

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Second Delegated Legislation Committee

RUSSIA (SANCTIONS) (EU EXIT)
(AMENDMENT) (NO. 5) REGULATIONS 2023

RUSSIA (SANCTIONS) (EU EXIT)
(AMENDMENT) (NO. 4) REGULATIONS 2023

Monday 22 January 2024

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Friday 26 January 2024

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The Committee consisted of the following Members:

Chair: GRAHAM STRINGER

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|---|---|
| † Byrne, Liam (<i>Birmingham, Hodge Hill</i>) (Lab) | † Jones, Gerald (<i>Merthyr Tydfil and Rhymney</i>) (Lab) |
| † Crouch, Tracey (<i>Chatham and Aylesford</i>) (Con) | † Mackrory, Cherilyn (<i>Truro and Falmouth</i>) (Con) |
| † Docherty, Leo (<i>Parliamentary Under-Secretary of State for Foreign, Commonwealth and Development Affairs</i>) | † McDonald, Stewart Malcolm (<i>Glasgow South</i>) (SNP) |
| † Doughty, Stephen (<i>Cardiff South and Penarth</i>) (Lab/Co-op) | Mishra, Navendu (<i>Stockport</i>) (Lab) |
| Duffield, Rosie (<i>Canterbury</i>) (Lab) | † Scully, Paul (<i>Sutton and Cheam</i>) (Con) |
| † Freeman, George (<i>Mid Norfolk</i>) (Con) | † Timpson, Edward (<i>Eddisbury</i>) (Con) |
| † Harris, Rebecca (<i>Comptroller of His Majesty's Household</i>) | Tolhurst, Kelly (<i>Rochester and Strood</i>) (Con) |
| † Hudson, Dr Neil (<i>Penrith and The Border</i>) (Con) | † Tracey, Craig (<i>North Warwickshire</i>) (Con) |
| Jardine, Christine (<i>Edinburgh West</i>) (LD) | Huw Yardley, <i>Committee Clerk</i> |
| | † attended the Committee |

Second Delegated Legislation Committee

Monday 22 January 2024

[GRAHAM STRINGER *in the Chair*]

Russia (Sanctions) (EU Exit) (Amendment) (No. 5) 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) (No. 5) Regulations 2023 (S.I., 2023, No. 1367).

The Chair: With this it will be convenient to discuss the Russia (Sanctions) (EU Exit) (Amendment) (No. 4) Regulations 2023 (S.I., 2023, No. 1364).

Leo Docherty: Both sets of regulations, which amend the Russia (Sanctions) (EU Exit) Regulations 2019, were laid on 14 December 2023 under powers provided by the Sanctions and Anti-Money Laundering Act 2018. They entered into force on 15 and 26 December 2023, and on 1 January 2024. The instrument has been considered and not reported by the Joint Committee on Statutory Instruments.

These instruments contain trade and financial measures, co-ordinated with our international partners, to increase the pressure on Putin over his brutal and illegal war against Ukraine. They ratchet up the pressure on Russia's war machine and economy as part of the most severe package of economic sanctions that that country has ever faced.

Starting with the No. 4 statutory instrument, this continues the UK Government's commitment to ban the export of all items that have been used by Russia on the battlefields to date. Building on existing, extensive prohibitions, the measure bans the export of further products that could be used by the Russian military or industry, including electronics and machine parts.

This legislation also delivers on commitments made by the Prime Minister at the G7 leaders summit last May to ban imports of Russian metals, including copper, aluminium and nickel, by the end of 2023. It also extends the existing prohibition on luxury goods to include a ban on services ancillary to their movement and use. That means that those subject to UK sanctions can no longer provide financial services and funds, technical assistance, or brokering services related to luxury goods. There are also amendments to other product definitions and coding to ensure clarity and consistency with partners.

On the financial side, the measure includes new obligations for persons designated under the Russia financial sanctions regime to report any assets they own, hold or control in the United Kingdom—or worldwide, as a UK person—to the relevant authorities. A further requirement has been placed on relevant firms to inform the Treasury of any foreign exchange

reserves and assets belonging to the Central Bank of the Russian Federation, the Russian Ministry of Finance or the Russian national wealth fund.

The measure also amends existing regulations, which prohibit UK credit and financial institutions from processing sterling payments that have travelled to, from or via sanctioned credit and financial institutions, to expand that prohibition to include non-sterling payments. That prohibition adds a new exception to enable UK credit and financial institutions to transfer funds internally in certain circumstances for the purposes of compliance with the regulation.

Finally, alongside the No. 4 SI, we have introduced a new financial sanctions licensing ground to support UK entities in divesting their Russian interests. The licensing ground will also permit UK entities to buy out investments from designated persons and the Russian state, provided that those funds go to a frozen account. We will proceed with a further prohibition on ancillary services related to metals when that can be done in concert with international partners.

Turning to the No. 5 SI and the direct diamonds ban, this measure delivers on the Prime Minister's commitment, made at the G7 summit last May, to tackle the revenue that Russia generates from the export of diamonds. It prohibits the import, acquisition, and supply and delivery of diamonds and diamond jewellery produced by Russia. A further G7-wide ban on the import of Russian diamonds processed in third countries is expected to come into force from 1 March this year.

Before I finish, I should add that the Joint Committee on Statutory Instruments has been informed of a minor drafting error in the Russia (Sanctions) (EU Exit) (Amendment) (No. 5) Regulations 2023—[*Interruption.*] It is just one word, folks, okay? To remedy that, we have identified another instrument where the error can be corrected. We aim to lay that later this year and it will come into force as soon as possible.

These latest measures demonstrate our determination to target those who participate in or facilitate Putin's illegal war. Overall, the UK has sanctioned more than 1,900 individuals and entities. More than £20 billion-worth of UK-Russia trade is now under sanction, resulting in a 94% fall in Russian imports to the UK—when comparing one-year pre-invasion with one-year post-invasion. There has also been a 74% fall in UK exports to Russia.

Sanctions are working. 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 bleak. The UK Government will continue to use sanctions to ratchet up the pressure until Putin ends his brutal invasion of Ukraine. We welcome the clear and continued cross-party support for this action. I commend the regulations to the Committee.

6.6 pm

Stephen Doughty (Cardiff South and Penarth) (Lab/Co-op): It is a pleasure to serve under your chairpersonship, Mr Stringer. I thank the Minister for bringing these measures to the Committee and relaying their significance to us today.

We all know that it has been a profoundly challenging winter for the people of Ukraine, particularly those on the frontlines. Although we are confronted by a world

in multiple crises at the moment, I am sure the Minister will agree that we must ensure that a Ukrainian victory remains at the forefront of our political and public consciousness, not only here in the UK but among our allies. He and I have had many conversations to that effect. There is unity in this House. He will have heard the clear statements made by the Leader of the Opposition in the Chamber the other day when responding to the Prime Minister.

We in the Labour Opposition stand resolutely with Ukraine and the Ukrainian people in their fight against Russia's illegal and barbaric war. We know that Ukraine fights not only for its own liberation and victory but for the wider security of Europe, the principles of democracy, liberty and the rule of law.

I draw attention to my declaration in the Register of Members' Financial Interests. In my capacity as a shadow Minister, I visited Ukraine last autumn, for the second time since the outbreak of this phase of the hostilities, and made clear our direct solidarity and engaged at the highest levels with President Zelensky and his Government, and with Ukrainian parliamentarians and representatives of civil society.

As the war continues and Russia's barbarism against civilians continues, we need to step up our support now and for the long haul, and also set an example to allies about what is needed, whether that is materiel or sanctions, to ensure a Ukrainian victory, that Putin is defeated, and that there is reconstruction and stability in Ukraine as it charts a definitive course towards Europe, NATO and the democratic rules-based order.

We have resolutely supported the Minister on such measures before and will continue to do so—we do not seek to divide the Committee today. We have also challenged where we do not think measures are robust enough or go far enough. I therefore have questions for the Minister.

On the regulations relating to diamonds, which were the second set that the Minister addressed, we welcomed the Government's commitment to prohibit the import of Russian-origin diamonds by the end of 2023, but I must ask again: why did it take so long to make that commitment back in May 2023? That was a year after this phase of the atrocious war started. The Minister mentioned that this is, as the explanatory memorandum states,

“the first step in implementing a broader ban”,

to be entered into force on 1 March. But that is two years on since the barbaric invasion. We know the types of commodities that Putin has been attempting to generate revenue from to fund his war machine. Why has it taken us two years to get to that? I have to ask again: what resourcing is being given to the Minister's excellent officials in the Foreign, Commonwealth and Development Office and also in the Office of Financial Sanctions Implementation to ensure that there is not only legal rigour behind the regulations—we have already heard of one small mistake in them—but that we have the capacity to fully implement and enforce them when necessary?

Another potential challenge that the Minister highlighted is the continued importation of materials and commodities through third countries. We have seen clear allegations—I have raised them on multiple occasions with the Minister

and his colleagues—about not only diamonds but Russian-origin oil and steel being refined and transited through third countries, and continuing to permeate the borders of the UK, Europe and the United States and reaching markets here. Does the Minister agree that that is completely unacceptable? Will he set out for us the steps the Department is taking to close loopholes not just in diamonds but in those other key commodities that fund the Putin war machine? Russian diamond miners generate about \$4.5 billion in revenue each year, which is a huge sum of money, and we must ensure that that is not helping to fund Putin's efforts against Ukraine.

Turning to the other set of regulations, we also welcome the commitment to banning the imports of Russian-origin aluminium, copper and nickel by the end of 2023. The explanatory memorandum states that these new trade restrictions also include:

“Prohibitions on the export, supply and delivery, and making available to, or for use in Russia of additional categories of goods with a potential for military and industrial application.”

As the Minister set out, that also includes a range of other components, including chemicals, electrical goods, metals, vehicles, machine parts, electronics and others, that could be used in Russian capabilities.

In November, a report in *The Times* brought to light that a British company had allegedly continued to ship semiconductors to Russia since the beginning of the war, and that they had been identified in at least one Russian tank deployed in the conflict against Ukraine. I brought the Government to the House over this very serious and glaring oversight, and other Members have raised concerns. It was also reported that the company stopped shipping to its Russian distributor only after the bank refused to process payments for those exports. That underscores that there have clearly been serious deficiencies in the implementation of our regime, and they must be addressed, despite what the Minister has said today.

I hope that the Minister can say a little more about what has happened in those investigations. I appreciate that there may be matters that he cannot go into, but can he provide assurance on reports that materials from not just the UK but our allies are finding their way into military applications that are being used by Russia against Ukraine? I have had this raised with me on a number of occasions by key senior Ukrainian officials. Given the fantastic support that we are giving—which is fully acknowledged—it would be absurd if there were loopholes and gaps through which we were unwittingly aiding and abetting the other side. Will the Minister tell us what steps are being taken?

Finally, these sanctions regimes need to be enforced and actions to be taken in order for them to be effective and to serve as a deterrent. Could the Minister update the Committee, or perhaps write to me as soon as possible, on how many prosecutions or actions have actually been taken under the Russia and Belarus sanctions regimes since they came into effect? I am afraid to say that my suspicion is that the answer is not many; that is certainly what I was told by the Minister's officials recently, in a meeting with his colleague who covers the wider sanctions regimes. We must take action, as we have heard that hundreds of companies informally admitted, in their words, “involuntarily” breaching regulations, and reported this themselves. If we are not seeing action being taken, it will not act as a deterrent

[Stephen Doughty]

to those who are actively trying to bypass these sanctions we have before us today, or indeed the other measures we have debated.

In June 2023, the House was unanimous in passing Labour's motion to compel the Government to introduce necessary legislation to fully seize, sequester and repurpose frozen Russian state assets within 90 days. It is now more than 200 days since that motion was passed, but we have not heard anything further from the Government. I appreciate that it is a complex matter, but that is very disappointing given the loopholes, the lack of speed and the failure to seize, not just freeze, Russian state assets so that they can be put towards the very substantial needs of Ukrainian reconstruction.

In conclusion, we support these measures. There is unity across the House, but I will continue to hold the Government's feet to the fire to ensure that these measures are as effective and consequential as possible. Ukraine needs that support, we need to defeat Putin's actions in Ukraine, and we need to stay united around the world and across our allies.

6.13 pm

Leo Docherty: I am grateful, as ever, for the measured approach taken by the shadow Minister, the hon. Member for Cardiff South and Penarth, in reiterating his support. He asked some very cogent questions, which I will seek to answer.

The hon. Gentleman asked why it had taken this amount of time to deal with the diamonds. He will know that subsequent to the invasion, a 35% tariff was immediately put on diamonds to reflect the change in circumstances. It took a bit of time to co-ordinate with allies, but we hope that this very forthright approach across the G7 will have a very big impact on the billions of dollars garnered by the Russian state on the sale of diamonds. Inevitably, it has taken some time to co-ordinate, but it will be very impactful now that it is in place.

The hon. Gentleman also asked about the resourcing of OFSI. I assure him that it is well resourced and that it has been an active part of the Government since 2016. Additional resource and effort have been committed since the Russian invasion. He asked a good question about the risk of sanctions evasion through third countries. That is something that we are keenly aware of. Day in, day out, we seek to close loopholes using our diplomatic network, our intelligence network and our alliances around the world to ensure that countries are not hosts to sanctions evasion behaviours. Often, they can be without their willing or knowledge. We are keenly aware of that risk, and a huge amount of institutional effort goes into preventing it.

Stephen Doughty: Could the Minister provide specific updates on the issue of the refined oil loophole—or, at least, write to me on that? It has been raised multiple times publicly. I have raised it privately and publicly with the Minister and his colleagues. There are also concerns about steel. These are very real. I am sure British people would be very concerned if they thought that any products that were aiding or abetting Russia were being used in this country.

Leo Docherty: I am grateful to the hon. Gentleman for raising that, and I commit to asking the Minister of State, Foreign, Commonwealth and Development Office, my right hon. Friend the Member for Berwick-upon-Tweed (Anne-Marie Trevelyan), who leads on this, to write on the refined oil issue. Given the sensitive nature of the topic, I will not comment in Committee on his good question about metals and the involvement of UK companies, but I will also ask my right hon. Friend to provide an update on that specific UK company in response to his question about imports and exports.

The hon. Gentleman also asked about enforcement, and I will ask my right hon. Friend for an update. We are taking action, but I will ask her to include an update on the numbers with regard to Russia and Belarus. He also asked a good question about the seizure of frozen assets. He will know that that is a long-standing expectation of the Government, and we hope that we can make progress on that, but it is extremely legally complex. If it was easy, we would have done it already. We continue to look at that. I think that is all I can say to the question of seizing frozen Russian assets. I thank him again for his questions, and I thank the Committee. These latest measures will be an important part of our sanctions package.

Tracey Crouch (Chatham and Aylesford) (Con): Both the shadow Minister and the Minister have mentioned Belarus. Will the Minister join me in paying tribute to Sir Tony Lloyd, the late Member for Rochdale? He was a fine campaigner, who I campaigned with on many issues in relation to Belarus, and he spoke on many occasions on sanctions against Russia.

Leo Docherty: I am very grateful to my hon. Friend for raising that. This Committee, and indeed the whole House, will remember the late hon. Member for Rochdale with fondness and admiration. His work as a parliamentarian was tremendous, specifically on this specific issue of Belarus. Of course, our sympathies are with his family at this time.

Stephen Doughty: I thank the Minister for that, and the House will have a wider opportunity to pay tribute tomorrow. We have been contacted by many people from the Belarus opposition, Ukraine and places in the western Balkans who were deeply affected by the work of the late Member for Rochdale. He was a friend and a great inspiration to me and many others in this place, and he was also a predecessor of the Minister as Minister for Europe.

Leo Docherty: I am grateful for those interventions.

The measures will of course be meaningful. Our sanctions continue to have a damaging impact on Putin's war machine and efforts. Without sanctions, we estimate that Russia would have had more than \$400 billion more with which to fund its war machine. On the UK Government side, we are committed to keeping up the pressure until Putin ends this brutal and senseless war.

Dr Neil Hudson (Penrith and The Border) (Con): I echo the comments of my hon. Friend the Member for Chatham and Aylesford and the hon. Member for Cardiff South and Penarth about the late Member for Rochdale.

I thank the Minister for outlining and clarifying these important sanctions measures, which show our resolute support for the people of Ukraine. Does he agree that it is so welcome that the Opposition and the Government are completely united on this? It sends a very strong, public statement to the world that we remain resolutely in support of our friends in Ukraine.

Leo Docherty: I am grateful for my hon. Friend's intervention. The year 2024 will be one in which our collective resolve is tested. It is therefore pleasing that across this House and this country, we are resolutely in support of our brave Ukrainian friends and clear in our international messaging, and clear to our international partners that we will support them for as long as it takes.

The measures in the regulations will help that. They bring in further restrictions on Russian ability to access strategic goods and technology from the UK and our global partners. We will ensure that they are policed and enforced in a way that is conducive to them being efficacious. We will continue to work in concert with

our allies—the EU, the US and other partners—to ensure that our sanctions have the maximum impact and that Russia cannot evade them or exploit loopholes. The measures reaffirm that we stand resolutely with the people of Ukraine and that we will continue our support for them for as long as it takes. I hope that the Committee will support the measures.

Question put and agreed to.

Resolved,

That the Committee has considered the Russia (Sanctions) (EU Exit) (Amendment) (No. 5) Regulations 2023 (S.I., 2023, 1367).

**RUSSIA (SANCTIONS) (EU EXIT)
(AMENDMENT) (NO. 4) REGULATIONS 2023**

Resolved,

That the Committee has considered the Russia (Sanctions) (EU Exit) (Amendment) (No. 4) Regulations 2023 (S.I., 2023, No. 1364).—(*Leo Docherty.*)

6.21 pm

Committee rose.

