

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Second Delegated Legislation Committee

RUSSIA (SANCTIONS) (EU EXIT) (AMENDMENT)
REGULATIONS 2023

Monday 15 May 2023

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The Committee consisted of the following Members:

Chair: SIR GARY STREETER

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|---|---|
| Buckland, Sir Robert (<i>South Swindon</i>) (Con) | † Harris, Rebecca (<i>Comptroller of His Majesty's Household</i>) |
| † Butler, Rob (<i>Aylesbury</i>) (Con) | † Mackrory, Cherilyn (<i>Truro and Falmouth</i>) (Con) |
| † Carter, Andy (<i>Warrington South</i>) (Con) | † Sheppard, Tommy (<i>Edinburgh East</i>) (SNP) |
| David, Wayne (<i>Caerphilly</i>) (Lab) | † Swayne, Sir Desmond (<i>New Forest West</i>) (Con) |
| † Docherty, Leo (<i>Parliamentary Under-Secretary of State for Foreign, Commonwealth and Development Affairs</i>) | † Thomas, Derek (<i>St Ives</i>) (Con) |
| † Elmore, Chris (<i>Ogmore</i>) (Lab) | † Watling, Giles (<i>Clacton</i>) (Con) |
| † Gardiner, Barry (<i>Brent North</i>) (Lab) | † West, Catherine (<i>Hornsey and Wood Green</i>) (Lab) |
| † Grant, Mrs Helen (<i>Maidstone and The Weald</i>) (Con) | Winter, Beth (<i>Cynon Valley</i>) (Lab) |
| † Greenwood, Margaret (<i>Wirral West</i>) (Lab) | Aaron Kulakiewicz, <i>Committee Clerk</i> |
| | † attended the Committee |

Second Delegated Legislation Committee

Monday 15 May 2023

[SIR GARY STREETER *in the Chair*]

Russia (Sanctions) (EU Exit) (Amendment) Regulations 2023

6 pm

The Parliamentary Under-Secretary of State for Foreign, Commonwealth and Development Affairs (Leo Docherty): I beg to move,

That the Committee has considered the Russia (Sanctions) (EU Exit) (Amendment) Regulations 2023 (S.I. 2023, No. 440).

I am pleased to be here in place of the Minister of State, Foreign, Commonwealth and Development Office, my right hon. Friend the Member for Berwick-upon-Tweed (Anne-Marie Trevelyan), who is travelling.

The regulations amend the Russia (Sanctions) (EU Exit) Regulations 2019. The statutory instrument was laid on 20 April 2023 under powers provided by the Sanctions and Anti-Money Laundering Act 2018 and contains measures on which we have co-ordinated with our international partners to increase the pressure on Putin for waging an illegal and brutal war against Ukraine. The measures place further constraints on Putin's war machine and Russia's economy, thereby adding further force to the largest and most severe package of economic sanctions that Russia has ever faced.

The instrument delivers on the UK Government's commitment to ban the export of all items that have been used by Russian forces on the battlefield to date. It builds on extensive bans in previous legislation by widening export prohibitions to include additional aircraft and vehicle parts, radio and other electronic equipment, biotechnology assets and 3D printing machinery. The second tranche of measures in the legislation prohibits the important of nearly 150 additional types of goods that generate export revenue for the Russian economy. The instrument captures products as diverse as cigars, wood, tools and machinery. The third tranche of new restrictions covers the import of iron and steel products, including metal from Russia that has been processed in third countries.

The additional sanctions underline the UK's leadership role on Russian trade sanctions. They will inflict further economic damage and constrain Putin's ability to equip and fund his illegal war. The measures were applied from 21 April 2023, with the exception of the prohibition on iron and steel products processes in third countries, which will enter into force on 30 September 2023—the same date as the EU's equivalent ban.

Before I finish my opening remarks, let me take this opportunity to update the House on a separate sanctions measure that was announced in April 2022. After careful consideration, the Government have decided not to proceed with a cap on funds held by Russian nationals in UK bank accounts. Having considered that policy option, we have concluded that carefully targeted sanctions against high net worth supporters and beneficiaries of

Putin's regime is a more effective way to achieve our objective. The decision follows careful scrutiny of the policy by relevant officials across Government and in consultation with industry, and is in line with our objective of ensuring that our sanctions are targeted and effective.

As this latest package of sanctions demonstrates, we will continue to impose hard-hitting sanctions against the Russian state and its supporters. This package alone adds a further £280 million-worth of exports and around £145 million-worth of imports to our prohibited list. As with all our sanctions, the latest package has been developed in co-ordination with our international partners. We will continue to work with them to identify and address any gaps or loopholes that emerge in our sanctions regime.

Barry Gardiner (Brent North) (Lab): The Minister talks about loopholes; will he confirm whether it is correct that the stated origin of petroleum is determined by where it is refined? Given that oil and gas products are sold on the international market, is he entirely confident that Russian oil and gas that is refined elsewhere is not finding its way into the UK and thereby avoiding the sanctions?

Leo Docherty: We are fully seized of the need for constant vigilance in that regard, because we would of course want to prevent any attempt by the Russian regime to circumnavigate sanctions.

Barry Gardiner: I am grateful to the Minister for that interim response, but it does not quite answer the question that I posed, which was about whether the declared origin of petroleum products is determined by where it is refined. We may believe, or it may be on the ticket, that petroleum has come from a perfectly legitimate source when it has not. It would be helpful if the Minister could outline the Government's strategies to ensure that the sanctions that we are putting in place are effective.

Leo Docherty: I do not want to give an inaccurate answer on behalf of the Minister of State, so I will ask her to write to the hon. Gentleman, but I am totally seized of the importance of that question.

To conclude, these latest measures demonstrate our determination to target those who participate in or facilitate Putin's illegal war of choice. Sanctions continue to work. Russia is increasingly isolated and cut off from western markets, services and supply chains. Key sectors of the Russian economy have fallen off a cliff and its economic outlook is very bleak indeed. The UK Government will use sanctions to ratchet up the military and economic pressure on Russia until Putin ends his brutal invasion of Ukraine. We welcome the clear and continued cross-party support for this course of action. I therefore commend the regulations to the Committee.

6.6 pm

Catherine West (Hornsey and Wood Green) (Lab): It is a pleasure to serve under your chairmanship, Sir Gary. I thank the Minister for setting out the details of the latest expansion in the UK's sanctions. As the coming Ukrainian offensive nears, Russia's illegal and

barbarous actions are clearer than ever. It was very welcome to see President Zelensky in the UK today, visiting Chequers. I hope that will translate into further concrete, ongoing support from the Government. We also welcomed the UK Government's announcement to the House of Commons last Thursday that further technical and hardware aid would allow Ukraine to prosper in its dealings and defend itself as robustly as possible.

In that vein, and before we go into details pertaining to the sanctions, I want to ask the Minister how the Government plan to use the fourth summit of Heads of State and Government of the Council of Europe. It is an opportunity to push for greater international support for Ukraine and bring about the further consensus that we must galvanise across our continent. Although we have seen committed support from many of our partners across Europe, we must always seek leadership opportunities to give voice to Ukraine's continued plight and to ensure that the continent's focus remains on the heinous crimes being committed against the Ukrainian people.

Labour has made clear that, should there be a change of Government, we will remain unshakeably committed to Ukraine's sovereignty, nationhood and people, as well as to our allies, partners and NATO against the attempts of Putin, or any other demagogue, to dislocate the global rules-based order. The UK's sanctions regime is one of the most critical weapons in our arsenal to achieve that, knowing as we do that, over the years, Russian oligarchs have had rather a picnic when they have been based in London.

There are two measures being debated tonight. I will deal with the first in detail. The Minister mentioned the second, on the question of whether individuals should be allowed to have £50,000 or more in their bank accounts when they are from the Russian Federation. Labour does not support the measure, and we will seek opportunities in Parliament to make that debate better known and to make our voice clear on that. It is weak, and it is allowing rich oligarchs to get away with putting £50,000 in their bank accounts without any questions being asked. Under the "know your client" obligations that banks are meant to adhere to, that would strengthen our—

The Chair: Order. I blame the Minister for opening up on that subject, but that is not within the scope of our debate. It is perfectly legitimate to respond to the Minister, but I would be grateful if we could move on shortly.

Leo Docherty: I apologise.

Catherine West: Just to clarify, are we deciding on that tonight, Sir Gary?

The Chair: No vote is to be taken this evening on the point that the Minister made.

Leo Docherty: It was just a tangential issue that we thought it was helpful to clarify.

The Chair: And he is very apologetic for having raised it.

Leo Docherty: Yes, because it was not in scope.

Catherine West: Thank you so much, Sir Gary, for that clarification. That was my initial impression: the officials were so kind as to provide a briefing to the Opposition and it was my understanding that that matter was coming forward at a later date. Therefore, we can leave the debate and the vote on that matter of principle—

Leo Docherty indicated assent.

Catherine West: I see the Minister nodding, which is positive, because I am sure that Members would not like to have that jumped on to them at the last minute.

To revert to the original reason for our being here this evening, I am pleased to see measures being debated about the sustained export of commodities to Russia. No sanctions regime worth its salt could countenance that, so my first question for the Minister is: why has it taken so long for this measure to be brought before the Committee? The exportation of aircraft parts, radio equipment and biotechnology, among other key items, goes against the spirit of our regime and could have been a contributing factor in sustaining Russian offensives and in their destructive impact on Ukraine. I understand that such measures take time to fine-tune and are a constant work in progress, but we are well over a year into this harrowing conflict and we were, until April, still exporting biotechnological materials and vehicle parts to the Russian Federation. My second question, therefore, is this. What is the total value of the equipment that is now covered by the new measures and has been exported to Russia since February 2022, and were the Government monitoring the rate of those exports prior to 21 April 2023, when those measures came into effect?

Labour is committed to supporting the Government in expanding the UK's sanctions regime, but time and again we come to Committees such as this to debate measures that, frankly, should have come into effect much sooner than a year and two months into this egregious conflict. I have a great appreciation for the work of the sanctions taskforce in the Foreign, Commonwealth and Development Office and for the staff of the Office of Financial Sanctions Implementation, but has further consideration been given by the Government and Ministers to questions about staffing levels and resourcing to ensure that critical measures such as these are brought in sooner rather than later, to ensure that the Russian war machine is sapped of resources more rapidly and more totally?

It is welcome that the Government will expand the sanctions regime in respect of the acquisition, supply and delivery of these goods and related financial, technical and brokering services, and Labour will of course support them. It is also welcome to see an expansion of existing prohibitions on importing iron and steel products. Concerns have been raised time and again that sanctions in this area are too weak and open to evasion. That is why I am profoundly concerned that this specific expansion will not come into force until the end of September. A similar statutory instrument, which I was delighted to cover for the shadow Minister for Europe, my hon. Friend the Member for Cardiff South and Penarth (Stephen Doughty), gave a bit too much notice to others that a sanction was coming in. Can the Minister account for why there seems to be an enduring series of delays with regulations such as these and across our

[Catherine West]

regime? Oligarchs and those across Russia's political class are not sitting idly by, waiting for their vast wealth to evaporate; they are seeking out ways to capitalise on the delays. I fear that the pace at which the Government are moving is only maximising what those people can retain in the long term.

I would now like to discuss oil and hydrocarbons. My hon. Friend the Member for Brent North made a very important point about how oil and hydrocarbons can be processed in third countries and then exported, even though they originated in the Russian Federation. Will the Minister clarify this? Does he think that we have a tight enough sanction to ensure that no profit returns to the federation to feed the war machine?

On 3 February, a general licence was issued by OFSI that

“permits the supply or delivery by ship of Russian crude oil and oil products, as well as provision of associated services, so long as the price paid for Russian oil or oil products is at or below the price cap”

of “\$60 per barrel”. Under this licence, a person may also

“supply or deliver Russian oil by ship from a place in Russia to a third country or from one third country to another third country provided that the Unit Price of the Russian oil concerned is at or below the Price Cap.”

OFSI also states:

“A service provider may provide relevant services to any person provided that the unit price of the Russian oil being supplied or delivered by ship from a place in Russia to a third country or from one third country to another third country is at or below the Price Cap.”

Will the Minister outline the motivation behind that general licence, given that we should be aspiring to end the proliferation of Russian oil across the world rather than encouraging it?

Secondly, how is the Minister ensuring that OFSI rigorously and assiduously enforces the price cap, and how many infringements have been collected? What monitoring is happening of the UK's role in the international oil market? Today, it seems there could be further cause for concern. The Minister might correct me, as the notice for this SI has been quite short, but the amendment to chapter 4I states that regulation 46Z6 will be omitted. That of course concerns the prohibition on the supply and delivery of Russian oil products. Will the Minister please clarify the purpose of that omission? At first glance, it appears that it would remove the prohibition on the supply and delivery of Russian oil, but I am sure that that is a drafting error. Perhaps the Minister could provide an assurance that the change has a purely technical or drafting purpose. I reached out to the Foreign, Commonwealth and Development Office for clarification on that point in advance of the Committee, and I am not sure whether this is up to date.

As I am sure we can all agree, oil is the bloodstream of Putin's war machine. As long as the UK continues to make inexplicable exemptions and grant implausible licences, it will continue to flow freely. We know that countries in Russia's geopolitical neighbourhood are purchasing tens of billions in oil products, and it seems entirely confounding and unacceptable that a drop of that oil should reach the UK, but that is what is happening because often it slips through various other

sanctions arrangements. I look forward to the Minister providing much needed clarity and I urge colleagues across the FCDO to consider that the integrity of our sanctions regime really is on the line.

I would like to raise an issue that I know my hon. Friend the shadow Europe Minister has relayed to the Minister on several occasions, which is the question of cryptocurrencies. My hon. Friend brought to the attention of the Minister two entities that the US Treasury sanctioned in August last year—TornadoCash and Blender. Those cryptocurrency mixers have been used to launder billions and obfuscate the proceeds from illicit cyber activity by scrambling the origin of transactions.

The Chair: Order. I hesitate to interrupt the hon. Lady, but there is no reference to cryptocurrency at all in the regulations we are discussing. Will she be very brief on this point?

Catherine West: Thank you, Sir Gary. I will conclude by saying that this is an opportunity to remind the Minister of what is left out of the sanctions regime. It is extraordinary that there is nothing on cryptocurrency in any of our sanctions to date, even though the US, our close ally, includes it.

In conclusion, I am sure the Minister will be unsurprised that I want to cover the issue of asset seizures and sequestration for the purposes of supporting the reconstruction of Ukraine, but I know that you, Sir Gary, will be very cross with me if I continue to raise matters that are not directly relevant. However, you will also understand and remember from when you were an Opposition Member that one can use these opportunities to slip in some more references to important matters.

The reconstruction of Ukraine, if the war ended today, is predicted to cost hundreds of billions, if not more than £1 trillion. De-mining alone could take decades, so I will not continue in that vein.

The Chair: I am very grateful.

Catherine West: I just want to mention that we are pushing the Government on that.

Finally, what conversations has the Minister had with his counterparts in the Ministry of Justice about proxies and how we can bring an end to the practice of others—for example, oligarchs—using different bank accounts to hide and obfuscate the location of assets? Will he comment on that, given that that is his brief, and will he give a hint as to how he thinks such measures might come forward in future months as we seek to strengthen the sanctions regime?

Putin's atrocious and illegal assault on Ukraine's nationhood and its people shows no sign of abating. We must use the financial tools available to us to hold the Russian Federation to account. The Labour party continues to stand with Ukraine, and ultimately the Government can rely on us to go even further, even more quickly, in the sanctions regime.

6.19 pm

Tommy Sheppard (Edinburgh East) (SNP): The third party supports every opportunity that we can take to apply leverage to the Russian Government to cease and desist their illegal war and occupation in Ukraine, so we are relaxed about supporting the proposals in the statutory instrument, but I have three brief observations. First,

like others I wonder why, given that the invasion happened on 24 February last year and the war has escalated to its present level, it has taken nearly 15 months for us to debate these measures. Secondly, with regard to iron and steel there will be a delay of another three and a half months before the measures come into effect; why is that?

Thirdly, throughout the section on revenue-generating goods, there is repeated reference to the fact that it is a defence against breaking the law if the respondent can demonstrate that they did not know that it was in operation. Normally, ignorance of the law is no defence against committing a crime, so I wonder why it has been felt necessary to state it not once but in every relevant regulation. If there is a reason for it, that is all well and good, but I am concerned that it could be used as a loophole. As the regulations are implemented, will the Department monitor the number of instances in which that defence is cited? If it is being used egregiously, we will need to take action to tighten it up.

Barry Gardiner: Does the hon. Gentleman, like me, want to push the question slightly further and ask the Minister whether any contracts were known to be in the pipeline that might have resulted in the legislation being delayed in the way that the hon. Gentleman just outlined, or indeed whether any contracts are now in the pipeline in relation to steel products that would make it convenient to have a delay in the legislation? Does he think that it would be sensible for the Minister to write to us to give reassurance on those points?

Tommy Sheppard: I concur with those observations and ask the Minister to respond. I can give a personal example: I am currently very much engaged in supporting the refurbishment of the King's Theatre in Edinburgh, which is a very big project. The price has escalated for a number of reasons, one of which is that the contractors are no longer using Russian steel, which was in the original proposals. That has led to a price increase. Given that that is happening in the real world, there must presumably be other contractors engaged who are not so concerned to demonstrate their action against Russian suppliers and the Russian Government. That is presumably why the regulations are necessary, but my point stands about the need to evaluate and monitor the number of times when ignorance is cited as a defence.

6.23 pm

Leo Docherty: At the outset, I confirm that I will happily write to the hon. Members for Brent North and for Edinburgh East with regard to the specific question

on steel contracts, to clarify that 100%. I thank all colleagues for their support of the statutory instrument. The Government are grateful for the cross-party support for our approach to this issue. We continue to lead on sanctions. The hon. Member for Hornsey and Wood Green referred to Zelensky's presence at Chequers today, which was another good sign of our close and tremendous support for Ukrainians in their hour of need, and I confirm that we will continue to lead on sanctions.

The regulations before us indicate not that we are slow in prohibiting certain things, but that sanctions evolve. Often it is in response to the operational landscape that certain parts and technologies that were hitherto not considered operationally or militarily important become apparent. When they do, we evolve our sanctions regime. That is why there is an iterative approach to our sanctions.

The hon. Lady asked a good question about enforcement. Of course, as part of our continued commitment to evolving and enforcing our sanctions, we are pleased to have announced a new economic deterrence initiative as part of our integrated review refresh. That consists of up to £50 million over two years to improve our sanctions implementation and enforcement. A lot of that funding is going into personnel to ensure that we get it right. I think that offers reassurance.

The hon. Lady asked a good question about hydrocarbons circumvention. I would be very pleased to ask the Minister of State to write to her to outline our approach to the oil cap and the issue of circumvention—and, of course, also on the role of OFSI.

We should be confident that we are in the lead and that our sanctions are biting. We have sanctioned more than 1,500 individuals and entities, which puts us right at the front of the pack in comparison with the EU and the US. Our sanctions have had a massive financial impact on the Russian economy. For example, the global assets of Russian banks that we have frozen amount to £960 billion, so the impact is very significant.

I am grateful for the support of colleagues today. The regulations are the latest addition to our package of sanctions, and we are committed to keeping up the pressure for as long as it takes. As the Prime Minister laid out when he met President Zelensky this morning, we stand firm and resolute alongside the people of Ukraine until they prevail. I commend the regulations to the Committee.

Question put and agreed to.

6.26 pm

Committee rose.

