high projections for Russia's goods and services import demand to the value of UK's exports to Russia.
- A baseline of 2021 trade values was used.
- We have assumed that the sanctions remain in force for the entire appraisal period captured within this assessment (2023-2031).

Risks

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

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**Score for Business Impact Target (qualifying provisions only) £m:**
Costs:	**Benefits:**	**Net:**	
£25.4m	£0m	£25.4m	£127m

1. Evidence Base Rationale

1.1 Policy background

1) Following the invasion of Ukraine in February 2022, Russia has continued to use military force in Ukraine. Since recognising the 'Donetsk People's Republic' and 'Luhansk People's Republic' as independent states earlier this year, on 30 September Putin announced the illegal annexation of the Ukrainian regions of Donetsk, Luhansk, Kherson and Zaporizhzhia following sham referendums. The UK has called on Russia to cease its military activity, withdraw its forces from Ukraine and Crimea and fulfil its international commitments including under the 1975 Helsinki Act, the Minsk Protocols and 1994 Budapest memorandum.

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

3) Change is therefore being sought through diplomatic pressure, and other measures, supported by implementing sanctions in respect of actions undermining the territorial integrity, sovereignty and independence of Ukraine. Sanctions are an important national security and foreign policy tool.

4) Previous trade sanctions include wide ranging prohibitions on the export of goods and services and wider strategic objectives, including defence and security goods and technology, goods used for Russia's energy sector, and business and management consulting, public relations, and accounting services. Sanctions also include import prohibitions on iron and steel products, certain gold products, oil, coal, and key revenue creating goods that originate or are consigned from Russia. These sanctions are part of a broader policy of measures which includes diplomatic pressure; other trade sanctions; economic and financial sanctions and designations.

5) As part of Russia (Sanctions) (EU Exit) (Amendment No. 14) Regulations 2022, the UK introduced sanctions on the export of accounting services, business and management consulting services and public relations services. Combined, these service sectors comprised of up to 3.2% of all service exports to Russia in 2021, which equated to up to £55million.[1]

6) The Russia (Sanctions) (EU Exit) (Amendment No. 16) Regulations 2022 imposed prohibitions on providing services, including brokering services and financial assistance, related to the maritime transportation of certain Russian oil and oil products. Additionally, this change prohibited vessels from transporting Russian oil.

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

1.2 Problem under consideration and rationale for intervention

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

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

[1] ONS UK trade in services: service type by partner country, non-seasonally adjusted. Please note estimates include audit services which were not in the scope of Russia (Sanctions) (EU Exit) (Amendment No. 14) Regulations 2022.

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

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

1.3 Policy objectives

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

12) HM Government's objectives of the Russia (Sanctions) (EU Exit) (Amendment No. 17) Regulations 2022 are to:

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

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

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

13) These measures are designed and intended to constrain the destabilising behaviour of the Russian government and are not designed to have a detrimental impact on the Russian population. We aim to limit the direct impact on the people of Russia, the UK and its partners, and on food security. We seek to align closely with partners to achieve maximum impact on the Russian government, and associated individuals and entities.

1.4 Description of options under consideration

1.4.1 Option 0: Do nothing counterfactual

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

15) Not implementing any further sanctions will also go against UK objectives to maximise pressure on the Russian government by aligning our package with those of a broad coalition of partners in order to maximise the impact of sanctions taken and, by allowing differences in sanctions actions taken by countries to arise will create opportunities for circumvention and avoidance of sanctions.

1.4.2 Option 1: Implement sanction measures [Preferred option]

16) These sanctions would introduce the following measures:

   a. Prohibitions on the provision of auditing services, architectural and engineering services, advertising and marketing services and IT consultancy and design services to persons connected to Russia. These services are targeted because they are key areas of Russian dependence, they are particularly used by Russian oligarchs, and they help to generate revenue for Russia. As such these measures will further disrupt and degrade the capability of Russian businesses to keep pace in the international market, inflicting serious economic costs on the Russian government and hindering its military-industrial complex, including in technological development.

In particular, the architectural and engineering services measures will severely debilitate the future growth of key Russian industries that are enabling the war.

b. Expanding prohibitions on the export, supply, delivery making available and transfer of goods to, or for use in, Russia to include electronic and production equipment for a range of purposes and specialised or advanced materials. Expanding the list of goods captured in this prohibition will further restrict Russian access to strategic goods identified as critical to their military and economic ambitions. This is also with the aim to ensure alignment with EU partners with respect to these goods.

c. Prohibitions on the provision of trust services to or for the benefit of persons designated for the purposes of this measure, and provision of new trust services to or for the benefit of persons connected with Russia. This will further constrain access to UK financial services for designated persons and persons connected with Russia. While some UK persons may voluntarily choose not to provide trust services to persons connected with Russia or designated persons, provision of trust services might otherwise continue in the absence of sanctions measures to prevent this. Enforcement agencies, including via a recently published red alert[2], suggest there is evidence of UK-based trust service providers offering their services to persons to enable avoidance of sanctions prior to designation. Once these regulations are introduced, UK trust services would not be able to be provided to persons subject to the Russia regulations for the purposes of this measure in respect of assets in any jurisdiction.

d. Disapplying the requirement on the Bank of England to respond to recognition requests in respect of third-country resolution action where the resolved institution is either (i) a designated person for the purposes of the asset freeze under the Russia Regulations or (ii) owned or controlled directly or indirectly (within the meaning of regulation 7 of those regulations) by such a designated person. This will have the effect of suspending the recognition of certain Russian resolution action. While existing asset freezes in the Russian sanctions package prohibit UK persons from providing funds or economic resources to or for the benefit of a designated person, some regulatory action by certain UK authorities, namely the Bank of England, is currently not within scope. This measure will address this by targeting the 'recognition' of resolution action taken by foreign authorities in respect of designated persons (or those owned or controlled directly or indirectly by them). Resolution is the process by which the failure of financial institutions is managed. Recognition of resolution action can be sought so that the action takes effect under UK law. This can confer economic benefit in respect of the resolved firm in case of challenge, for instance by creditors to a bailed-in loan. By enacting sanctions in this space and suspending recognition, resolved Russian entities will not be able to economically benefit from having their resolution recognised under UK law.

e. The measures also include amendments that will close loopholes identified in the Russia (Sanctions) (EU Exit) Regulations 2019, in regulations 16 (restrictions on dealing with transferable securities and money market instruments), 17 (restrictions on making loans and credit arrangements to persons connected with Russia) and 18B (restrictions on investments in relation to Russia. Under regulation 18B the UK imposed a ban on new investments in Russia which came into force on July 19th. The amendments to regulations 16, 17 and 18B are designed to close off loopholes in these regulations to ensure that the overall policy objective of prohibiting new investments in Russia is being met. Specifically, we are amending regulation 16 to prohibit purchasing securities issued by persons who are not persons connected with Russia for the purpose of investing in Russia; amending regulation 17 to prevent UK persons from providing funds o economic resources to persons who are not persons connected with Russia for the purpose of granting a prohibited loan, as well as prohibiting UK persons from granting loans to persons who are not persons connected with Russia for the purpose of investing in Russia; and amending regulation 18B to prohibit investments in Russia via persons who are not persons connected with Russia.

17) This package of measures has been designed to have maximum impact on Russia's strategic economic interests and its armed forces, while minimising direct harmful impact on the Russian civilian population. These measures are to be also subject to licensing and exceptions to enable otherwise prohibited activities to continue where they are in line with the objectives of UK sanctions on Russia.

18) Having considered the costs and benefits of all options, HM Government believes that Option 1 is appropriate and will best support UK domestic objectives with regard to Russia's military aggression in Ukraine. Option 1 will deliver against the 'deepening' pillar of HM Government's Russia strategy,

[2] NCA Red ALERT: Financial Sanctions Evasion Typologies: Russian Elites and Enablers, July 2022 https://www.nationalcrimeagency.gov.uk/who-we-are/publications/605-necc-financial-sanctions-evasion-russian-elites-and-enablers

implementing a new and intensified set of trade measures, to influence Putin's regime and signal the UK's continuing condemnation of Russian military aggression against Ukraine.

2. Implementation Plan

2.1 Secondary legislation

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

2.2 Licensing and exceptions

20) The new regulations will provide for certain exceptions to the new prohibitions they introduce. The new regulations will also provide for the relevant Secretary of State (depending upon the type of sanctions) to grant licences that permit certain otherwise prohibited activities. The Export Control Joint Unit (ECJU) administers the UK's system of export controls and licensing in relation to trade sanctions. The Department for International Trade's Import Licensing Branch implements licensing relating to import sanctions. The licensing powers would include a power to enable General Licences to be introduced to authorise specific activities.

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

2.3 Enforcement

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

23) It will be a criminal offence to contravene the new financial sanctions, as well as to enable or facilitate a contravention or circumvention of them. This is in line 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). OFSI is responsible for monitoring and compliance with financial sanctions and for assessing suspected breaches. It also has the power to impose monetary penalties for breaches of financial sanctions and to refer cases to law enforcement agencies for investigation and potential prosecution. OFSI works with other parts of government, supervisory bodies and regulator to consider all cases reported to it, sharing relevant information accordingly.

3. Assessment of costs and benefits

3.1 Background on UK – Russia trade

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

24) The figures below illustrate Russian levels of trade prior to the onset of the current escalation of the conflict in February 2022[3]:

    a. As a destination for global imports, the Russian economy was worth $469.7 billion in 2013. Following subsequent rounds of sanctions, Russia's imports of goods and services from the world declined to less than $300 billion in 2015. They then recovered gradually, reaching $352.9 billion prior to the onset of the Covid-19 pandemic.

    b. As a source of global exports, the Russian economy was worth $592.0 billion in 2013. Following subsequent rounds of sanctions, Russia's exports of goods and services to the world declined to

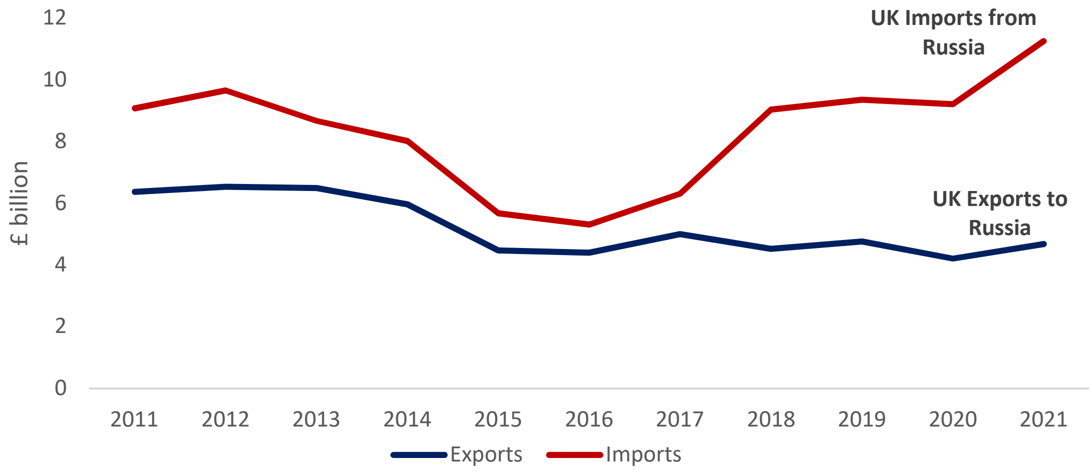
[3] DIT Trade and Investment Factsheets, based on United Nations Conference on Trade and Development (UNCTAD) data sources for trade: Goods and Services (BPM6): Exports and imports of goods and services, annual.

less than $400 billion in 2015 and then increased subsequently, reaching $482.5 billion prior to the onset of the Covid-19 pandemic.

25) UK trade with Russia has been relatively volatile over the last 10 years. UK exports to Russia fell by over 25% between 2014 and 2015, from just under £6.0 billion to £4.5 billion, when previous sanctions were implemented. Prior to the onset of the pandemic, UK exports to Russia had increased slightly to £4.8 billion. Following a drop in 2020, UK exports to Russia amounted to £4.7 billion in the four quarters to the end of Q4 2021, making it the UK's 26th largest export market accounting for 0.7% of total UK exports. Of all UK exports to Russia in the four quarters to the end of Q4 2021, £3.0 billion (63.0%) were goods and £1.7 billion (37.0%) were services.[4]

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

Figure 1: UK Total Trade with Russia, £ Billion



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

26) Since 2014, the UK market share of Russian import demand has fallen by 0.6 percentage points, from 2.3% to 1.8% in 2020. This was driven by a decrease in the UK's share of Russian imports of goods, which fell by 0.7 percentage points.[5] Over the same period, Russia's share of UK imports has increased, albeit marginally: in 2021, Russia accounted for 1.7% of UK imports[6], compared to 1.4% in 2014.

27) It is estimated that around 94,500 UK workers were supported by exports to Russia in 2018, representing 0.3% of total UK employment (or 1.4% of total UK employment supported by exports).[7] Conversely, it is estimated that around 356,400 Russian workers were supported by exports to the United Kingdom in 2018.

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

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

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

28) Following the full-scale Russian invasion of Russia, we have seen substantial reductions in UK-Russia trade. The latest ONS trade in services data at country level by service type is available to Quarter 2 2022, showing a large decline in services exports to Russia compared to the first quarter of 2021,

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

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

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

declining by 58% compared to Quarter 1 2022 from £685m to £290m, based on ONS estimates.[8] Service imports declined by 10% over the same time period from £231 to £208m.[9]

29) ONS estimates state that average monthly UK imports of goods from Russia between March 2022 and September 2022 were £187m, 81% lower than the monthly average over the 12 months to February 2022 (£979m). Similarly, the UK average monthly export of goods to Russia between March 2022 and September 2022 were £67m, 73% lower than the monthly average over the 12 months to February 2022 (£253m).

Table 1: Total monthly average value of UK goods trade with Russia post invasion compared to the average monthly value pre-invasion, £m

Trade flow	Average monthly Mar 2021-Feb 2022 (pre-invasion)	Average monthly Mar 2022-Sept 2022 (post-invasion)	Change
Imports	979	187	-81%
Exports	253	67	-73%

Source: ONS, Trade in goods: country-by-commodity imports, November 2022[10], ONS, Trade in goods: country-by-commodity exports[11], November 2022

30) The economic sanctions already imposed are likely to have driven these falls in trade with Russia, with UK traders self-sanctioning another likely factor. It is not known yet if this trend will continue or how long it would last in the absence of action from HM Government. Hence this assessment focuses on the costs and benefits of the measures in this Statutory Instrument with an indicative assessment of the marginal changes based on 2021 levels of trade.

3.1.3 UK nations and regions trade with Russia

31) The UK exported £1.7bn in services to Russia in 2021[12]. A breakdown of services trade into UK regions and nations is not available by partner country so we cannot assess the geographical distribution of service exports to Russia. ONS experimental data suggests, in 2020, 48% of all UK service exports to the world were from London, and 14% were from the South East of England. Similarly, 50% of UK exports in Professional, scientific and technical activities, which includes audit, architectural services, engineering and advertising and marketing came from London, with the South East of England the second largest region with 19% of exports. 65% of UK exports in Information and Communication services which includes IT consultancy and design, came from London, with the South East of England the second largest region with 17% of exports[13].

32) The UK imported £0.8bn in services from Russia in 2021[14]. As for exports, breakdowns of services trade to Russia disaggregated to UK nations and regions are not available. At the global level, based on ONS experimental data, in 2020 41% of all UK service imports were to London, with the South East of England second with 13% of total imports. 42% of UK imports in Professional, scientific and technical activities, which includes audit, architectural services, engineering and advertising and marketing, were to London, with the East of England the second largest region with 20% of imports. 68% of UK imports

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[8] ONS UK trade in services: service type by partner country, non-seasonally adjusted: https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/datasets/uktradeinservicesservicetypebypartnercountrynonseasonallyadjusted

[9] ONS UK trade in services: service type by partner country, non-seasonally adjusted: https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/datasets/uktradeinservicesservicetypebypartnercountrynonseasonallyadjusted

[10] Office of National Statistics (ONS) https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktradecountrybycommodityimports

[11] Office of National Statistics (ONS)https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktradecountrybycommodityexports

[12] ONS UK trade in services: service type by partner country, non-seasonally adjusted https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/datasets/uktradeinservicesservicetypebypartnercountrynonseasonallyadjusted

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

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

in Information and Communication, which includes IT consultancy and design, went to London with South East England the second largest region with 16% of imports[15].

33) The UK exported around £2.8bn in goods to Russia in 2021.[16] The West Midlands had the greater relative share of the trade with Russia – 19% of all the UK exports to Russia in 2021 came from the region. 9% of the UK businesses trading with Russia in that year were located in the region as well.[17] The South East of England had the greatest share of businesses trading with Russia – 18% of all the UK exporters to the country in 2021 were located in the region.

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

3.1.4 Regional concentration of firms relevant to goods sanctions

35) With respect to the goods measures, overall, in 2021, 138 traders exported goods from the UK to Russia within the codes relevant to sanctions within this SI. This includes exports of codes sanctioned in this package that have previously been wholly or partially sanctioned. Some of these traders may also export other goods wholly or partially sanctioned in previous measures.

36) The North West is the region most impacted in terms of the value of exports to Russia in the sanctioned codes – worth £6.3m, 16% of the total, in 2021.The South East is the region most impacted in terms of the number of traders who exported to Russia in the sanctioned codes in 2021 – with 34 traders making up 25% of the total. Equivalent analysis is not available for other measures in scope.

Table 2: Export Value and Number of Exporters to Russia in 2021 in commodity codes partially or wholly sanctioned, by region[19]

UK Region or Nation	Value (£m)	Share of value (%)	No. of Traders	Share of number of traders (%)
West Midlands	£0.8m	2%	13	9%
South East	£5.0m	13%	34	25%
North West	£6.3m	16%	16	12%
East of England	£1.1m	3%	18	13%
London	*	*	*	*
Scotland	£0.9m	2%	10	7%
North East	*	*	*	*
South West	£0.8m	2%	12	9%
East Midlands	£1.2m	3%	12	9%
Yorkshire & the Humber	£0.8m	2%	5	4%
Wales	*	*	5	4%
Other	*	*	*	*
Northern Ireland	*	*	*	*

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

[16] HMRC overseas trade data for 2021, accessed in April 2022, available on https://www.uktradeinfo.com/trade-data/ots-custom-table/

[17] A trader is here defined as a business or private individual uniquely identified via their VAT number. The regional information for each trader and its export value has been identified generally using its registered head office address.

[18] HMRC overseas trade data for 2021, accessed in April 2022, available on https://www.uktradeinfo.com/trade-data/ots-custom-table/

[19] Source: derived from analysis of HMRC microdata on 2021 trade data. When a small number of traders or high concentration of trade in a few traders is associated with a category, providing the value of the trade in that category could be disclosive. In other words, it would be possible to identify the company using the information on the table. When that is the case an asterisk was used instead of the value of exports.

N/A[20]	*	*	*	*

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

3.1.5 UK trade with Russia by business population relevant to services sanctions

37) Data relating to business population is not available for firms engaging in services trade with Russia, therefore data relating to the overall UK workforce within the sectors relating to the service sanction measures has been used as a proxy, where available. In 2021, 98.7% of architectural and engineering, audit, advertising and marketing, IT consultancy and design firms were small and micro sized businesses, these accounted for 34% of total turnover within these sectors. Small and micro sized businesses accounted for 48% of all employment within architectural and engineering sectors.[21]

Table 3: Small and micro businesses share of number of businesses, employment, and turnover (2021)

Sector (SIC)	Small and microbusiness share of:		
	%Number of businesses	%Employment	%Turnover
Accounting, bookkeeping and auditing activities; tax consultancy (692)	98%	49%	32%
Architectural and engineering activities and related technical consultancy (711)	97.6%	48.0%	36.3%
Advertising and marketing	98.2%	N/A	31.5%
IT, software and computer services	99.2%	N/A	35.1%
All sectors in scope	98.7%	N/A	34%

Source: Business population estimates 2021 Number of businesses in the private sector and their associated employment and turnover (employers only), by number of employees and industry group, UK, start 2021. Number of businesses in DCMS Sectors and sub-sectors by employment band, UK (DCMS sectors). Data for 2021. Sectors shown are broader than those in scope, but best available proxy.

38) In 2020, 13% of exports, by value, in architectural and engineering, audit, advertising, and marketing, IT consultancy and design services came from small and micro sized businesses, employing fewer than 50 employees.[22]

Table 4: Small and micro businesses share of exports (2020)

Sector (SIC)	Small- and microbusiness share of:	
	% Exports	% Exports (excl "unknown firm size" observations)
Legal and accounting activities (69)	4	4
Architectural and engineering activities; technical testing and analysis (71)	10	10
Advertising and market research (73)	12	29
Computer programming, consultancy, and related activities (62)	16	17
All sectors in scope	13	14
All industries	73	73

Source: UK trade in services by business characteristics, 2016-2020. Values for 2020. Sectors shown are broader than those in scope, but best available proxy. Small and micro businesses as defined as having less than 50 employees.

3.1.6 UK trade with Russia by business population relevant to goods sanctions

20 Trader details, including registered address, are not provided for these traders.

21 Business population estimates 2021 (https://www.gov.uk/government/statistics/business-population-estimates-2021). These data refer to the UK business population, which may not be comparable to the UK exporting business population.

22 https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktradeinservicesbybusinesscharacteristics

39) In 2020, around 3,800 UK VAT-registered businesses exported goods to Russia, down from 5,500 in 2014. Almost 67% of goods exports, by value, came from businesses with over 250 employees. These large firms only accounted for 14% of businesses that exported goods to Russia in 2020, suggesting that this fewer number of firms account for the bulk of high value trade.[23]

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

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

42) Although almost 70% of the value of the UK goods exports to Russia in 2020 originated from large (250+ employees) companies, more than half of the companies exporting to Russia were either small (10 to 49 employees – 31% of all companies exporting) or medium (50 to 249 employees – 26% of exporters population). The concentration of the value of the trade around large companies is even larger in the imports trade. 91% of all the value of the goods imports from Russia in 2020 associated with large businesses.

43) For firms captured by the goods sanctions, there were more medium sized businesses (41) who exported to Russia in the sanctioned codes in 2021, than those of other sizes. Medium sized businesses also made up the largest share of the value of UK exports to Russia in the sanctioned codes – worth £11.3 million (28% of the total) in 2021, accounting for 30% of traders.

Table 5: Export value, business size and number of exporters to Russia in 2021 in commodity codes covered in this regulation[24]

Business Size	Value (£m)	Share of value (%)	No. of Traders	Share of number of traders (%)
Large	£8.5m	21%	30	22%
Medium	£11.3m	28%	41	30%
Small	£1.8m	4%	39	28%
Micro	£0.8m	2%	22	16%
Zero[25]	*	*	*	*
Unknown[26]	*	*	*	*

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

3.2 Background to assessment of the costs and benefits of measures

3.2.1 Types of impacts assessed

44) This assessment focuses on the costs and benefits of the regulations in the associated Statutory Instrument, with an indicative assessment of the marginal changes based on 2021 levels of trade. After a background summary of the UK – Russia trade, three types of impacts are assessed:

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

[24] Source: derived from analysis of HMRC microdata on 2021 trade data. Business size groups are based on IDBR employee data and represent the size of the business based on its number of employees: (0='Zero Employees', 1 to 9='Micro', 10 to 49='Small', 50 to 249='Medium', 250+='Large')

[25] Suppressed for confidentiality.

[26] Trader details, including business size, are not provided for these traders.

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

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

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

45) Economic impacts have been quantified for measures relating to architectural services, engineering services, advertising and marketing services, IT consulting and design service and goods relating to electronic and production equipment for a range of purposes and specialised or advanced materials. Impacts relating to auditing services sanctions and measures to close loopholes have not been considered within this IA, as for reasons related to the way services exports are reported, these impacts were reported in IA ref no. FCDO2207.

46) It has not been possible to estimate regulatory impacts for most measures in the regulations, due to limited data on the number of firms in scope of these measures. Quantified regulatory impacts have been produced for only the goods export measures in these regulations.

47) Similarly, there is limited available data to quantify the administrative and enforcement impacts of the measures, therefore these have been discussed in qualitative terms.

3.2.2 Proportionality approach

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

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

3.2.3 Data availability

50) Data from the Office of National Statistics (ONS), the Department for Digital Culture Media and Sport (DCMS) and HM Revenue and Customs (HMRC) has been used to undertake an assessment of the potential economic costs and benefits of the proposed sanctions outlined in the preferred policy option[27].

51) Data on service exports at an aggregate level and architectural and engineering services is taken from the ONS publication, 'UK trade in services: service type by partner country, non-seasonally adjusted'[28], published in October 2022 and refers to 2021 data. Data on measures relating to advertising and marketing and IT consulting and design services is taken from 'DCMS Sectors Economic Estimates 2020: Trade' and refers to 2020 data[29]. Data relating to goods in scope is taken from HMRC data on UK exports to Russia in 2021.[30]

52) The services sanctions cover exports to Russia provided through all modes of supply, including Mode 3; services provided within a country by a locally established affiliate, subsidiary, or representative office of a foreign-owned and controlled company (bank, hotel group, construction company, etc.), however there is limited granular data on Mode 3 income relating to measures within the scope of this impact assessment.

53) Data relating to the provision of trust services is not available. The measure relating to 'recognition' requests will apply to the Bank of England only, data on recognition requests is not available.

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

[28] https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/datasets/uktradeinservicesservicetypebypartnercountrynonseasonallyadjusted

[29] https://www.gov.uk/government/statistics/dcms-sectors-economic-estimates-2020-trade

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

54) Impacts relating to the loopholes identified in the Russia (Sanctions) (EU Exit) Regulations 2019 have not been quantified as they have been quantified as part of the impact assessment for the Russia (Sanctions) (EU Exit) (Amendment) (No. 12) Regulations 2022. Measures relating to audit have also been excluded from these estimates as services trade data does not allow them to be disaggregated from accounting services data. These impacts have already been captured in the Russia (Sanctions) (EU Exit) (Amendment) (No. 14) Regulations 2022 Impact Assessment.

3.2.4 Assessment period

55) The standard period for assessing the economic impact of regulatory measures is 10 years. However, given the unpredictability of the situation which has led to this package of measures being proposed, it is impossible and would be unwise to put a time limit on how long these measures might or should remain in effect. The appraisal period chosen for this assessment is the nine years, to maintain consistency with other sanctions IAs. However due to these sanctions coming into force in December 2022, we have used an appraisal period of 2023 to 2031.

3.2.5 Service and commodity classifications and statistical threshold

56) The operationalisation of measures facing service sectors is based on various definitions, including Central Product Classification (CPC) and Extended Balance of Payments Services (EBOPS) codes. In line with available data on trade in services, 4 digit EBOPS codes have been used to assess the value of services trade disrupted within architectural and engineering services.

57) For measures relating to advertising and marketing and IT consultancy and design, DCMS sector definition subsectors have been used. Some activities captured within these definitions are not in scope of these sanctions, therefore estimated impacts are likely to overstate the volume of exports within areas targeted by these measures.

58) For the measures relating to goods, while the operationalisation of the legislation will not necessarily be on the basis of commodity codes, commodity codes have been used to proxy the value of goods trade that may be disrupted. The true value may differ from these estimates. For the purposes of the analysis, the relevant commodity codes, when possible, to the 8-digit Combined Nomenclature (CN8) level for each product, have been identified. However, due to the specificity of the items under consideration, even these granular commodity codes capture some items that may fall outside the scope of policy. Codes that were in scope for previous Statutory Instruments are assumed to have zero export value. This analysis has been undertaken based on trade figures that follow HS 2017 goods classification nomenclature, as that was the nomenclature in effect in 2021. There may be some limited variation in values under an HS 2022 goods classification nomenclature, which entered into force in January 2022.[31]

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

3.2.6 Methodology for estimating Net Present Social Value for economic impacts

60) For the measures where economic impact is quantified, the following assumptions and methodology were followed to develop a Net Present Social Value:

    a. Given the Covid-19 pandemic has led to considerable disruption in recent global trade we avoid using past growth rates in Russian demand and use instead projections for the 2022-30 growth rate based on the IMF's forecasts.

    b. To estimate how future Russian trade will evolve we apply the IMF's WEO October 2022 percentage estimates (which incorporate the IMF views on the impact of the conflict so far) of export demand projections for Russia. We use the "goods and services" estimates for the services

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

measures and use the disaggregated "goods only" estimates for the goods measures captured in the quantitative analysis. The IMF WEO does not produce a service only estimate.

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

d. The projected growth rates from 2022-2031 act as our central scenario. In order to carry out sensitivity analysis, high and low scenarios were constructed, in line with the approach taken in the Impact Assessment for The Russia (Sanctions) (EU Exit) (Amendment) (No. 11) Regulations 2022 that came into effect on the 15th July 2022. The high scenario is not symmetric to the low scenario. Instead, it is more conservative than a symmetric sensitivity would be (e.g. if we had increased the IMF's estimates for Russian import and export demand by 3.5%). This is based on current expectations of the performance of the Russian economy - which tend to lean towards the downside. For example, the IMF's WEO October 2022 GDP forecasts for Russia indicates an expectation of a sharp economic contraction in 2022; followed by a smaller contraction in 2023; and then a small and broadly flat growth up to 2027.[32]

   i. For both goods and services, we used the following assumptions. The low scenario various estimates of Russian GDP projections from international organisations were used. The highest estimation was the IMF's (expectation of a GDP decrease of 7% in 2022), while the lowest estimation was the Institute of International Finance's (projected 15% drop in Russian GDP in 2022). We took the spread between the two as being 7 percentage points and divided this by 2. We used the value of 3.5% and applied it to the central scenario, to revise the low scenario downwards by 3.5 percentage points.
   ii. For the high scenario we applied a 10% uplift on the central scenario, based on the IMF's forecasts for export and import demand from Russia.

e. We use 2021 UK exports to Russia as a baseline for pre-conflict export activity. Using 2021 trade values for the quantifiable services and goods measures, and the projected central, high and low scenarios growth rates for Russian import demand, a series of trade values were calculated for 2023-2031 and inputted into the RPC Business Impact Target calculator. These trade values have a price base year of 2019, and a present value base year of 2020. 2021 trade data was used as baseline. This approach assumes that UK exports would grow in tandem with the growth in Russian import demand.

   i. 2021 ONS services export data is used for engineering and architectural services in line with an approach of using 2021 trade as a baseline of pre-conflict export activity.
   ii. For advertising and marketing services and IT consulting and design services, DCMS Economic Estimates Trade data is not available for 2021. As such, we use 2020 DCMS data to estimate 2021 exports within these service sectors. We adjust 2020 data for these sectors based on total service exports with Russia in 2021, relative to the total service exports with Russia in 2020.
   iii. The analysis of the goods measures focusses on the commodity codes identified as aligning with the goods measures within the scope of this SI. Commodity codes that were wholly or partially in scope for previous Statutory Instruments are assumed to have zero export value.

f. The proposed export measures are expected to have an impact on the profitability of UK companies that currently trade with Russia. For Services exports list we apply the ONS' profitability gross annual rate of return for the services sector private non-financial corporations (estimated to be 14.6% in the four quarters up to Q3 2021) to the appraisal period chosen for this assessment 2023 to 2031 inclusive). For the goods measures in scope of this package of sanctions, we apply the ONS' profitability gross annual rate of return for the manufacturing sector private non-financial corporations (estimated to be 10.8% in the four quarters up to Q3 2021) to the appraisal period chosen for this assessment 2023 to 2031 inclusive) to calculate an estimate of profit lost.[33]

[32] https://www.imf.org/en/Publications/WEO/weo-database/2022/April

[33] ONS Profitability of UK companies: October to December 2019. ONS Profitability of UK companies: October to December 2019.

g. The initial 2021 trade figures are based on a nominal estimation. The nominal 2021 figures are used as a starting point upon which the IMF's WEO October 2022 real rates for expected Russian import demand are applied.

h. We selected the default discount rate of 3.5%, as suggested in the HMT Green Book. The annuity rate for the NPSV calculation is calculated using the 3.5% discount rate to calculate the discount factor through the appraisal periods and adding the inverse of the discount factor year on year.

3.2.7 Methodology for estimating Net Present Social Value for Regulatory Impacts

61) For the services measures, due to a lack of data on the number of firms exporting to Russia within these sectors, we have not sought to monetise regulatory impacts (defined as compliance costs for UK firms).

62) The Impact Assessment FCDO2201 [The Russia (Sanctions) (EU Exit) (Amendment) (No.3) Regulations 2022] outlined an estimated regulatory cost for the proposed measures in that Statutory Instrument.[34] For the goods measure where the cost of compliance has been estimated, the following assumptions and approach has been followed:

a. That the regulations proposed allowed for certain exceptions.

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

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

d. There would be an estimated cost of application for a licence.

e. An additional "one-off" cost was added to the year goods export costs, to represent the transition costs. This captures the regulatory impact costs, defined as the cost to UK firms to comply with the proposed measures. The approach taken for goods exports was to see these impacts as primarily a one-off familiarisation cost with the new regulations.

f. We have used the RPC's note on implementation costs for guidance.[35] The calculations assume that one hour is required for this familiarisation per company; we then multiply the number of traders exporting to Russia on the HS codes covered by the goods export sanctions by the average UK wage for one hour (based on the ONS' provided median weekly pay in April 2021 - £611 – rebased to 2019).[36] The calculations also assume a 35 hour weekly number of hours worked.

g. Additionally, a 22% uplift is added to the labour cost mentioned above. Labour costs consist of wage and salaries but also non-wage labour costs, such as employers' National Insurance contributions. This uplift is included to ensure that the full cost to the employer of an employee's time is accounted for.

h. This approach produces a combined regulatory impact value for all exporters affected by this regulation. These values were taken as the entire regulatory impact cost and implemented as an upfront cost applied to businesses that export and import in 2022 only.

3.3 Quantitative impacts of measures

3.3.1 Economic impacts of service export measures aimed at Russia

63) The services sanctions (with the exception of auditing services) cover sectors that make up around 12% of UK service exports to Russia in 2021. However, it should be noted that estimates are based on statistical sector definitions and do not fully align to the scope of sanctions, as such this will be an overestimate of UK exports covered. The primary impact arising from these measures, as set out above, is the loss of direct profits due to export bans to Russia. The table below sets out exports to Russia within these sectors in 2021, where estimates are available.

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

[35] https://www.gov.uk/government/publications/rpc-short-guidance-note-implementation-costs-august-2019

[36] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2021.

Table 6: Value of service exports to Russia for sectors in scope of Statutory Instrument[37]

Sector	UK exports to Russia in 2020 (ONS and DCMS data) (£m)	UK exports to Russia in 2021 (based on 2021 data and 2020 estimates based on 2020 DCMS data)(£m)	Share of total UK services exports to Russia (%)	Total UK services exports to the World in 2021 (based on 2021 data and 2020 estimates) (£m)	UK exports to Russia as a share of UK exports to world(%)	Estimated direct profits in 2021 (based on 2021 exports, in 2021 prices) (£million)
Engineering Services	179	123	7	5574	2	18
Architectural Services	12	14	1	675	2	2
Advertising and marketing services	3	3	0.2	4971	0.06	0.5
IT consultancy and design services	71.4	70	4	23,795	0.3	10.2
All service measures	266	210	12	34,996	0.6	30.6

Source: BEIS analysis based on ONS Trade in Services data and DCMS economic estimates (Exports of services by businesses in DCMS sector and sub-sectors, 2020, UK). Engineering and advertising services figures are based on ONS 2021 non-seasonally adjusted Trade in Services by partner country.

64) For advertising and marketing services and IT consulting and design services, DCMS Economic Estimates export data is not available for 2021. As such, we use 2020 DCMS data to estimate 2021 exports within these service sectors. We adjust 2020 data for these sectors based on total service exports with Russia in 2021, relative to the total service exports with Russia in 2020.

3.3.2 Economic impacts of goods export measures aimed at Russia

65) Based on 2021 trade flows, the additional value of UK goods exports to Russia covered by the proposed measures in the legislation is £1.8m, representing 0.06% of all UK goods exports to Russia in 2021.

Table 7: Additional value of UK goods exports to Russia covered by the proposed measures (based on 2021 trade flows)

Measure	Value of goods exports to Russia (£million)	Proportion of goods exports to Russia relative to total goods exports to Russia
Additional goods export bans	£1.8	0.06%

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

66) The value of UK exports of any ancillary services that would be affected by these measures has not been estimated here due to data limitations. Services data is available at an aggregated level and the identification of trade flows specific to affected ancillary services is not possible. The estimated costs in this Impact Assessment are therefore underestimates.

[37] https://www.gov.uk/government/statistics/dcms-sectors-economic-estimates-2020-trade

67) The primary cost to UK businesses will be the opportunity cost of future profit they may have made from the export of goods and services that will be subject to restrictions under the new measures. In line with the assumptions set out above, the following estimates of lost future profits has been calculated.

Table 8: Summary of 2021 UK export values for quantified export measures

Measure	Estimated Value of exports to Russia 2021 (£million)	Estimated direct profits in 2021 (based on 2021 exports, in 2021 prices) (£million)
Engineering services	123	18
Architectural services	14	2
Advertising and marketing services	3.1	0.5
IT consultancy and design services	69.7	10.2
Additional goods export bans	1.8	0.19

Source: BEIS analysis based on ONS trade in services data 2021 and DCMS economic estimates 2020. An annual rate of return for businesses in services of 14.6% is used from ONS Annual Rates of Return of Private Non-Financial Corporations.

3.3.3 Regulatory impact of goods export measures

68) Regulatory impacts are defined as the cost to UK firms to comply with the proposed measures. As the measures are a set of bans on imports and exports the regulatory cost is seen as primarily a one-off familiarisation cost with the new regulations.

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

70) The set of proposed measures in this Statutory Instrument are also subject to exceptions and licences.[38] But they are expected to be minimal and non-significant.

71) The impact of the services measures within the scope of this IA is likely to be of a similar scale at a per firm level as those estimated for the goods measures, but the nature of services trade data prevents clear knowledge of the number of firms involved.

72) To calculate regulatory impacts, this Impact Assessment based its approach on the RPC's guidance on implementation costs[39]. Familiarisation costs - incorporating the potential dissemination of information throughout the business, IT system changes or possible training costs - are estimated for the goods measures only.

73) Overall regulatory costs for the group of goods exporters affected by these measures are estimated to be £3,066.

74) Data limitations prevent monetising the impact of the other measures within the scope of this IA.

75) It was not possible to identify the number of ancillary services exporters affected by these measures, so an equivalent regulatory cost has not been identified. As such, the regulatory costs captured in this Impact Assessment is an underestimate.

3.3.4 Administrative and enforcement impacts of measures

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

[38] These exceptions and licences are in addition to the statistical threshold below which transactions may be aggregated in UK trade statistics. This statistical threshold is currently defined in legislation as '£873 (in value) or 1,000kg (in net mass). https://www.uktradeinfo.com/news/statistical-threshold-sterling-figure-to-apply-for-2021/.

[39] https://www.gov.uk/government/publications/rpc-short-guidance-note-implementation-costs-august-2019

77) The set of proposed measures in this Statutory Instrument are subject to exceptions and licences.[40] They are necessary to reduce unintended consequences, bring the presumed impact on the UK of the associated sanctions measures into tolerable bounds, support wider HM Government interests overseas and mitigate risks of divergence with partners. Further information on the licences and exceptions can be found in the statutory guidance.[41]

78) Rationale for this expectation include:

a. As previously indicated, there has been a significant reduction in UK trade with Russia since the invasion – which also decreases the number of licences that would be required. Reasons for this reduction in trade include companies' self-embargos and the 'chilling effect'.[42]
b. If such requests are received it is expected that they would be very specific and limited in number.
c. It is also expected that licences on humanitarian grounds, if received, would be few.

79) Nevertheless, it is possible that there may be a learning cost for companies that decide to apply for exports licences against the set of proposed measures, as such companies may have limited experience in licensing. Such cost would be incorporated in the one-off regulatory impact outlined in section 3.3.3.

3.4 Qualitative impacts of measures

3.4.1 Service sanctions and Mode 3 Trade

80) The services sanctions cover exports to Russia provided through all modes of supply, including Mode 3; services provided within a country by a locally established affiliate, subsidiary, or representative office of a foreign-owned and controlled company (bank, hotel group, construction company, etc.). UK-owned foreign affiliates captured within the scope of these sanctions are unable to legally operate within Russia. Whilst some UK-owned architectural, engineering, advertising, marketing, and IT consultancy and design firms have voluntarily chosen to exit the Russian market due to the conflict, these sanctions are likely to lead to closures of UK-owned Russian firms or divestment from these firms by UK investors in these sectors. This will lead to administrative costs to UK firms from divestment or closure of entities operating in Russia and reduced overseas income from these firms.

81) The loss of revenue from Mode 3 trade is not captured in monetised costs of the IA, as data on income from foreign affiliates is excluded from ONS Trade in services export estimates. ONS experimental statistics suggest that in 2020, Mode 3 income made up 64% of all UK 'other business services' exports (which would include architectural, engineering, audit, advertising and marketing services). ONS experimental statistics suggest that in 2020, Mode 3 income made up 30% of all UK 'telecommunications, computer, and information services' exports (which would include IT consultancy and design). There is limited data on the number of UK owned foreign affiliates within these sectors operating in Russia. UK owned foreign affiliates in Russia within 'Professional, scientific and technical activities' accounted for £2.1 billion in turnover, and around 16,900 in terms of persons employed across 77 enterprises in 2019. UK owned foreign affiliated in Russia within 'Information and Communication' accounted for approximately 3,000 persons employed.[43,44]

3.4.2 Impact of measures relating to trust services

82) Trusts are an integral feature of the UK's legal systems and are widely used by individuals and organisations for a wide range of purposes. The UK is a large-scale provider of trust and company

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[40] These exceptions and licences are in addition to the statistical threshold below which transactions may be aggregated in UK trade statistics. This statistical threshold is currently defined in legislation as '£873 (in value) or 1,000kg (in net mass). https://www.uktradeinfo.com/news/statistical-threshold-sterling-figure-to-apply-for-2021/.

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

[42] It is worth noting that the primary cost of these measures to UK businesses will be the opportunity cost of future profit they may have made from the export or import of goods and services covered in these measures. This level of profit loss is reduced by self-sanctioning and the chilling effect. Therefore, it is reasonable to expect that the NPSV figures presented in this Impact Assessment may be an overestimate.

[43] Source: Exports of services by country, by modes of supply https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/datasets/exportsofservicesbycountrybymodesofsupply/current

[44] Source: OFATS https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/datasets/ukoutwardforeignaffiliatestatisticsofats

services, with 23,400 firms registered to provide one or more trust and company services in the UK. However, there is limited information available on the precise number of trusts or similar arrangements in the UK. The latest data shows 166,000 express trusts have registered with HMRC since the Trust Registration Service began in June 2017 up to March 2022[45] but the total number of trusts in the UK is estimated to be significantly higher. There is no registration for 'similar arrangements' including foundations and funds. Given the data limitations it is not possible to quantify the impact of this measure on Russia or the UK.

83) The key cost to UK business arising from this measure will derive from lost income from providing trust services to the persons they would otherwise have been able to receive business from had these sanctions not been imposed. There is a possibility this business will be diverted to other countries who have not imposed such measures. However, the US and EU have introduced broadly similar measures targeting trust services.

84) There will be marginal familiarisation and compliance costs. Although these are anticipated to be negligible given extensive sanctions already in place, given these are unprecedented sanctions for the UK this could add to the familiarisation and compliance costs, particularly where the measures require the winddown of existing arrangements.

85) This will impact persons connected with Russia (including persons ordinarily residing in Russia) who may have otherwise used UK trust services for a variety of purposes. However, given declining economic ties between the UK and Russia it is unlikely this impact on ordinary Russians will be substantial. Existing arrangements with persons connected with Russia continue to be permitted meaning where persons are already in receipt of trust services they will not be required to winddown that arrangement.

3.4.3 Impact of measures relating to recognition measures

86) London acts as a global financial hub and a significant proportion of debt instruments are issued under English law. The UK is therefore likely to receive a greater number of requests for recognition in future resolutions than other jurisdictions such as the EU and US. However, recognition of third-country resolution action by definition applies to non-UK firms. As a result, the impact to UK firms and the financial sector overall is deemed to be minimal.

87) Given the idiosyncratic nature of firm failure and resolution, it is not possible to meaningfully anticipate how many future recognition requests this measure will catch. That said, for the individual firm to which any request pertains, suspension of a recognition decision and therefore withholding economic benefit will have a material impact, precisely because the instruments involved were specifically written down to recapitalise firms.

88) The measure will apply to the Bank of England only. Given its role as the UK resolution authority and therefore its familiarity with this area of regulation, the anticipated familiarisation and compliance costs will be marginal. In terms of implementation and enforcement, the measure will have material benefits for the Bank of England as it will need to dedicate fewer resources and less time to processing any request which pertains to a designated person (or to a person who is owned or controlled directly or indirectly by such a person) under the Russia Regulations. The benefits to the Bank should therefore outweigh the costs.

3.4.4 Impact of measures relating to amendments to regulations 16, 17 and 18B

89) The amendments to regulations 16, 17 and 18B are designed to close off loopholes in these regulations to ensure that the overall policy objective of prohibiting new investments in Russia is being met. As these are amendments are incremental and are designed to make that measure more robust, we have not been able to conduct an assessment of the specific impact of these changes.

90) A full impact assessment for the ban on new investments in Russia was published alongside the Russia (Sanctions) (EU Exit) (Amendment) (No. 12) Regulations 2022. This analysis estimates a net cost to UK business of £38.2m per year as a result of the ban on new investments in Russia. An impact assessment was also published alongside the Russia (Sanctions) (EU Exit) (Amendment) (No. 2) Regulations 2022, which legislated for the restrictions on dealing with securities and money market

[45] Statistics on trusts in the UK -https://www.gov.uk/government/statistics/trust-statistics

instruments in regulation 16 and the restrictions on loans and credit arrangements (regulation 17). This estimated a net cost to UK business of £7.5m per year as a result of these restrictions.

3.5 Aggregated monetised impacts of proposed measures

91) As set out in the methodology, The primary cost to UK businesses will be the opportunity cost of future profit they may have made from the export of goods and services that will be subject to restrictions under the new measures. Table 14 below presents an estimate of the profits associated with the trade in goods affected by this set of measures. As there are no monetised benefits associated with this Statutory Instrument the costs that incorporate profitability ("Average annual cost (2023-2031) incl. profitability" and "Total cost (2023-2031) incl. profitability" columns) are also an estimate of the foregone profits.

Table 9: Aggregate economic costs of measures (£m)[46]

(£m, 2019 prices)		Average annual cost (2023-2031)[47]	Total cost (present value)	EANDCB
Total export measures	Low	20.5	162.0	25.4
	High	26.6	208.3	
	Central	25.5	200.0	
Services export measures	Low	20.4	161.0	25.2
	High	26.5	207.1	
	Central	25.4	198.7	
Goods export measures	Low	0.1	1.0	0.2
	High	0.2	1.3	
	Central	0.2	1.2	

3.6 Wider impacts of trade measures

3.6.1 Supply chains and employment

92) The impact of the proposed set of measures on trade and supply chains would not be limited to those exporting directly to Russia and would vary across sectors of the UK economy. Using Trade in Value Added (TIVA) data from the OECD reveals how UK industries are connected to consumers and businesses in Russia, including even when no direct trade relationship exists. Analysis using the OECD's TiVA dataset allows identification of the UK sectors that are most integrated into value chains with Russia and, therefore, those that are potentially vulnerable to disruption caused by export or import controls as well as the ongoing conflict. These are shown in Table 15. TiVA data offers advantages over traditional ways of measuring trade and are complementary to conventional trade statistics.

93) According to OECD TIVA data, 109,200 UK persons' employment[48] and $9.2 billion (approximately £6.9 billion[49]) of UK value add was embodied in Russian final demand in 2018 (3.1% of total foreign value add embedded in Russian final demand).[50] This is equivalent to around 1.6% of total UK employment – and 1.6% of total UK value add – embedded in final demand from all international trade partners. Due to data limitations, we cannot identify the proportion of trade in value added that would be impacted by UK sanctions of the export of goods in scope.

94) The table below presents the value added across all sectors at different levels of aggregation.

[46] There are very small costs for the export measures on bank notes, which are associated with the regulatory costs for businesses.

[47] Average annual cost incl. profitability is equivalent to profitability as there are no benefits.

[48] OECD Trade in employment (TiM) Principal indicators for UK employment embodies in Russian final demand. FFD_DEM: Domestic employment embodied in foreign final demand.

[49] Value was converted from US Dollars to Pounds Sterling using the 2018 annual average spot exchange rate (Bank of England).

[50] OECD Trade in Value Added (TiVA) ed: Principal Indicators for UK share of foreign value add in Russian final demand. Data for 2018 are latest available. FFD_DVA.

Table 10: UK exports supply chain linkages with Russia[51]

TiVA Industry		UK value add as a share of foreign value add in Russian final demand (2018)	UK employment embodied in gross exports to Russia (Persons, Thousands, 2018)
Total		3.1%	94.5
Goods	Agriculture, hunting, forestry	0.2%	0.2
	Fishing and aquaculture	0.3%	0
	Mining and quarrying, energy producing products	1.7%	0
	Mining and quarrying of non-energy producing products	0.3%	0
	Mining support service activites	1.6%	0.3
	Food products, beverages and tobacco	2.1%	2.9
	Textiles, wearing apparel, leather and related products	0.4%	0.3
	Wood and products of wood and cork	1.1%	0.1
	Paper products and printing	2.1%	0.3
	Coke and refined petroleum products	0.8%	0.1
	Chemical and chemical products	1.6%	1.8
	Pharmaceuticals, medicinal chemical and botanical products	3.8%	1.5
	Rubber and plastic products	2.1%	1.4
	Other non-metallic mineral products	1.1%	0.3
	Basic metal	0.6%	0.2
	Fabricated metal products	1.8%	1.1
	Computer, electronic and optical products	0.8%	0.5
	Electrical equipment	0.7%	0.6
	Machinery and equipment nec	2.0%	3
	Motor vehicles, trailers and semi-trailers	3.0%	4.5
	Other transport equipment	1.7%	0.2
	Other manufacturing, repair, and installation of machinery and equipment	2.7%	1.4
Services	Electricity, gas, steam and air conditioning supply	1.8%	0
	Water supply; sewerage, waste management and remediation activities	3.6%	0
	Construction	5.0%	0.2
	Wholesale and retail trade; repair of motor vehicles	2.5%	11.7
	Land transport and transport via pipelines	1.6%	1.9
	Water transport	3.7%	0.6
	Air transport	3.1%	2.6
	Warehousing and support activities for transportation	2.9%	0.6
	Postal and courier activities	7.0%	0.1
	Accommodation and food services	1.8%	3
	Publishing, audiovisual and broadcasting activities	6.1%	2.6
	Telecommunications	6.8%	0.7
	IT and other information services	5.4%	4.1
	Financial and insurance activities	8.0%	10.1
	Real estate activities	2.3%	0.2
	Professional, scientific and technical activities	7.9%	12.5
	Administrative and support services	7.2%	14.8
	Public admin and defence; compulsory social security	2.8%	0
	Education	12.4%	3.6
	Human health and social work	2.5%	0.2
	Arts, entertainment and recreation	8.0%	4.1
	Other service activities	2.0%	0.2
	Private households with employed persons	0.0%	0

Source: OECD Trade in Value Added (TiVA) 2021 ed: Principal Indicators for UK share of foreign value add in Russian final demand. Data for 2018 are latest available. FFD_DVA. OECD Trade in employment (TiM): Principal indicators for UK domestic employment embodied in gross exports to Russia. EXGR_DEM: Domestic employment embodied in gross exports. Data for 2018 are latest available.

95) Although the direct impact of these service sanctions on the UK is expected to be small (with Russia accounting for 0.6% of all UK exports in the sectors banned), the sanctions will indirectly impact on other sectors across the UK economy. There will be potential disruption and loss of revenue to wider sectors that supply intermediate inputs to services in scope of the sanctions. For sanctions on architectural, engineering, advertising and marketing, and auditing services, which all fall within the

[51] The OECD calculates final demand as a combination of Household consumption, Consumption expenditure of non-profit institutions serving households (NPISH), Direct purchases by non-residents, Government Final Consumption, Gross Fixed Capital Formation (GFCF) and changes in inventories, see: https://www.oecd-ilibrary.org/science-and-technology/guide-to-oecd-tiva-indicators-2021-edition_58aa22b1-en

TiVA sector ‘professional, scientific and technical activities’, TiVA data suggests that the ‘professional, scientific and technical activities’ will be most impacted as the sector which supplies the highest value of inputs into UK gross exports to the World of ‘professional, scientific and technical activities’ (77.6%), followed by sectors, ‘administrative and support services activities’ (3.3%), ‘financial and insurance activities’ (2.3%), ‘computer programming, consultancy and information services activities’ (2.1%), and ‘real estate activities’ (1.8%) which provide the next highest proportion of value to UK gross exports to the World in the ‘professional, scientific and technical activities’ sector.’ For sanctions on IT consultancy and design services, which fall within the TiVA sector ‘computer programming, consultancy and information services activities’, TiVA data again suggests that this sector itself will be most impacted as the sector which supplies the highest value of inputs into UK gross exports to the World of ‘computer programming, consultancy and information services activities’ (74.4%), followed by sectors, ‘professional, scientific and technical activities’ (6.6%%), ‘administrative and support services activities’ (4.4%), ‘financial and insurance activities’ (2.2%), and ‘real estate activities’ (1.8%) which provide the next highest proportion of value to UK gross exports to the World in the ‘computer programming, consultancy and information services activities’ sector.

96) The sanctions on services exports may also have a wider impact on employment and the UK labour market. The OECD experimental data on ‘Trade in employment (TiM)’ suggests that the value of domestic UK employment embodied in gross exports of the ‘professional, scientific and technical activities’ sector, from the UK to Russia in 2018 was 12,500 persons. TiM data suggests that the value of domestic UK employment embodied in gross exports of the ‘computer programming, consultancy and information services activities’ sector, from the UK to Russia in 2018 was 4,100 persons. It should be noted in both cases that these are wider sector definitions covering sectors not covered in this ban. The impact of sanctions on the labour market will depend on a number of variables including the labour market conditions more broadly and the transferability of skills of those employed.

3.6.2 Impact on protected groups and regions

97) It is not possible to make a robust assessment of the impact of the measures in this Statutory Instrument on protected groups (in relation to age, sex, ethnicity and disability) in the UK labour market.[52]

98) It is possible that any potential impact would be more likely to affect male workers, who are disproportionally concentrated in sectors where employment is associated with international trade. The potential impact on male workers is based on experimental analysis by DIT and the Fraser of Allander Institute showing that, in 2016, 64% of jobs directly and indirectly involved in exports were held by males, with the remaining 36% filled by females.[53]

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

a. Sex: 48% of those in employment in the UK are female and 52% are male.[54]
b. Ethnicity: 13% of those in employment in the UK are from an ethnic minority group and 87% report that they are white.
c. Age: 11% of those in employment in the UK are aged 16-24, 85% are 25-64, and 4% are over 65.
d. Disability: Around 16% of those in employment in the UK report that they have a disability (as defined by the Equalities Act 2010).[55]

100) Data specific to services firms engaging in trade with Russia is not available. Estimates suggest that in 2021, the UK architectural, engineering, audit, advertising, and marketing and computer services sectors have a 35% share of female employment, 17% from an ethnic minority background and 12% reporting that they have a disability (as defined by the Equalities Act 2010). Of those employed in these sectors, 8% are aged 16-24, 88% are 25-64, and 4% are over 65[56].

[52] Race is a protected characteristic under the Equality Act 2010. For the purposes of this analysis, we utilise data regarding ethnicity to consider this protected characteristic.

[53] Evaluating the impact of exports on UK jobs and incomes

[54] Annual Population Survey (2020): Numbers of people by selected "protected" characteristics in countries, and within the UK and Great Britain industry, 2021

[55] It is possible that non-response to this question in the Annual Population Survey affects the estimated proportion.

[56] Annual Population Survey (2020): Numbers of people by selected "protected" characteristics in countries, and within the UK and Great Britain industry, 2021

Table 11: Employment broken down by protected group

Sector	% share of female employment	% share of ethnic minority employment	% share of those reporting that they have a disability	% share aged 16-24	% share aged 25-64	% aged 65+
Legal and accounting activities	58	18	12	11	83	7
Architectural and engineering services	27	11	12	6	88	6
Advertising and marketing services	48	13	9	11	87	2
IT consultancy and design services	23	22	12	7	91	2
Combined Service Measures	35	17	12	8	88	4
All UK industries	48	13	16	11	85	4

Source: ONS, numbers of people by selected "protected" characteristics in countries, and within the UK and Great Britain industry, 2021. Source: Employment (number of filled jobs, thousands) in the DCMS sectors, subsectors, SIC codes by various demographic characteristics: January 2021 to December 2021. Note, all 'UK industries' figures are sourced using ONS data. Sectors shown are broader than those in scope, but best available proxy. 'Legal and accounting activities' includes auditing.

101) London is the region most impacted in terms of the number of businesses in the sanctioned codes. 26% of all businesses within architectural, engineering, audit, advertising and marketing and ICT consultancy and design services are in London. The South East of England is the second largest region with 19% of all businesses.

Table 12: Regional distribution of businesses [57][58]

Sector (SIC)	% North East	% North West	% Yorkshire and The Humber	% East Midlands	% West Midlands	% East	% London	% South East	% South West	% Wales	% Scotland	% Northern Ireland
Accounting; bookkeeping and auditing activities; tax consultancy (6920)	2	9	6	6	8	11	24	17	8	3	5	2
Architectural activities (7111)	2.1	7.6	6.0	5.4	5.9	9.6	26.6	16.3	9.2	2.6	6.3	2.4
Engineering activities and related technical consultancy (7112)	4.2	11.1	6.4	6.6	7.9	10	13.1	16.0	8.4	3.2	11.3	1.8
Advertising and marketing	1.5	8.6	5.2	4.0	4.9	8.8	36.7	17.1	7.0	1.6	3.4	1.1
IT, software and computer services	2	7	5	5	6	10	30	21	7	2	5	1
All sectors in scope	2	8	5	5	6	10	26	19	8	2	6	1
All UK industries	2.6	9.8	7.0	6.8	8.0	9.9	19.4	14.9	8.6	3.9	6.3	2.8

Source: ONS (2021): UK business: activity, size and location. Percentages shown are regional shares of each sector. (2022 edition). DCMS economic estimates: Business demographics 2019 Number of business sites in DCMS Sectors and sub-sectors by UK region. To note, architectural and engineering services and audit is based on 2021 business number data. Advertising and marketing and ICT consultancy and design services data is based on 2019 business number data. 'All UK sectors' proportions are based on 2021 data only.

[57] https://www.gov.uk/government/statistics/dcms-sectors-economic-estimates-2019-business-demographics

[58] https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/datasets/ukbusinessactivitysizeandlocation

4. Risks and assumptions

102) There is a risk that these measures discourage exporting activity in firms who are not in scope of the policy. There is a cost associated with businesses that stop trading with Russia due to uncertainty around whether their goods or services are captured in the sanctions package, the so-called “chilling effect”. It is not possible to disaggregate this impact from the declining risk appetite of businesses caused by the Russian invasion. Following the imposition of sanctions resulting from the Russian annexation of Crimea[59] a decrease in trade was seen across almost all goods exported to Russia demonstrating the possible scale of this chilling effect. To what extent this chilling effect is persistent over time and trade rebounds is uncertain.

103) There is some risk that the measure relating to trust services has wider impacts to financial stability and normal market functioning. To minimise these risks, the measure has various exceptions and licencing grounds to limit wider potential impacts on financial stability and normal market functioning. These exceptions are also targeted in such a way to reduce the impact on ‘ordinary Russians’ and include exceptions for registered pensions and financial markets infrastructure.

5. Monitoring and evaluation

104) 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.

105) While FCDO does not intend to undertake a formal post-implementation review, all sanctions are kept under continuous review and will be adapted when the context changes. FCDO analysis is developing a monitoring and evaluation framework to assess how sanctions meet UK objectives. Such assessment will aim to include the continued collection of open source and classified information to monitor the political and economic situation in Russia as well as any unintended impacts, including on UK businesses, that come to light. Assessments of the regulatory and administrative impacts of the sanctions package could for instance draw on the Office of Financial Sanctions Implementation (OFSI)’s and Export Control Joint Unit (ECJU)’s reporting and on the number of licences applied for.

106) 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. HM Government also has regular engagement with UK businesses. This will provide another channel through which information on the impact of the sanctions on UK businesses is fed back to HM government.

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

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

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