

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Second Delegated Legislation Committee

RUSSIA (SANCTIONS) (EU EXIT) (AMENDMENT)
(NO. 15) REGULATIONS 2022

Monday 14 November 2022

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The Committee consisted of the following Members:

Chair: STEVE McCABE

Abbott, Ms Diane (*Hackney North and Stoke Newington*) (Lab)

Amesbury, Mike (*Weaver Vale*) (Lab)

† Creasy, Stella (*Walthamstow*) (Lab/Co-op)

† Fletcher, Katherine (*South Ribble*) (Con)

† Fletcher, Mark (*Bolsover*) (Con)

† Fletcher, Nick (*Don Valley*) (Con)

† Harris, Rebecca (*Comptroller of His Majesty's Household*)

Jenkyns, Andrea (*Morley and Outwood*) (Con)

† Jones, Gerald (*Merthyr Tydfil and Rhymney*) (Lab)

† Kruger, Danny (*Devizes*) (Con)

Mahmood, Mr Khalid (*Birmingham, Perry Barr*) (Lab)

† Mohindra, Mr Gagan (*South West Hertfordshire*) (Con)

† Mortimer, Jill (*Hartlepool*) (Con)

† O'Hara, Brendan (*Argyll and Bute*) (SNP)

† Stewart, Iain (*Milton Keynes South*) (Con)

† Trevelyan, Anne-Marie (*Minister of State, Foreign, Commonwealth and Development Office*)

† West, Catherine (*Hornsey and Wood Green*) (Lab)

Bethan Harding, *Committee Clerk*

† **attended the Committee**

Second Delegated Legislation Committee

Monday 14 November 2022

[STEVE McCABE *in the Chair*]

Russia (Sanctions) (EU Exit) (Amendment) (No. 15) Regulations 2022

4.30 pm

The Minister of State, Foreign, Commonwealth and Development Office (Anne-Marie Trevelyan): I beg to move,

That the Committee has considered the Russia (Sanctions) (EU Exit) (Amendment) (No. 15) Regulations 2022 (S.I. 2022, No. 1100).

The statutory instrument was laid before Parliament on 28 October under powers provided by the Sanctions and Anti-Money Laundering Act 2018, and makes amendments to the Russia (Sanctions) (EU Exit) Regulations 2019.

Let me say first that we have spotted a minor mistake in the drafting of the SI, owing to the unprecedented pace of our sanctions work. The export prohibitions on the products in new schedule 3I to the 2019 regulations, “Russia’s vulnerable goods”, will come into force on 1 January 2023, at the same time as the ban on the import of liquefied natural gas. We expect this to have minimal impact on the effectiveness of the measure, and we corrected documents associated with the SI to reflect this on 11 November.

In co-ordination with our allies, the United Kingdom has introduced the largest and most severe economic sanctions package that Russia has ever faced. Through these new measures, we will apply further pressure on Vladimir Putin and his regime. They will further isolate Russia’s economy and target key industries that support Putin, undermining his ability to fund his illegal war in Ukraine. The measures ban UK exports of hundreds of items that are critical to the functioning of Russia’s economy, particularly in the manufacturing sector, of critical importance to Russia’s industrial and technological capabilities. These items will be added to previously sanctioned goods to form an extended “Russia vulnerable goods” list.

This latest package applies to trade in previously unsanctioned goods worth £201 million in exports and £925 million in imports in 2021. The statutory instrument also bans additional imports from Russia, including gold jewellery, and Russian gold that has been processed in third countries, further strengthening the import ban on Russian gold that we introduced in July.

The SI prohibits imports of Russian liquefied natural gas from 1 January 2023, but it does not prohibit supply and delivery to third countries, in order not to impact their energy supply and security. The Government’s approach to energy sector-related sanctions is to increase the pressure on Russia’s economy by choking off a valuable source of income, while protecting other countries’ energy supply. We have reduced our imports of LNG, with only one shipment received, on 2 March.

The SI also bans the import of other specified goods that generate revenue for Russia, including vodka, vinegar, beverages and food waste products, and it prohibits the provision of services in technical assistance, financial services and expertise, and brokering sectors.

In total, the UK has wholly or partially sanctioned £20 billion, or 96%, of pre-invasion trade in goods. As with all our sanctions, this latest package has been developed in co-ordination with the UK’s international partners, and we will continue to work in concert with our allies to identify any potential gaps in our sanctions packages.

The UK remains resolute in our response. We will continue to stand with the people of Ukraine. The UK Government will not hesitate to bring forward further sanctions to target those who participate in, or facilitate, Putin’s illegal war of choice. I commend the regulations to the Committee.

4.33 pm

Catherine West (Hornsey and Wood Green) (Lab): It is a pleasure to serve under your chairmanship, Mr McCabe. I thank the Minister for her remarks, and I thank all the staff at the Foreign, Commonwealth and Development Office and the Treasury who are working so assiduously to devise and implement the sanctions that make up our regime.

I am aware that there is a general debate on Ukraine taking place in the Chamber later today. I associate myself with the comments by the shadow Defence Secretary and the shadow Foreign Secretary, my right hon. Friends the Members for Wentworth and Dearne (John Healey) and for Tottenham (Mr Lammy). We are now over eight months into a brutal and illegal war that President Putin expected to be over in days. Instead, here we are, with Ukrainian flags once again flying over Kherson and Russian troops in chaotic retreat from territories that they illegally annexed. We cannot overstate the significance of this victory, and I am sure that all Committee members would join me in expressing solidarity with President Zelensky and the Ukrainian people at this critical juncture in the conflict. [HON. MEMBERS: “Hear, hear.”]

However, I am sure that the Committee will also agree that this is no time for complacency. British support for the Ukrainian advance has been critical, and if we are to demonstrate to Putin that his illegal war is doomed to fail, we must keep the pressure up. The sanctions regime, and its continued expansion and evolution, is integral to pushing Putin back and isolating Russia from the global economy and the international community.

We in the Labour party have been clear since before the Russia report was released that we should take a tough line against President Putin’s aggression. My colleagues and I on the Front Bench have consistently called for the widest-ranging sanctions to be applied to halt Putin’s aggressive rhetoric and warped imperial notions. Labour therefore welcomes the designations and sanctions announced today, which place additional trade restrictions on goods and commodities essential to the Russian economy.

The announcement of a further expansion to the prohibition on loans to certain companies is also welcome, although I have some minor questions for the Minister. What assessment has been made of the revenue loaned

to Russia-connected persons and companies since the start of the war in February? Given that it has taken eight months for the change to be made, it would be useful for the Committee to know how much Russia-connected entities have obtained, monetarily, since the onset of the war through securing loans in that way. In other words, have we missed an opportunity?

While we welcome the widening of the scope of the regulations to include companies outside Russia, including UK-based companies, the explanatory memorandum cites a phasing-out period for the existing category of loans. How long does the Minister expect that process to take?

Labour fully supports the prohibition on the import of liquified natural gas, which is integral to Russia's economy, and welcomes that commitment. However, will the Minister please account for why that measure does not come into force until next year? What will happen between now and 1 January? Will we be importing Russian LNG until then? What assessment has been made of the effect of that delay on the short-term impact that we need the sanctions to have? The period until Christmas is crucial because of where we are at in the conflict.

As with the other sanctions and measures that we have debated over many weeks and months, the official Opposition do not oppose the regulations, and we will not divide the Committee. We welcome the steps taken to expand the UK sanctions regime, make it more robust and remedy any cracks in it. However, we must do so with expediency and as part of a whole-Government approach to not only shut off the streams that feed Putin's war machine but decisively end the Kremlin's influence in our economy and our politics.

For years now, my hon. Friend the Member for Wigan (Lisa Nandy) and my right hon. Friend the Member for Tottenham, as Labour shadow Foreign Secretaries, and the shadow Minister, my hon. Friend the Member for Cardiff South and Penarth (Stephen Doughty), have raised the Intelligence and Security Committee's Russia report. It made many prudent and practical recommendations, but, unfortunately, the Government have rather dragged their heels in implementing them, seemingly without reason. There has been no real answer forthcoming from the Minister, or her team, as to why those recommendations have not been adopted in full. Some gaps still remain.

I am also particularly concerned about the pace of action to tighten up the provisions on the overseas territories and the transparency of their institutions. While progress has been made, organisations such as Transparency International continue to raise concerns that anonymous companies registered in Britain's offshore financial centres are being used to evade UK sanctions, weakening the comprehensiveness of the UK's sanctions list.

Furthermore, could the Minister update the Committee on the Companies House revisions that we recently discussed in the House? What implications does she think they might have for the sanctions that we are debating? Surely, once people have to declare their identity and come clean with Companies House about who owns what companies, there will be much work to be done to root out underlying irregularities relating to businesses in the UK that may be aiding and abetting President Putin's cronies.

Having reviewed the Office of Financial Sanctions Implementation's annual report, I am struck by the changes that have taken place this year across the Department, and I commend the staff there for their work and diligence in enforcing the UK's sanctions regime. For quite some time, Labour has been calling for the Treasury to be more campaigning, in the way that the US Treasury acts, around sanctions and taking a political position on certain countries that we do business with. I noticed in the report that staffing numbers are forecast only to the end of the year, despite there being every reason to believe that they might need to exceed 100. The projections for the long term need to be in place now, with a commitment from the Treasury that the funding is there should we need it.

Will the Minister provide the Committee with her long-term expectation for the number of full-time staff that OFSI will need? We all know that the war could rage on for some time, and that might have a resource implication. I accept that, as an FCDO Minister, she will not want to commit a Department that is not hers, but it would be helpful for the deliberations of colleagues and officials in the Department to know that there could be an expectation of increased need for resource.

Additionally, what conversations has the Minister had with the new Chancellor of the Exchequer regarding the long-term funding of OFSI to ensure that staffing will not be quietly reduced over time? The Government's capacity to implement sanctions at pace must be commensurate with the scale of the challenge before us. I hope that the Minister will be able to provide the Committee with answers on that.

Since the last time our regime was expanded, what further thought has been given to the permanent seizure and repurposing of frozen Russian assets? To date, excluding property revenues, £18.3 billion-worth of assets have been frozen. Let us think of the impact that that amount of money could have on Ukraine's short and medium-term humanitarian needs and its long-term recovery if it was repurposed. One must only look to Kherson's critical infrastructure to recognise how much it is going to take to undo the damage that the war has done. Is that something the Government are currently considering? What steps, if any, have been taken to repurpose those assets?

To see Kherson and other towns and villages liberated by Ukrainian forces is deeply moving and is testament to the courage and resilience of the Ukrainian people. Labour is committed to working with the Government in supporting Ukraine in the difficult winter ahead and well into the future, and to the widening of our sanctions regime. Ukraine will win, and, with our support, we can ensure that its victory ends the Kremlin's cycle of warmongering for good.

4.42 pm

Stella Creasy (Walthamstow) (Lab/Co-op): It is a pleasure to serve under your chairmanship this afternoon, Mr McCabe. I rise to speak in support of the comments made by my Front-Bench colleague, my hon. Friend the Member for Hornsey and Wood Green, on the importance of addressing the gaps that might exist.

These measures are welcomed across the House; there is strong support for sanctions against Russia and for cracking down on what had previously been a stain on

[Stella Creasy]

our international reputation. The challenge for all of us is in the gaps that many companies and entities use to undermine the sanctions. I am struck by the fact that the Minister talked strongly about things we could do in the UK. She will have heard my colleague on the Front Bench talk about the Crown dependencies, where many of the cracks and fissures in the sanctions regime can be found, and it is important that we see action taken. It is in the secrecy of ownership in the Crown dependencies that the Russians have found the friends that they do not find among ourselves and other nations on the world stage.

It is worth looking at just how big those gaps are. A piece of work by Transparency International last year discovered 237 large-scale corruption and money laundering cases that involved six out of the 14 UK overseas territories—countries in which we have direct control and influence. That amounted to £250 billion-worth of funds diverted from some of the world's poorest people to these entities by around 1,200 different company measures. Many of the cases involved former Soviet states, so we know the connection to what we are talking about today.

My hon. Friend set out some strong questions, and I will add to them. What conversations has the Minister had with the overseas territories about this SI and about the need for a comprehensive designation of all these companies so that there is nowhere to hide money in the way in which we see right now, which undermines the sanctions regime that we are all trying to strengthen? What progress has been made on public company registers in those Crown territories?

We all want to see a speedy end to the conflict in Ukraine. We stand firmly with President Zelensky, but we cannot do that if we turn a blind eye to the gaps in our current legislation that allow companies to flourish and money to be diverted. I know the Minister shares that concern, but we need to set out on the record what we are going to do about it. If she wants to find cross-party agreement on the need to go further, faster in closing those gaps, she will find it in this place.

4.45 pm

Anne-Marie Trevelyan: I thank Committee members, and I thank the hon. Member for Hornsey and Wood Green for her insightful and generous support for what we are doing. I will do my best to answer her questions. If I miss any, I apologise; my team will write to her with any details that I miss.

The OFSI annual report was released just last week, and it shows the value of the assets frozen since the start of Putin's illegal invasion: over £18 billion of Russian assets have been reported to OFSI as being held by or on behalf of persons designated under the Russia sanctions regime. That is a gargantuan increase from the £44 million of assets reported as frozen a year ago. I think we all agree that that underlines the scale and impact of our response in targeting Putin and his regime. We will continue to monitor how, if we need to, we can do more.

On the question of LNG prohibitions, the last shipment of Russian LNG came into the UK on 2 March, and since then UK companies have effectively been self-sanctioning. I am proud that we are the first European

country to sanction LNG. We hope that others will follow as they feel they can. Other countries are in a more difficult, energy-dependent situation. We are very fortunate. British companies have been very robust and have taken a strong stance, which is to be commended.

I hope that the measures in the Economic Crime and Corporate Transparency Bill will address some of the concerns about Companies House. Companies House reform will bear down on the use of thousands of UK companies and other corporate structures to facilitate international money laundering, including, as the hon. Member for Hornsey and Wood Green mentioned, Russia-linked illicit finance and wider illegal activities.

Brendan O'Hara (Argyll and Bute) (SNP): On money laundering, is the Minister aware that the BBC and Finance Uncovered recently revealed the use of English limited partnerships among Putin's inner circle, and the fact that the oligarchs are almost undermining the sanctions regime by using them? Will she ask her officials what can be done to tighten up the loopholes in those partnerships? We guarantee cross-party support for the regulations, but we do have to tighten up these loopholes where they are identified.

Anne-Marie Trevelyan: The hon. Gentleman is right. Measures in the Bill will tackle the misuse of those limited partnerships. It will help to increase transparency and will force them off the register under specific conditions, but I take his challenge and we will continue to make sure that we are doing all we can. The Bill is a huge step forward and a key part of our wider Government approach to tackling economic crime.

The hon. Member for Hornsey and Wood Green is right that I would not dare to speak on behalf of His Majesty's Treasury, but on the questions about OFSI and the staffing levels, the office has doubled in size in this financial year and will continue to grow to try to meet the challenges of the sanctions regime, the introduction of which we all support. The recruitment of new and permanent staff is continuing and we will keep a close eye on that. I know that the Treasury will too. There is a very clear focus on the human capital required to make sure that we can hold all of this in place.

On asset seizures specifically, we are considering all options for seizing Russia-linked assets that could be used to support the people of Ukraine, including to fund humanitarian efforts and contribute towards the reconstruction of the country, which will be a gargantuan effort. Law enforcement agencies can currently seize UK-based foreign assets with links to criminality or unlawful conduct through the Proceeds of Crime Act 2002. The FCDO is working closely with other Government Departments and law enforcement agencies to identify all possible options to seize Russia-linked assets in the UK that could be used to pay for reconstruction. We will continue to explore all possible options to seize Russia-linked assets to pay those reconstruction costs while respecting our legal obligations and responsibilities.

The question about Crown dependencies was important, because we all want to ensure that sanctions are implemented effectively in our Crown dependencies and overseas territories. UK sanctions regimes apply in all UK Crown dependencies and overseas territories either by Orders in Council or through each jurisdiction's

legislation. Orders in Council make the necessary changes to ensure effective implementation of the measures and the UK Government are working regularly with the governors and elected leaders to discuss implementation and the impact of those sanctions.

I hope that that helps to answer the questions I have been asked. If I have missed anything, I apologise, and I know that my team of officials will make sure that we provide the answers. I hope that these measures give confidence that we continue our wave of sanctions,

because we are determined to ensure that Putin feels the damaging consequences of his choice to invade a democratic state illegally. We are committed to going further and we will continue to do so until Putin ends this war of aggression. I commend the regulations to the Committee.

Question put and agreed to.

4.51 pm

Committee rose.

