

# Treasury Committee

## Oral evidence: Russia: effective economic sanctions, HC 1186

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Members present: Mel Stride (Chair); Rushanara Ali; Harriett Baldwin; Anthony Browne; Gareth Davies; Dame Angela Eagle; Emma Hardy; Kevin Hollinrake; Siobhain McDonagh; Alison Thewliss.

Questions 163-245

### Witnesses

**I:** Neil Roberts, Head of Marine and Aviation at Lloyd's Market Association; Elina Ribakova, Deputy Chief Economist at the Institute of International Finance; and Dr Nigel Gould-Davies, Senior Fellow for Russia and Eurasia at the International Institute for Strategic Studies.

### Examination of witnesses

Witnesses: Neil Roberts, Elina Ribakova and Dr Nigel Gould-Davies.

Q163 **Chair:** Good afternoon and welcome to the Treasury Committee hearing on Russia and the effectiveness of economic sanctions. We are very pleased to be joined by three witnesses this afternoon. I am going to ask them to briefly introduce themselves to the Committee. One witness is with us in person in the Committee Room, and two witnesses are joining us remotely, so we will start with our witness in the room. Neil, will you please introduce yourself to the Committee?

**Neil Roberts:** Good afternoon, everyone. I am Neil Roberts of the Lloyd's Market Association. As such, I represent all the managing agents trading in the London market—the Lloyd's market. Also, through my work with joint committees, I represent the companies that trade in the London market as well.

**Chair:** Thank you, Neil. Welcome and thank you for joining us. Elina, will you please introduce yourself?

**Elina Ribakova:** Hi, my name is Elina Ribakova. I am deputy chief economist at the Institute of International Finance. I have covered Russia for more than 20 years. I have also worked at the IMF and am a proud UK citizen, and it is a particular pleasure to be here today.



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**Chair:** Very good. Thank you, and thank you for joining us. And Nigel, please.

**Dr Gould-Davies:** I am Nigel Gould-Davies, senior fellow for Russia and Eurasia at the International Institute for Strategic Studies. I am also a long-time analyst and observer of Russia and post-Soviet states. Among other things, I am a former ambassador to Belarus. I was also head of the economic section at our embassy in Moscow in the mid to late 2000s.

Q164 **Chair:** Thank you for joining us. I will start with a question to you, Nigel, and then I will go to Elina. The UK Government have had a couple of months of escalating sanctions against Russia. Sanctions have various objectives: coercion, constraint, signalling disapproval, protection of assets. Against those kinds of objectives, how do you think the Government are doing at the moment?

**Dr Gould-Davies:** I think that, in common with and in close co-ordination with international partners, they have done very strongly so far and imposed a set of measures that are not only unprecedented in our own terms, but that have surprised and disconcerted the Russian authorities. This is becoming increasingly clear. There is much evidence I can offer for this. I draw attention in particular to assessments that have just been carried out by the Central Bank of Russia, where I think most of the technical experts who best understand the situation and the implications of sanctions work, and they are talking now about a forced structural transformation of the Russian economy. They have no illusions about how difficult the situation is making things. There are many other voices that I could mention that are expressing disconcertment at the unexpected scale and severity of the measures put on it. There is always more to do, but it is important that this is done as part of a wider international coalition, so the diplomacy has been effective. I think the UK Government have done well.

Q165 **Chair:** You mentioned the impact that the sanctions have had and the Russians themselves identifying that. How would you sum that up? What is going on in Russia at the moment, and what are we likely to see over the next month or so in terms of damage to the economy?

**Dr Gould-Davies:** I think it is very important to set realistic expectations, particularly about the timescale, whenever we talk about sanctions. They are not a light switch that you just turn on and instantly everything happens. Some things happen very quickly, and we have begun to see that, but it is better to measure the impact over months and the coming year and beyond. They are having macro, shocking effects that Russia is struggling to manage. They will continue to get worse. We are looking at forecasts of at least a 10%, and very likely greater, fall in GDP over the coming year. That will hit real incomes, as will other effects such as much higher inflation, including on some quite basic commodities and the very significant rise in interest rates.

But look, too, at the micro-economic consequences. Russia is being progressively deprived of a range of essential flows of goods and services.



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That is a consequence not only of the official sanctions but of the voluntary and private sector boycott, which is a unique feature of this situation—the voluntary decision of a very large number of companies and sectors quite critical to Russia to leave en masse. We have a situation now where the extent of the dependence of the Russian economy across a wide range of sectors on western imports in particular is being laid bare.

To give a couple of specific examples, in the past week we have seen senior Russian voices worry that, although Russia is a vast exporter of grain, it will begin to run into problems making bread, because most of the large industrial bread combines and factories rely on western imports. Russia now worries about its ability to access buttons for its clothing. Valentina Matviyenko, one of the senior figures around Putin, has complained publicly that, while Russia is a vast producer of metals, it imports nearly all its nails. In particular, in the areas of capital goods and machinery—things that make things—you had this enormous hollowing out of the Russian economy in the early 2000s, which was part of the story when I was serving in Moscow, and this rapid increase in dependence on machinery imports. There are other things as well, such as software of various kinds, which is critical for a whole range of sectors, but banks in particular.

In the short term they can cope, but when they need things like replacements and spare parts—look at the story with aircraft—we are going to see this progressive, cumulative, erosive capacity on the Russian economy. There is a question about the economic impacts, and also about the political effects, which are ultimately what we are looking at with sanctions. That is a key element of the story that we can explore. For now, I would say that, even at this early stage—I emphasise that it is an early stage, because sanctions are always a long game—we are seeing an unusual number of voices expressing disconcertment about this. Last week, Vladimir Lisin, the fifth-richest oligarch in Russia, said—he didn't just think it but said it publicly, which of course is quite a thing—that these sanctions could put back 30 years of economic progress in Russia.

**Q166 Chair:** Could we go back to the macro part of what you were describing, Nigel, and talk about the currency for a moment? The rouble collapsed, or went down very dramatically initially. It has now come back up. Even though we have frozen a lot of central bank reserves, the Russians have managed to support their currency, and it is back roughly where it was beforehand. Do you think that is a sustainable position? Did that surprise you? What are your thoughts on that?

**Dr Gould-Davies:** Elina will have thoughts on this as well. My view is that we should not exaggerate the importance of this. It is an artificial variable at this point that does not reflect the true, real underlying direction of travel of the Russian economy. The main reason for that is that the rouble is effectively no longer a convertible currency. There are severe restrictions that the central bank has imposed, in addition to the sanctions, on the ability of that currency to be traded, so it doesn't really reflect an underlying supply and demand for the currency. This is a largely centrally managed currency now. If we were to take the exchange rate



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alone as an indicator of the health of the economy, we might come to the conclusion that the sanctions aren't working, but we need to understand the extent of the administrative restrictions that have been imposed on it.

It is not a perfect analogy, but in Soviet times there was a rigorously centrally controlled official exchange rate, which had no real relationship to the state and direction of travel of the Russian economy. Again, I think Elina may wish in due course to comment on that.

**Q167 Chair:** I will come to Elina in a second. What do you think the UK Government should be doing that it is not doing at the moment? Where does it need to sharpen up?

**Dr Gould-Davies:** I think it is right that all the major decisions so far have been taken in concert with coalition partners. I favour this collective, joint approach, which is important in its own terms and important symbolically in signalling the continuing strength and unity of the international approach.

There are a couple of distinctive things that the UK could do. Where does the UK's unique role lie? Diplomatically, in the Commonwealth it is very important that this be seen as a genuinely global and not a western narrative and set of concerns. In addition, there is a question of the UK's role in financial services and what I describe as the home front of sanctions, which is restricting the access of malign money.

I would like to draw attention to some comments that were made in your earlier report of 23 March. The argument that I saw there was that these are different conversations. Sanctions, outward-looking and focusing on Russia, are one thing; looking to protect the UK's system is something different.

I would look at this in a slightly different way and say that, strategically, they must be seen as part of a single whole. Why is that? It is because the flows of money into the UK are something that we must be concerned about for, yes, anti-money laundering reasons—corruption and criminality—but for other reasons as well.

There are two other reasons. One is that, for money that can get out of Russia and find safe haven where the rule of law works, particularly the UK and the overseas territories as well, that outflow of money has long served as a stabilising function for the Russian regime. It has been a way that Russian elites have been able to make peace with their own system. Since they have been able to send assets abroad, they have needed to worry less about the fate of those assets. That has made them less actively concerned about the state of governance in their own country, because they know that their assets are not vulnerable. Closing that off imposes more pressures on elites and signals that, for elites, the status quo is unacceptable, and that supports part of the thrust of our sanctions, so that is very important.

Finally, of course, one of the consequences of restricting the flows of money into our system is that it restricts not just access to safe havens,



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but the malicious and maligned political influence on our system that this sort of money—or a proportion of it—has long sought to exert, so we are going back to the Russia report last year and the “Moscow’s Gold” report. Seen strategically, this home front is very important. It is a matter of not only the UK mainland, but the overseas territories as well.

**Q168 Chair:** Thank you. Just a very brief answer on this one. You mentioned businesses pulling out of Russia having an impact. How do you think British businesses are doing in that respect? You mentioned international co-operation being important. How do you think we are doing compared to other countries? I am thinking particularly of France, where there seems to be some ongoing criticism that a lot of their companies are staying there, whereas ours are pulling out. Do you think that is a fair representation?

**Dr Gould-Davies:** In making a comparison between Britain and France, one focus would be the energy industry. It is, to me, a strong decision that we could not have taken for granted or assumed in advance that BP and Shell are both going through that process now—leaving the country, divesting of their assets, which is a process that sanctions themselves make more complicated—in contrast to Total’s decision not to do so at this stage. That is the thing that comes to mind.

If one is looking more broadly across sectors, it seems to me that the businesses that are least minded to leave are disproportionately in the financial sector. When I look at the decisions and the discourse—the things that banks in particular are saying—I see a much narrower focus with compliance than with the larger ethical and political concerns that have driven companies in other sectors to withdraw.

**Q169 Chair:** Elina, I will come to you. We have covered a lot of ground there, so I will give you an open question. Of what we have discussed, what would you like to add to? What are your thoughts on the issues that we have covered so far?

**Elina Ribakova:** I would add that sanctions are a moving target. We cannot just shoot one arrow and think that the sanctions will work their way through the systems and have an impact. Also, some sanctions will have a reducing impact on the Russian economy. Just stepping back from the financial sanctions, in the early days we had massive bank runs on the financial system, including on SberBank. We know that for a fact. We can also see it from the financial sector’s statistics from the Central Bank of Russia and the liquidity provision they were forced to make in the early days, as well as SberBank’s own statements. The branches and the ATMs were running out of cash. Well, that has stopped. If you look at the statistics for February and March, deposits in March have fully recouped the loss that we saw from the financial system in February.

That means that the response of the central bank has been extremely successful. Yes, they took unpopular measures: they froze foreign currency deposits, they imposed capital controls, and they have hiked the rate more than twice. However, since they feel now that the financial



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system has stabilised and it is not presenting a risk to the economy, they have cut rates, and they are also gradually liberalising their foreign exchange controls. The last measure was taken last Friday.

The financial sector capital controls that are impacting the rouble, which Nigel has described so well, are twofold. One is the 80% export proceeds surrender requirement: that means any exporter has to surrender 80% of their foreign exchange that they earn to the central bank. That used to be three days—clearly, a desperate measure. Now it has been extended to 60 days, which gives much more leeway to exporters, including commodity exporters, to continue to manage their liquidity.

On the other hand, individuals could not withdraw any FX in significant amounts in the early days, and I know that originally, the statement was that they could do \$10,000 until September this year. In reality, I know from ex-colleagues in Russia that nobody could access it even from foreign banks, so the foreign banks could schedule you to access this money, but you could not actually do this at the time that people were moving. Now, apparently, you can withdraw \$10,000 per month; let's see if that is going to happen.

It seems that the central bank, with this skilled response, managed to prevent financial sector collapse on one hand. On the other hand, Russia is still enjoying significant current account inflows, so they might have to rectify, let's say, \$200 billion or \$250 billion—I have seen \$350 billion estimates. Our own estimate is about \$200 billion to \$250 billion inflow this year, compared to over \$300 billion of arrested foreign exchange—of frozen foreign exchange deposits. You can do the math: it is just about over a year that they will be able to recoup that.

Of course, because of the sanctions, the central bank itself cannot save reserves, it cannot buy on the market and it cannot intervene on the market, and the Ministry of Finance cannot do that as well. They cannot access their reserve fund, but they can use unsanctioned banks to accumulate that. They could spread it more evenly through the system of the unsanctioned financial institutions. It is also telling that since it is hard for them to accumulate this money, the money is pressing on the rouble. The rouble is strengthening, albeit in this very constrained, illiquid market, but none the less, there is strengthening pressure and—as you can see—the central bank is finding it too strong and trying to loosen up some of the capital requirements. That is one thing I would like to add: it is a moving target.

The second one, which we have already touched on, is the current account surpluses. The next big measure has to be somewhere in the energy sector, starting with oil products and eventually moving to gas. That is where the UK definitely has a lot of potential and power in co-ordination with others, because Russia will have to redirect seaborne oil elsewhere. Of course, it needs ships for that, it needs insurance for that and it needs financial support for that. That is where, even without resorting to the US secondary sanctions, Europe—especially the UK—has a lot that it can do.



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Q170 **Chair:** Thank you. It sounds from what you are saying that Russia has a lot of reserves. Yes, we have frozen some of those reserves, but it has a lot of inflows from the energy sector that are making up for that in the meantime. It seems from what you are saying that unless we get on top of serious energy sanctions, that situation is going to persist. Even if we did put forward serious energy sanctions on gas and oil, would Russia still not have sufficient reserves to keep their financial system fairly stable for a reasonable period of time anyway? How close to the edge are they in that sense, in your view?

**Elina Ribakova:** The financial system will likely remain stable for the foreseeable future. If we were to get to the energy inflows, I think that would undermine, first and foremost, the Ministry of Finance and its ability to generate revenues.

Oil and gas revenues account for between 35% and 50% of federal budget revenues. If you add the consolidated budget and the social funds—you know, the social payments—then it is a smaller share. We can also think, “We have oil and gas revenues. What are the other significant taxes that Russia collects?” We have VAT, import and export tariffs, personal and corporate income taxes, and social payments. All those revenues will contract significantly, so we are already seeing now that oil and gas revenues are almost coming again up to 50% of Russia’s federal budget revenues.

That will impact directly on Russia’s ability to finance the war, which is an important point, coupled with what Nigel was describing about the gradual impact on the supply chains in Russia. It will affect machinery—car manufacturers have already withdrawn—domestic investment, obviously the oil and gas sector, and even agriculture, where they will not have seeds for this year. Although companies are not yet refusing to supply them with seeds, they are already having shortages so they will have a problem with the harvest and reseeded next year and the year after.

The sanctions will have a continuing effect on the economy. The economy will contract, whether by minus 8%, minus 10% or minus 15%. Of course, there is very high uncertainty for us when forecasting. On top of that, they will cut off Russia’s budget ability to get revenue.

**Chair:** Thank you, both; that is very helpful. You mentioned insurance and transportation of oil and things. We are going to come to insurance with Neil, so let’s go to Gareth.

Q171 **Gareth Davies:** Thank you, Chair. Neil, I will cover insurance. Let’s start with the existing sanctions and restrictions that have been put on aviation and space. How impactful have those sanctions been on Russia and how impactful have they been on UK insurers?

**Neil Roberts:** That is a good question. The impact on Russia is difficult to say; the impact on the UK insurance market has been profound. It is not an unprecedented situation in terms of an aggressor country being sanctioned, but the volume and complexity of the legislation that has been coming out has been difficult for people to manage. Even very well-



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resourced compliance teams have been finding this troublesome. Insurers are not as well resourced as banks, and they are also finding it difficult.

Q172 **Gareth Davies:** That is the operational execution of the sanctions, but what about the impact on the business of UK insurers? How impactful has it been?

**Neil Roberts:** The first thing was to understand exposure and insurers gave notice in aviation, where they could. We were in liaison with the EU, who were seeking to impose controls as well. We said to them, "Be clear." Until the invasion, they were very concerned to keep aircraft flying because they wanted to enable the repatriation of citizens who were stuck or who could have been stuck. They were in liaison with NATO. We didn't get any further information from them, but the aviation market took its own steps as soon as things became clear. We have a considerable portion of the aviation war market in London—90% or 95%, or something like that—but that relies on European reinsurance to some extent as well.

Yes, there has been a very serious effect as the aviation premium is relatively low and the possible claims from the lease aircraft are relatively very large. One has already been put in from AerCap for \$3.5 billion.

Q173 **Gareth Davies:** Okay. Is there any data on how this is affecting Russian operations of aircraft?

**Neil Roberts:** I am afraid I don't have any figures.

Q174 **Gareth Davies:** Can Russia go elsewhere? What proportion of our insurance is Russian aviation? How big a player are we in Russian aviation insurance?

**Neil Roberts:** Again, it is very difficult, because directly it is very, very small. In terms of a portion of the Lloyd's premium, it is less than 0.25%, or something like that, for all Russian direct interest. It is the indirect interests that are more difficult to assimilate. If Russia were to seize those aircraft in the way that it has set up legislation to be able to do, it would have its own new fleet, if you like. It wouldn't necessarily need to go elsewhere. It would have the planes and it would use them itself.

Q175 **Gareth Davies:** Did I hear you correctly that 95% of aviation insurance is done through the UK?

**Neil Roberts:** Aviation war, yes, but not airlines.

Q176 **Gareth Davies:** I see. What other countries could Russia potentially go to for this insurance?

**Neil Roberts:** Anyone who is not affected by the sanctions, for a start, so you would be looking for the non-aligned areas—India, Japan and that sort of area.

Q177 **Gareth Davies:** Do you have any indication that that is taking place?

**Neil Roberts:** Not yet, no. The problem with the legislation is that it is very complex, and people have not necessarily understood how it affects



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them. We have taken our own legal advice, clients have taken their own legal advice and brokers have taken their own legal advice, and they generally don't quite match up. You're left with extreme caution because people do not wish to infringe the sanctions as the penalties are extreme; they will therefore err on the side of caution, and there won't be any trade.

None the less, the EU has recently reversed its position and allowed flights into Russia. As you may remember, the original sanction said that you cannot do anything if it's "for use in Russia", which asks a lot of questions because it's not very well defined. You might think it sounds right, but insurance is predicated on law and the law is binary: either it is or it isn't. It's best to know—or to define—what isn't, and that was quite difficult to ascertain.

**Q178 Gareth Davies:** Right at the beginning, you made a complaint about the execution of the sanctions and how that was causing difficulties for the companies that you are here representing. What were the main issues with that, and what have those companies found the most complex or complicated to execute?

**Neil Roberts:** First, the base document was probably not the right starting point. There are currently seven annexes that have to be cross-referenced with the original document. They are not embedded in the original document, so it is difficult to understand—it is not in one place. There are descriptions of banned items, for example, which are not necessarily logical. You have central heating boilers above vessels, and they are not defined properly; they are just boilers, and you have to check what they are.

There are all sorts of things, such as the complexity of "for use in Russia". The satellite market, for instance, wants to know if they are overflying Russia, are being used in Russia. Is "in space" defined as "in Russia"? Are television signals permitted? We need to remember that sanctions cut both ways, so there will be defence interests here. We presumably don't wish to stop getting data from Russia, but are people impeded from doing that? That isn't necessarily clear.

**Q179 Gareth Davies:** What level of engagement did Lloyd's have with the Treasury or any Government Department on the construction of these sanctions?

**Neil Roberts:** There was considerable engagement at a higher level. It was possibly not perfect, in that the Treasury talked to people who are highly placed rather than the experts who were needed, because it was kept very close. What came out had to be amended with what is termed a licence because of shortcomings in the legislation—that was certainly the case in marine. With the EU clarifying the stuff about flights in now being permitted, we have followed that. That licence was described as being very difficult to follow, to put it politely.

**Q180 Gareth Davies:** So you're saying that there was engagement, but it wasn't with the right people within Lloyd's who are specialists in this



area?

**Neil Roberts:** I would say there was an element of that, yes.

Q181 **Gareth Davies:** Okay. Speaking generally about claims into the UK insurance market as a result of the invasion of Ukraine, do you envisage there being an impact on an increase in claims?

**Neil Roberts:** In aviation?

**Gareth Davies:** Just generally.

**Neil Roberts:** Generally, we have mentioned the lease problem, which is unquantifiable at this point, but it could be a very large number—it could be unpleasantly large. In marine, a number of vessels have been attacked and damaged, with 87 trapped alongside. Then you have problems with rescuing crew: they have been given the option of staying on the vessel or not, but of course they have declining supplies. If you want to get them off, you have to get them through a warzone on buses, perhaps to Moldova, and that's expensive—maybe £10,000 to £15,000 per seat on the buses. That money flows back to the war insurers—to the war P&I insurers, to be precise. That is considerable.

There is also the supply chain element, which we cannot ignore. We look ahead to grain—if that cannot be got out of Ukraine, you will have second-order effects in the middle east, because they depend on that grain.

Q182 **Gareth Davies:** You mentioned marine; it sounds like the biggest impact in terms of claims is on vessels in the marine sector.

**Neil Roberts:** At this time.

Q183 **Gareth Davies:** At this time, but it may be elsewhere in time. I understand that tanker traffic data shows that self-sanctioning in the marine sector is having very limited effect on the Russian shipping industry. Looking forward, do you see sanctions on insurance in the marine sector being a potential option for the Government?

**Neil Roberts:** Of course it is a potential option.

Q184 **Gareth Davies:** Okay, let me put it a different way. Do you think the British Government should do it?

**Neil Roberts:** I would rather not comment on Government policy directly, but I draw a parallel with Italy in 1935, when there were sanctions put on an aggressor state, but there was confusion as to whether or not they would put sanctions on oil, and they therefore failed because there was not significant support. Now, we do not have all the G20 supporting the sanctions at this time. We do not have agreement whether there should be a sanction on oil and/or gas, because some of our EU partners are exceptionally dependent on those commodities, and we would not like to destabilise them. On the other hand, you are up against an aggressor state that is not deterred by having its credit cards removed.

Q185 **Gareth Davies:** Do you think we have not made insurance sanctions on



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the marine sector because of the impact on our allies in Europe and the effect on the energy market?

**Neil Roberts:** I think it must be a major factor, yes.

Q186 **Gareth Davies:** How important is protection and indemnity insurance in the marine sector? Can they still sail? How does it work? Can they just ignore it and sail without insurance?

**Neil Roberts:** There is always an element of sails without insurance, but generally, no. For states, that will be unacceptable, because if there was a pollution incident, they would need protection from the insurance industry, otherwise they would have to pay out for those incidents. P&I supports 95% of the world fleet. There are 48,000 vessels in the world fleet. Direct insurance supports them as well, but it is not all placed in London. London has maybe 20%, so there are other strong markets in the world for hull insurance. The London market, however, is very strong on the war side. It runs 80% of that, I would say, in terms of insurance and reinsurance.

Q187 **Gareth Davies:** Let me ask the same question for marine. We have less coverage from the UK in terms of marine insurance. Which other countries would Russia go to if we did impose sanctions on their shipping sector?

**Neil Roberts:** The natural countries would be our competitors, which are Norway, America and France, but they fall within the sanctions regime, so we would be looking to the far east, probably, or the middle east.

Q188 **Chair:** Are those markets deep enough to handle all this in the timeframe that we might be looking at?

**Neil Roberts:** Not in the short term, no. It cannot simply be transferred across. The other thing is that insurance is a legally binding contract; you cannot cancel it straightaway. Even if it comes to a natural end, it runs for the duration that is set, so many of them will be running at least until the end of the year, for example. You would not see a change of cover until that point. Unless there is a contractual reason to cancel, we would be in breach. We are continuing the cover while we are legally allowed to do so.

Indeed, insurers are facilitators of world trade. It is worth bearing in mind that sanctions are the complete opposite and seek to stop world trade. They use insurance as a kind of a police arm, when we do not have any police powers. If you think of the world as a body, the arteries are the trade systems, the ships are the red blood cells and the insurers are the white blood cells. The sanctions are an infection that slows it all down.

**Chair:** That is an interesting way of putting it. Thank you.

Q189 **Rushanara Ali:** I have some questions about the current and potential sanctions, starting with Elina. You described how it is possible improve synchronisation and tightening of financial sanctions by both banks and countries. What do you see as the inconsistencies in the global financial sanctions effort, and how can they be tightened up?



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**Elina Ribakova:** Different sanctions are put on different financial institutions across Europe, the UK and the US. At times, that complicates the compliance and the transaction processing by the financial industry. Furthermore, in the European Union—much less so in the UK and the US—there is obviously not a single authority that can respond to any questions about inconsistencies. We have been in contact with individual European authorities, which has been very successful, but there are still implementation questions.

In the case of the US, OFAC has a lot of experience of industry participants, or anybody else, sending letters and asking questions. Those eventually get added to the questions and answers page on its website, and oftentimes it even responds directly. Of course, that helps smooth the implementation of the financial sector sanctions.

Some of the key differences concern top Russian SOE banks. I can provide you with the summary table, rather than going into the detail of each individual bank, because I am bound to make a mistake and not remember something correctly. If that would be helpful, I am happy to do that.

Q190 **Rushanara Ali:** Thank you. On that, and specifically in relation to the UK, we have some exemptions in relation to sanctions against Russian banks. One of the few remaining freedoms is a licence allowing SberBank to continue making payments for energy. How big a loophole would you consider that to be, and can that payment route be properly supervised?

**Elina Ribakova:** I think this is actually two questions. The first question is on the effectiveness. It is hard to fully separate that financial sanctions are financial sanctions, while energy sanctions are something else. Of course, with the measures that we have taken earlier on, some of the financial sector sanctions, including insurance, which we have just talked about, have spilled over into being de facto trade sanctions, or trade embargo-like. If one were to close off, for example, SberBank's, Gazprombank's, and other banks', abilities to receive energy payments, it is in fact an energy embargo. Do we want to do that in a cleaner way via an energy embargo? That may be an open question.

If one were to remove SberBank's ability to trade in energy, Russia would continue doing that via Gazprombank. To me, as an economist, it is almost irrelevant. I think that the question and decision needs to be made, first of all, on the energy policy, and on what we are doing with Russia's ability to trade energy. Would removing SberBank's ability to trade energy impact on domestic financial stability, at this stage? I am not sure. I think it might have a marginal effect. I think the sanctions will become a bit cleaner, but I doubt whether it would have the same effect that we saw immediately after the 24th and the financial sector sanctions.

Q191 **Rushanara Ali:** In terms of the broader issues, there was a quote by Josep Borrell, the EU's foreign policy chief, who said that while the EU has pledged €1 billion in military aid to Ukraine, "That might seem like a lot but €1 billion is what we're paying Putin every day for the energy he



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provides us with. Since the start of the war, we've given him €35 billion, compared to the €1 billion we've given Ukraine to arm itself." In terms of the geopolitical dimension to all of this, and the implications, as there are wider issues, I wondered if anyone else wanted to come in on that point—perhaps Dr Nigel, or either of you, in fact.

**Elina Ribakova:** If I could just say this very quickly, and then pass on to Nigel, it is incredibly important. The leading countries, and especially the EU, buy the bulk of Russia's oil and gas exports, so the numbers they are quoting are not surprising. What you quoted just now was that we are effectively providing the foreign exchange inflows and the financing for Russia's budget to be able to continue the war and continue paying its soldiers and policemen to police domestic discontent. That is my key point on that; I will pass on to Nigel.

**Dr Gould-Davies:** Thank you. There are two ways of framing the question. One is to ask, as it were, the global question. If we are looking at the totality of sanctions regimes imposed on Russia, what are the gaps, limitations and inconsistencies? The second is a UK-centric question, which is, if we look specifically at the UK's role, and its actual and potential contribution to sanctions, what difference can the UK specifically make?

If we are looking at that first set of issues—that global focus—then yes, statements like Josep Borrell's are very relevant and draw attention to a point that has already come up. The major gap is the continued importance of Russia as an energy exporter, although not to the UK, specifically; it is much more a matter of continental Europe, of course.

The political question of the hour—which is roiling in Germany and elsewhere—is how do we think about the trade-offs between, on the one hand, the costs of restricting inflows of Russian oil and gas to the continent, and on the other hand, the costs we are prepared to impose on Russia? Except for the nexus of energy finance payments, which Elina alluded to, the UK does not specifically have any particular equity in that, it seems to me. Of course, in some of its recent sanctions, the UK has already begun to move towards weaning itself off its remaining imports of energy directly—which were never very important.

If one is looking specifically at the financial sector, there is always more that can be done; there are always more banks that can be sanctioned or de-SWIFT-ed. There is always the danger, which Elina alluded to earlier, that those Russian banks that are subject to sanctions will simply hand on that business elsewhere, and that there will be chinks in the armour of sanctions created as a consequence of unsanctioned banks. Looking more broadly across the Russian financial sector at other targets would not be a bad thing.

That brings me to a larger point about the way that everyone approaches the design of sanctions at the moment. What we are all doing—the UK and partners, including the US—is looking at the present set of relationships between Russia and the rest of the global economy and asking, "Which of these should we restrict or sanction? How much more restrictive can we



make Russia's access to the global economic and financial system?" Here is a different approach that turns that on its head; any voluntary transaction that Russia engages in by definition benefits Russia, because it is voluntarily engaged in it. Why not ask the question this way, not, "How much more restrictive can we make Russia's access to the global economy"? Instead, let's start with a blank sheet of paper and assume that Russia is completely isolated from the global economy, and then add the transactions we do not wish to sanction. That takes us to the other end of the spectrum.

If the presumption is that any transaction that Russia engages in makes Russia better off, why not start with the assumption that all of it should be sanctioned, and then build in the exceptions? Specify the transactions we are not going to sanction, rather than specifying the transactions and relationships that we are going to sanction. That would be a much more radical approach, but it draws attention to the fact that overall, if we are concerned about preventing Russia benefiting from access to the global economic and financial system, there is a great deal more we can do.

**Q192 Rushanara Ali:** Your approach is very radical. You mentioned a number of institutions that haven't been sanctioned; if you were not taking that very radical approach, which ones would you pick for further sanctioning—if you had to be selective?

**Dr Gould-Davies:** It would be a number of the banks, in particular. As Elina said, the best thing to do is to go away and check exactly what banks have and haven't—we do not have all of those details in our minds. However, we can easily get an answer to you.

**Rushanara Ali:** Yes, Elina has a very impressive table in her Twitter feed that I have had a look at. Thank you—I think my time is up.

**Q193 Emma Hardy:** Russia is believed to hold around 20% of its central bank reserves as gold in its own vaults. How can it use that domestic gold to support its operations? I will let you choose who goes first.

**Elina Ribakova:** Maybe I will start and then I will leave the difficult part to Nigel.

I think Russia has found it effectively a hard time using gold practically. I think that the central bank was unprepared for the freezing of their assets; I think they were utterly surprised how quickly and also in how well coordinated a way those measures came in.

Yes, they spent some time divesting from the US treasuries, because they were worried about some sort of financial markets measures; the more traditional financial markets measures. Yes, they tried to move the physical presence of their reserves a little bit more from the US, but actually not much from Europe. And of course they pivoted towards the renminbi and domestic gold. However, even despite that I think they were really unprepared for the degree of the sanctions and the co-ordination and freezing of their assets; there is no doubt about that in my mind.



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On gold, there are benefits of it, right? It's onshore and in theory you can try to use it by swaps or even physically try to sell it outside, and we have seen in the past sanctions avoidance by Iran and North Korea, where there were allegations that maybe the planes were stopped carrying the gold, and also transactions took place via Turkish banks; we know that there was a long sanctions story about that in the US relating to Iran. Effectively, however, Russia is finding itself in a very difficult position of trying to use this gold.

At the moment, they also feel that they don't need to, because the capital controls have worked and they are successful at destabilising exchange rate, even though it's an artificial exchange rate as Nigel has described. Also, they still have enough fiscal revenues going in that they are not in a desperate position. We know that it has been secretive how many measures the Minister of Finance is planning to implement in order to support the economy, but it doesn't sound like they are planning dramatic measures to support the economy.

I think that on gold, so far they found it very difficult to use, but at the same time they are not desperate enough.

Q194 **Emma Hardy:** Okay. And can they use their gold to prop up the value of the rouble?

**Elina Ribakova:** It would require very complicated financial engineering to be able to do that. I would say the short answer is no; the long answer is that they would have to find a very complicated way of avoiding sanctions and potentially getting non-Russian banks involved in this operation.

Q195 **Emma Hardy:** I was reading before that obviously there is the physical difficulty of selling gold and actually moving it around. What are the alternatives to the London and US gold markets, which are obviously shut off to Russia? Is China where we would expect to see Russia looking?

**Elina Ribakova:** I think China would definitely be an obvious market they could try. I think that would probably require some swaps with foreign financial institutions that will make gold liquid. There is an additional problem with that, namely that the central bank itself is sanctioned. So, the central bank, for the purposes of management of reserves and one would say that intervention on the domestic rouble market would breach those sanctions—although I am not a lawyer, as an economist I would interpret it that way. Then making gold liquid in some form of foreign exchange and using that to intervene in the domestic market would be a breach of sanctions.

Q196 **Emma Hardy:** We believe that Russia has been accumulating gold for a while. I suppose that what I want to find out is why, and how can they use that to their benefit now? And if we are saying that there is a difficulty in transporting gold and it cannot be used to prop up the value of the rouble, and they cannot use the London and US gold markets, how will they use all this gold that they have managed to accumulate to their advantage?



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**Elina Ribakova:** I think in their mind it is a going-backwards process. If we cannot use US dollars or US treasuries, and if we have doubts about the euro, what other options are there? And there are not that many options. They tried renminbi, but that market is not liquid at all and also the currency is subject to capital controls. Then they are a very significant producer of gold, and it is onshore, so it is something that is easier for them to place money into.

I think that it is not a case of thinking, "Oh, it's such a wonderful instrument we can use it"; it's more that there are so many other instruments that you cannot use, so what are the other options? I think that if the central bank had been more prepared for sanctions, what they would and should have done—although obviously they were not informed, just like the rest of us—was to accumulate more foreign exchange cash domestically. So, imports of dollar and euro cash—they tried it, probably, in the early days, but very quickly that was shut off. And that is what could really have been used effectively and it would have been much harder to trace.

Q197 **Emma Hardy:** You mentioned the issues around China buying it. Are there any alternative buyers in unregulated markets that could look at purchasing some of this if Russia suddenly needed to get an injection of cash?

**Elina Ribakova:** I am not aware of that. I don't want to speculate.

Q198 **Emma Hardy:** Okay. Do you think the UK has enough strength in the gold market area to be able realistically to threaten secondary sanctions on anyone who purchases Russian gold overseas? Some of the articles mention a number of different countries, as well as China. Could we seriously and realistically sanction them?

**Elina Ribakova:** I think that the strength of the sanctions has been the fact that they were put together across different jurisdictions and in a highly co-ordinated fashion. Of course, the UK has a very vibrant gold market and would have a very strong impact, but other countries coming in to support that—the US and in Europe, for example—would definitely squeeze out Russia's ability to put it on other markets that aren't participating in the sanctions.

Q199 **Emma Hardy:** Nigel, did you want to come in on any of that?

**Dr Gould-Davies:** Just a couple of quick thoughts. As you noted, Russia has in recent years increased its purchases of gold as part of a larger partial de-dollarisation that it is engaged in, but my sense is that that was not carried out specifically to anticipate the prospect of the freezing of central bank reserves. It was for other reasons. That means that it is not even a partial solution to the problem that it now faces—much of its reserves have been frozen. Indeed, as has already been mentioned, since the central bank has been sanctioned, sanctioning countries are not allowed to transact with it. That imposes severe restrictions on the ability to use gold.



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It is possible that they will now try to sell some of this gold to their own citizens. That might be a way of propping up the rouble. I think there are signs, as you often get in a crisis, of a growing interest, among some Russian citizens at least, in buying gold. Beyond that, I share Elina's view that this is not a way out of the sanctions on the central bank that they now face.

Q200 **Emma Hardy:** Neil, did you want to add anything?

**Neil Roberts:** I would just say that there is a massively complicated sanctions regime already. We are an international market, so we don't just comply with UK sanctions; we also comply with the US and the EU. The UK alone has designated 46,000 individuals and 23,000 entities, and there are 17 other lists that insurers have to check. It is a due diligence burden, there will be mistakes—they are inevitable—and we are in a strict liability regime. There will be problems with some of this, whereas perhaps if we had taken a more radical approach, as suggested by Rushanara, that would have made it easier for us in terms of being clear—a complete embargo with bits that you do want to have rather than everything and being a bit vague about what we can and can't do.

Q201 **Kevin Hollinrake:** We have talked about this quite a lot already. These questions are for Elina and Nigel. On central bank sanctions, we heard earlier in this inquiry that freezing the foreign currency reserves was a very important and unprecedented intervention. Nevertheless, it doesn't seem to have had the effect that we thought it would have right at the start. Has it been a failure?

**Elina Ribakova:** Absolutely and undoubtedly it has not been a failure. In 2014 the US—and other countries, including the UK, but it was mostly the US—found a point of leverage vis-à-vis Russia. Russian corporates were borrowing a lot abroad. They were borrowing \$700 billion outstanding stock of cross-borrowing, and we found leverage. There are vibrant capital markets in the US, Europe and the UK in particular, and we cut off Russian corporates from borrowing there. Money was repaid—\$250 billion was repaid—and it created important pain for the economy.

Since then, Russian authorities decided that they were going to build fortress Russia, and the fundamental objective of fortress Russia was to build enough reserves so that the next time they get cut out, they will be able to use those reserves and will be insulated and isolated from further threats. By sanctioning the central bank and freezing those assets, we went at the core of the fortress Russia stratagem—we cut it off. I think that had a very strong impact. As Nigel described earlier, it had an immediate impact, and it will also have an impact over time. The Russian Minister of Finance and the Russian central bank will not be able to have access to those reserves. We have just discussed gold and other difficulties of using what they do have in order to support the market.

If the reserves were not frozen, it is possible that the Russian central bank would not have taken capital control measures; they would have just entered into the market, but that option was not available to them. You



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can see that from the central bank's statements. Early on, before the weekend when the central bank freezing of reserves took place, the central bank was intervening on the Thursday and Friday—the governor said as much. As soon as the central bank freezing of assets came in, she said in the first meeting, "Look, we have stopped intervening," basically implying that it was a result of the sanctions. So I think, yes, it was very significant.

**Dr Gould-Davies:** I fully agree with that. As Elina said, the accumulation of these reserves was carried out at a cost to the Russian economy, because when you are running this extremely conservative fiscal policy, you are suppressing growth. The calculation that Putin made was that he could restrict the growth, feeble and anaemic as it has been since 2012 or so, and increase the repression to deal with the inevitable growing discontent and the real decline in living standards that it led to, yet ultimately it was all to no avail. It is absolutely clear from the candid statements of a number of senior officials in Russia that they just did not see this coming, and they have been struggling to respond since.

I come back to a point that I made at the very start. When judging this or any other sanction, strategic patience is of the essence. These are not light switches; they are dimmer switches, and the dimmer switch is going down on the Russian economy in all sorts of directions at this point.

Q202 **Kevin Hollinrake:** That is useful. You say it suppressed growth, Nigel. By what degree would you say it suppressed growth? What level of decline in living standards would there have been as a result?

**Dr Gould-Davies:** If one is looking at the overall performance of the Russian economy since about 2012, there has been a decline in real living standards by something of the order of 15%. I need to check the exact figure—of course, there are people in the IMF and elsewhere who follow this closely—but it is pretty substantial. There is more than one reason for that, of course. The very conservative fiscal policy is one, other existing sanctions imposed since 2014 are a second, and the chronic dysfunction and corruption of the Russian political economy is a third, so we cannot ascribe all that simply to the effects of accumulating reserves, but it has certainly made a contribution. It has been one of the worst performing major economies in the world as a consequence of all those facts, and it faces further factors and further decline—much more significant decline—over the coming year and beyond.

Q203 **Kevin Hollinrake:** Would you be able to attribute it specifically to the sanctions on the central bank that have been put in place recently? What level of hit to the Russian economy has that had?

**Dr Gould-Davies:** It is very hard to isolate one sanction at this point. Again, we are looking at around 60 days or so, so it is really not long. We have already discussed some of the scenario forecasts for the coming year—at least a 10% decline, but that is all the sanctions taken together.

Q204 **Kevin Hollinrake:** We heard previously that the rouble is back to its level prior to the sanctions being put in place, but it is not a tradeable



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currency. What would the rouble be if it were a tradeable currency right now?

**Elina Ribakova:** Perhaps I will chime in on that one. If you look at the experience of 2014, particularly over Christmas—a somewhat illiquid moment—you could have easily seen the rouble 50% or even 100% weaker than where we are now. There are two different factors now, compared with the previous crisis. One important factor is the extremely skilled response of the Central Bank of Russia. It is still full of highly skilled technocrats and, as Nigel pointed out, they are publishing very honest research. Frankly, I am concerned about how long they will be able to continue publishing this very honest research. Governor Nabiullina said very clearly, “We used to have the recovery from covid—the economy grew at 4.7% last year and we were expecting 3% this year. Now we are going to have this dramatic transformation across the whole economy.”

So they have a skilled response effort. But we have seen in past crises that domestic resident outflows of \$200 billion, a lot of which is conversion—dollarisation—or maybe just flowing money abroad, definitely pushes the rouble significantly. Now we are talking about strengthening to the pre-crisis level. We have seen about a \$60 billion inflow on the first quarter current account surplus. With an open capital account, that would easily see the same \$60 billion at least leaving the country, if not more.

Q205 **Kevin Hollinrake:** What other actions can we take in this area now to make life more difficult for Russia?

**Elina Ribakova:** In the area of balance of payments and capital flows?

**Kevin Hollinrake:** Yes.

**Elina Ribakova:** Continuing to prevent flight from Russia into the jurisdictions that Nigel just described in terms of, “Is there high rule of law?” I think that also worries the Central Bank of Russia. It is gradually loosening up domestic capital controls, because they worry about the rouble being even a little bit too strong, but at the same time, as we know, Russian capital financial accounts are extremely leaky, even with the capital controls. We have these massive flows and an accumulation of potentially corrupt wealth that is sitting there. Some of it has already left the country, but not all of it. Preventing them from finding a home, whether it be the UK or other offshore centres, is critical. We have all read Panama papers reports about just how creative some of this Russian capital flight is, and the Central Bank of Russia does not always have the ability to control it. You may remember that one of the deputy governors responsible for banking supervision some years ago, before the current Administration, was shot on the street.

Q206 **Kevin Hollinrake:** Nigel, any thoughts on what else can be done?

**Dr Gould-Davies:** I have nothing to add to what Elina has said.

Q207 **Kevin Hollinrake:** We have talked about the strong current account surplus that Russia has. Will that persist in the longer term, or will that be a temporary factor?



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**Elina Ribakova:** I think it is very likely to persist in the longer term unless sanctions are taken. That is because even if the commodity prices might come off, we already see the discount to Urals versus Brent; it is between \$25 and \$30—sometimes more. It might increase a little bit, but none the less, for Russia it is enough, and it is unlikely to significantly stop production. We have seen analysts expecting a 10% to 20% drop in Russian output of oil. We are looking at this number, and I have seen even higher numbers. But even with a lower output, with high enough prices, Russia continues to enjoy a balance of payments and fiscal inflows. As long as the commodity prices remain where they are at least, we expect to see inflows.

On the other side—imports—as Nigel has been describing, many companies cannot work with Russia anymore, either because of direct sanctions or indirectly because of reputational risk. On top of that, the economy is going to collapse significantly. Imports will also contract. On the net basis, this will also increase the current account surpluses—or at least maintain current account surpluses.

Q208 **Kevin Hollinrake:** Nigel, do you have any last comments?

**Dr Gould-Davies:** As Elina said, there will be imports depression on the one hand, but also the inflows of chiefly hydrocarbon revenues. Unless energy sanctions, which would of course be harder for European partners than any measures imposed so far, address that, that side of the picture is unlikely to change significantly.

Q209 **Chair:** Nigel, can I follow up on one point? You said that you thought living standards could potentially drop by 15%, which is a huge number. The OBR is suggesting that there will be a drop of a little over 2% for the UK economy, which would be the worst since the 1950s, when records began. What do you think that could lead to politically? Is it going to lead to serious unrest in Russia if that sort of figure happens and is sustained for a period of time?

**Dr Gould-Davies:** The 15% figure refers to the fall in real disposable incomes since around 2012. That is looking backwards at a decade of Russian underperformance. If one is looking at living standards going forward, one factor is, of course, the decline in GDP; according to most forecasts that will be at least 10%, and quite possibly higher than that. Alexei Kudrin—the former Finance Minister, who is still respected—is a canary in the coalmine on these and other matters in Russia; he reckons it will be 10%.

When you are looking at real incomes, of course, you have to look at inflation, which is now running very high on some quite basic commodities—or it has been recently. I haven't seen a forecast yet for what will happen to disposable incomes specifically, but it will certainly be substantially more pain than they suffered during the global financial crash; Russia was the worst hit by that crisis.

The tenor of your question, of course, is moving from the economic effects to the political impact. There is much to say about that. There are two



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parts to that—the effect on public moods at the mass level, and what the elites think and feel about this, which is a different question.

First, on the matter of public moods, one of the disconcerting surprises so far is how quickly at least a sizeable part of the Russian people appears to have lined up in support of the war. There are various qualifications to make about that, and it is hard to know exactly how strong and how deep that support is, but it seems that once the Russian state propaganda machine clicked into action, there was a rallying effect. I am watching closely to see how that will change when sanctions really begin to hurt large numbers of people. The seizing of Crimea in 2014 had a sugar-rush effect on public opinion, but that did not last. The pain will be much quicker and greater at this point.

Unfortunately, of course, Russia is now sufficiently repressive that it may well be both that a large number of Russians are unhappy with the status quo and that the system has the capacity and the instruments to repress that and prevent it from taking effective organised form. By rough analogy, go back to the early 1980s and the Soviet Union: the system had basically stopped working, yet it was also able to keep a lid on repression. It was only when Gorbachev took office, with change from above, that things began to happen.

If one is looking for the political effects of sanctions and the potential for change, one really needs to look at the elites. Again, it is a large question, but very briefly, in any system—especially a repressive system—change begins from within rather than from below. The body language of almost all the elite figures around Putin is deeply unhappy and disconcerted by what has been happening. It was unhappy even before the invasion. The notorious security council meeting on 21 February was an extraordinary bit of a theatre, where Putin browbeat the key figures around him. Since then, on not just the economic front but more security-minded fronts, there has been a great deal of unhappiness. The elites know better than average people just where the system, including the economy, is heading, so if one is looking for sources of discontent and pressures for change, one should look there in the first instance. Again, that is just broadbrush; there is much more to say, and I am very happy to explore it in more detail.

**Chair:** It is very helpful to have a political perspective to all this. Thank you.

Q210 **Dame Angela Eagle:** Following on from that political perspective and the fact that we all know that Russia is an autocratic dictatorship led by a sort of security-based kleptocracy, shouldn't we aim sanctions more at oligarchic wealth than at the Russian people, or do you think we should be doing both?

**Dr Gould-Davies:** Ultimately, the consequences of what we do will be both. I do not think we should target the Russian people but, unfortunately, in this kind of system, it is inevitable that strong and severe sanctions, which reflect the gravity of the threat that Russia presents to



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international security, will inevitably hurt ordinary people. It is not that we want it to happen, but it is unavoidable, and I am fully supportive of your view that we should be targeting elites as vigorously as possible. Plenty of that has been done, which is very welcome. There has been a lot of freezing of assets. One question on my mind—in the UK and the US, where I am now, there is an active debate on legal sanctions regimes—is whether we can move from freezing assets to seizing them and making good use of them, including potentially for purposes of reparations for Ukraine, whose economy has been absolutely devastated by war and continues to be so.

**Q211 Dame Angela Eagle:** Do you think that that is a viable possibility, given that a lot of this money, which, in theory, belongs to individuals, has actually been stolen over the years from the state by the people running the kleptocracy?

**Dr Gould-Davies:** Yes, it has. To go back to an earlier point, they have, in effect, engaged in legal arbitrage by making money through access to power, where the rule of relationships runs to keeping it safe outside Russia in jurisdictions where the rule of law works. That of course has to stop. There are active debates about using not only oligarch assets, but even some of the central bank assets. Can they be, again, not just frozen, but seized and used to help and support Ukraine now? That seems to be one of the great legal debates that is just unfolding, and it would be helpful if the UK, with its great tradition of legal expertise, could contribute constructively to that.

**Q212 Dame Angela Eagle:** On that, we need to close the London laundromat, and many of us would argue that it should not have been allowed to establish itself in the way it did over many years. Elina, what do you think we should be doing to close down the London laundromat? Are we doing it, and are we doing it fast enough?

**Elina Ribakova:** My speciality was macroeconomics, and I know that other wonderful researchers are focused specifically on this issue. From my macroeconomic point of view, I say that this is a fantastic start. It might be coming too late, but it is not necessarily too little. From the balance of payments of Russia, it has always been possible, but not easy, to track the massive outflows—even as a macroeconomist—and where some of this money is going, so I will definitely be monitoring the balance of payments and seeing if that is being affected. That is all I can say at the moment.

**Q213 Dame Angela Eagle:** Neil, what about your observations on that? You can monitor the money that is leaving, but then it goes into secretive bank systems such as that of Switzerland or the UK, if one takes account of the tax haven structures in the British overseas territories. What should we be doing to try to make this more transparent and bear down on it, so that the kleptocrats who are making decisions about murdering people in Ukraine are in a situation whereby they know that the wealth that they have stolen during the Putin era will be discovered and taken off them?



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**Neil Roberts:** I do not have expertise in seizing assets from individuals, I'm afraid, but it is a question of timescales, I would imagine. We have to understand how long this will take. We are undoing 20 years of Government policy, and that is not going to be done overnight. There are a number of issues around putting the national interest first, as opposed to the legalities or economics of a specific deal. I wonder how much of Government policy has been exposed by the P&O fiasco, where we saw that the national interest had not been taken into account by giving ownership of serious assets to people we simply cannot control. I cannot comment further on seizing assets from kleptocrats, I'm afraid.

Q214 **Dame Angela Eagle:** Nigel, do you have any comments on the London laundromat issue and the kleptocrats?

**Dr Gould-Davies:** I am fully supportive of this intent; a lid has been lifted on the practices and the ecosystem that supported those practices. We should think of this as a single strategic space; it is sanctions on Russia and protecting our own system from malign sources of money from Russia. Very importantly, as you have pointed out, it is not only about mainland UK, but overseas territories. Ensuring that the timelines for full transparency of beneficiary ownership of companies registered overseas is absolutely essential. It seems to me that the timelines for that, which I think were initially agreed in 2018, have slipped; it is very important that they slip no further. It is a surprise to me that it has taken so long to implement what should be a straightforward measure. There are very large sums of money of this nature in the overseas territories—incidentally, not only from Russia. That is essential. As Elina said, there are dedicated specialists who have written extensively on this subject and would have more to say.

Q215 **Dame Angela Eagle:** Do you think we have done enough with the recent emergency legislation we have passed? Would you like to see more powers granted so that we can chase that secrecy down and start to deal with those issues of stashing stolen wealth in secretive bank accounts and trusts where we do not know the beneficial ownership?

**Dr Gould-Davies:** Sunlight is the best disinfectant. On the details, I would defer to dedicated experts, but it seems to be that the more of this we can bring to light the better.

Q216 **Dame Angela Eagle:** Her Majesty's Treasury has just announced a ban on additional Russian goods, and an increase in tariffs on about £1 billion worth of goods. Is that enough? Is it going to be effective, or should we be doing more?

**Dr Gould-Davies:** I would need to check that particular measure.

Q217 **Dame Angela Eagle:** It was announced last week, I think. Does anyone have any thoughts on those latest measures, or is it too new?

**Neil Roberts:** It sounds ancillary to the main effort. What is the point of all this? Is the point of sanctions to deter? They didn't. Is it to stop the war? It hasn't. If we put any more on, will it? I don't have any answers to



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that, apart from the fact that the war is going on, and economic measures are not in themselves currently effective.

**Q218 Dame Angela Eagle:** Okay. I will finish with a question on the law of unintended consequences, and the weaponisation of finance and how it might change the way global markets work. Up until now, the US dollar has been the world's reserve currency. The Russian central bank might be having second thoughts about that after what has happened. Elina, do you see an unintended consequence of the use of the sanctions against the central bank being the decoupling of the global financial structure—maybe fragmenting it? What consequences do you think might flow from that?

**Elina Ribakova:** I think over the medium to long-term there is definitely the risk of unintended consequences for the many large reserve holders among emerging markets that have been using the reserves for self-insurance. If a significant global shock were to happen—it might be happening this year, but I mean even more so—many emerging markets would not be able to come to the IMF or the World Bank because of stigma concerns and whether the IMF has enough resources. Hence, we will have self-insurance, the accumulation of reserves by many countries around the world, and also some regional arrangements that have not yet been properly tested. Of course, all these countries will be thinking twice about the risks. This relates not just to the dollar, but to all other countries that have sanctions. The question is whether they will decide that this is a truly exceptional circumstance, and it will not be repeated or taken lightly the next time, or they will think whether the weaponisation of sanctions will proceed and will be the answer to any question that emerges on the global agenda.

We have also seen the presentation by Yellen at the Atlantic Council on the new concept of "friend-shoring". I think that could add further to the risk of fragmentation. The spring meetings have just finished in Washington DC, and one of the most frequently asked questions was about the risk of fragmentation. The risk is there, but it is likely a more medium-term risk, and it will depend on how frequently and easily this sort of nuclear weapon will be used in the future.

**Q219 Dame Angela Eagle:** If this fragmentation does occur, do you think the renminbi is the potential currency that will be looked at, given the size of the Chinese economy, or do you think that it simply will not be in a situation to become a kind of reserve currency for at least some parts of the globe?

**Elina Ribakova:** I think the renminbi has already been looked at and found not liquid or easily traded. On the margin, it could contribute to a rise in the reserve managers' investment in renminbi, but all of them already had a look, including Russia. As you can see, they tried as much as they could to increase their holdings, but at some point they said, "For our risk management, it just doesn't work." The market is not liquid enough. There isn't enough understanding of what reserve managers need from a market like this and, as we know, it is still a capital-controlled



currency. The size of economy alone is nowhere near enough to make it attractive to conservative reserve managers across the globe.

**Q220 Siobhain McDonagh:** I am overlapping with some of Angela's questions. Brian O'Toole, a former senior official at the US Treasury, is quoted as saying of the dollar's standing: "We have very accommodative monetary policy, we are very open with our markets, things are easily convertible and we are safe as an economy. Until those things change, the rest of it ain't changing." Do you think Mr O'Toole is right?

**Dr Gould-Davies:** Broadly speaking, I do share his view, and he is a greatly experienced veteran sanctions practitioner here in the US. The concerns about the implications for the role of the dollar and its use in these financial weapons has been voiced for at least the past decade and more—these tools were first fashioned in the aftermath of 9/11. As that quotation implies, it is a matter of opportunity cost—what are the available alternatives? I take seriously the concerns of those who worry about the future of the primacy of the dollar as a consequence of its use in sanctions of this kind, but there seems to be no other currency that comes close, or is likely to, in rivalling the range of services and benefits that it offers—certainly not, for reasons already given, the renminbi, which is not even fully convertible. I incline to Brian's view on this.

**Siobhain McDonagh:** Do the other members of the panel have any opinion?

**Neil Roberts:** I would say that the dollar is the currency of international insurance, so keeping US control over the sanctions legislation would be key to its efficacy. We have to take effects away from efficacy, because you are trying to achieve an aim, but you are getting different effects. We touched on the secondary effects before, and they are not generally understood, because they are generally difficult to predict. Third-order effects are very difficult to see.

**Siobhain McDonagh:** Elina, how do you feel?

**Elina Ribakova:** I feel that, in the short run, I fully agree with my colleagues. Brian, of course, is very experienced. Over the medium term we cannot be complacent. We also mentioned unintended consequences: the financial sanctions will work for many years. We have tried them before in a country like this in 2014. We had had a lot of time to think through the financial sector planning and make the analysis. Still, there are unintended consequences. But, as we are moving from financial sanctions more into the area of trade sanctions, but some of them via financial sanctions, the room for unintended consequences is much more significant, and we did not have as much time to prepare in the international analyst community for these kinds of sanctions on a country like Russia, because it is one of the largest commodity producers in the world. Nobody really thought that something like this would be truly necessary. I think here, from the lack of research, the risk of unintended consequences is the highest.



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Some of the Committee members brought up questions of effectiveness and the crossover with political analysis. In economics, we are used to thinking just of economics, then it moved economic statecraft, and we are still on our tram rails. But now, of course, there are objectives of national security, defence, foreign policy—we are trying to achieve them with economic statecraft. There are not many recent models updated for this degree of financial sector integration and global trade integration, so how should we be thinking about meeting the objectives with the sanctions in a cross-disciplinary approach?

**Q221 Siobhain McDonagh:** Could we have a fractured global financial system in which there were parallel financial systems—for example, different financial messaging systems such as SWIFT and CIPS?

**Elina Ribakova:** Definitely, it seems that is the direction of travel. It might take longer than we think, but it might happen faster than we expect. Russia's domestic payment system is functioning. Not every country uses SWIFT for their domestic messaging systems. Russia was one of the countries that did. Domestic payments messaging system was covering 30 or a bit less of the total turnover of these messages. It had to go almost to 100% now, as many banks were de-swifted, so they had to switch to the domestic system. It seems to be working. Personally, I was surprised and worried about the operational risk there.

Then, we know that there is the Chinese system under active development, and the two systems are linked. Up until now, we had not heard of any transactions. In fact, I think there was only one Chinese bank participating in the Russian system, and maybe a dozen Russian banks participating in the Chinese system. Now the Russian central bank has made an announcement that it will not make public which banks are signing up to its domestic messaging system anymore. It might give a total number but nothing more, especially on the foreign banks. They will be forced to continue working in that direction, because SWIFT is no longer seen as fully protected.

We also know that there is blockchain development. We have other ways of transferring the messaging. Some of this is poorly regulated; they are still very small. I think some of them even said that they were not complying with regulations and would have to close. Again, the new technologies give new possibilities for the messaging system. Finally, there is the development of CBDCs—central bank digital currencies. That almost makes this system de facto obsolete, because if you jump forward to the future, the central bank would be able to settle and see it in real time. The messaging itself will become somewhat less relevant. I think all these developments will have an impact on a place like SWIFT.

**Siobhain McDonagh:** Nigel, do you have any views?

**Dr Gould-Davies:** As far as Russia is concerned, yes it has been innovating these systems, but in a broader perspective, although it is a systemically important producer of hydrocarbons and some other



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commodities, it is less than 3% of the global economy. The idea that that would be a fragmentation, even in the worst case, is hard for me to see.

**Siobhain McDonagh:** Neil do you have anything you would like to add?

**Neil Roberts:** I do not think I can surpass my colleagues on that.

Q222 **Anthony Browne:** I am going to ask about the supply of western goods and services, but before that, I would like a response from Nigel and Elina to the comment that Neil made a little while ago. He said that sanctions did not prevent the war—clearly not, and they haven't stopped the war, at least not yet, and are unlikely to win the war. What impact do you think sanctions will have on the course of the war?

**Dr Gould-Davies:** First, it is good to discuss these things. Military power does not always deter war, but that does not mean that military power is not effective. Setting up deterrence as a test of sanctions is a hard and not necessarily a reasonable test. Have they failed so far? Well, we are 60 days in, and most wars last a lot longer than that. From other times and places, we know that sanctions are a long game and require strategic patience. It took 10 years for the JCPOA in the case of Iran to be fully agreed. Iran is a much smaller target and was subject to UN sanctions, not merely those of the western-led coalition. We need to apply reasonable tests here.

The sanctions that have been applied to Russia are in effect a tsunami that is in the process of falling on to Russians' heads. The consequences will be—we have touched on some of the evidence, and we can talk about war—significant. We know how unwelcome they are and how much elites in particular are worried. Maybe I have not got the essence of your question.

Q223 **Anthony Browne:** Do you think the sanctions will degrade Russia's ability to fight the war and perhaps make the war shorter?

**Dr Gould-Davies:** If we are looking at their effect on capabilities as distinct from intentions, there are two things to look at. One is on the budgetary side. A smaller economy and poorer public finances mean fewer guns and less butter. Will that be a constraint? In the short term, no. I think they have the money if they wish to continue to allocate to the war effort. It then becomes a question of what the effect of supply shortages and problems of that kind will have on Russia's war machine—not the financing of it, but the hardware itself. Again, that will not be an unusual effect, but with things like semiconductors, very important export controls would be imposed not only by the west but by key Asian partners as well, and it will be harder to get those sorts of things.

There are reports that Russia's tank factory, UralVagonZavod, has closed down or is in the process of closing. That is incredibly significant as well. The capacity to make the things that Russia is using and will use to send to the front are very important. Again, this is not the work at the moment, but it will be cumulative, and it will be increasingly difficult. That is one of two parts to the question: what effects will sanctions have? One is on



Russia's capabilities; the other is its intentions. If elites in particular—perhaps a larger mass of the wealthy elite—can sustain the war effort, it is just imposing too many costs, driving Russia into a historic dead end. That will build up pressure to bring about a change of course. So it is both of those—intentions and capabilities—that we need to look at. To summarise the answer to your question, the capabilities will be off of this, and many other things that Russia wants to do will be degraded by these sanctions.

Q224 **Anthony Browne:** Elina, same question to you. What impact do you think the sanctions will have on the war?

**Elina Ribakova:** I agree with everything that Nigel said. We had a forecast for Russia this year of 3%, falling from 4.7% last year. Everybody is discussing at least minus 10. Russia already made draconian measures to contract their fiscal spending after 2014, so to do more in order to be able to still finance the war will be very painful. The degree of adjustment they did after 2014 is comparable to median adjustment and IMF programmes. Their room to continue contracting fiscal is not really there. That is why we did not see lockdowns during covid, because regions do not have the money to finance their healthcare expenditure. Even in the bigger cities in the regions, the covid hospitals looked like shells.

Russia does not have resources. From the perspective of the financial sector, are sanctions effective in limiting Russia's ability to finance the war? Yes, they have been. Can more be done via energy sanctions? Absolutely. The inflows are still significant.

Q225 **Anthony Browne:** My other questions will be about how much Russia depends on western goods and services. Nigel, you touched on that at the beginning when you mentioned the problem with buttons and nails as well as bread, which is probably slightly more serious, and capital goods. How much does Russia depend on western goods and services? How serious are those sanctions compared with financial sanctions?

**Dr Gould-Davies:** There is a very large number of imports that Russia makes use of. On the consumer goods side, what Russian consumers have access to is fundamentally different from what they had in Soviet times. Other things being equal, that increases the welfare of the Russian consumer because there is no forced substitution of the kind that existed in Soviet times when only poor-quality Soviet goods were available.

As I touched on earlier, the significant and systemically important part of Russia's dependence is on things that make things—machinery of various kinds across a range of sectors—and capital goods. I would need to check the exact figure, but I think that around 70% of Russia's imports from the west consists of such goods. Restrictions on access to those, plus the spare parts and so on that are needed to maintain them, will have a significant impact. The fact that, barely two months in, the examples I gave earlier are being actively discussed, is evidence for that. It is not easy for them to find alternatives elsewhere.

There are big debates now about import substitution—whether they can make these things themselves. With some things, they will try and



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succeed, but the quality will be significantly lower and the central bank's assessment just a few days ago, which Elina and I referred to, talked about "reverse industrialisation", meaning changing their capital stock, replacing what they have been forced to with less efficient things. Can other countries, for example, China, supply that instead? They will, of course, turn to countries like China, and China in particular, but there is no illusion in Russian minds about what a tough economic partner China is. There was a degree of euphoria, and certainly hope—in 2014 and 2015—that China could step in when Russia first had significant sanctions imposed on it. Those hopes were quickly dashed by the tough bargains that China was prepared to drive.

Again, those elites who best understand the implications face a future where Russia is drastically more isolated—in some respects, even more isolated than it was in Soviet times, when it was able to access, for example, western finances. There were no problems in flying to and from Russia. It is more isolated and will get progressively less efficient over time.

**Q226 Anthony Browne:** Elina, the same question to you, if you have anything to add. How much does Russia depend on western goods and services as opposed to the finances that we have largely talked about so far?

**Elina Ribakova:** There was a recent survey of 13,000 enterprises across all industries in Russia, basically similar to the Beige Book that the US produces by region. The expectations for the coming year are almost twice as bad as they were for covid. That tells you something about their expectations. As Nigel pointed out, you can go after almost any industry. Of course, automotive production has stopped. Only the Chinese and some of the Asians are producing those things. That has stopped by itself, but it does not mean it is the only thing. Many companies in Russia started producing supplies—parts. That has also stopped. The service industry around that has stopped. If we move from automotive to machine building, it is imported parts and domestic assembly. I think chemical production has halved. Then we are talking about metals and mining, and paper—everybody has heard about how paper is not white anymore, because the chemicals came from outside.

Almost every industry is going through it. I think there are some industries where maybe some shipment towards Asia has picked up, although expenditure has increased by more than 20%, so it's hard to find a place where Russia hasn't been hit by disintegration from the west.

In the last 30 years, Russia has been making a lot of progress, and the most unfortunate part for Russia is that the most technologically advanced industries are the ones that will collapse the most. But that will happen not only in technologically advanced sectors. It just so happens that in global trade you might have a very small part that might be technologically unsophisticated, but it's not pragmatic for you to be able to produce domestically. Well, now you have to start producing it domestically.



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We already talked about the seeds for agriculture. The central bank itself is assessing that it will take at least a year and a half to try to disentangle from the value chains and maybe three years to start producing something domestically.

**Q227 Anthony Browne:** I just want to follow up on that point. Nigel touched on import substitution, but you think there is very limited scope to replace western imports with domestic production?

**Elina Ribakova:** Absolutely. I mean, you need to have a vibrant, independent, lightly regulated private sector. That is exactly what Russia is not known for. How will import substitution come from industrial champions? That was tried in the USSR when they took over foreign companies' assets and tried to make them domestic. The technology that they stole at the time lasted a while, but then there was a problem. So, no, they don't have good regulation or a vibrant private sector.

**Anthony Browne:** I would love to ask some more questions, but unfortunately I'm out of time. Thank you all very much.

**Q228 Harriett Baldwin:** I think that quite a lot of the questions that I was planning to ask have been covered in the very comprehensive evidence that we have had from our witnesses. This is an opportunity really for you to add in any further detail in terms of supply chain disruption.

I am particularly taken with the news that it is being reported that UralVagonZavod has stopped tank production. I probably speak for all of us when I say that we would like sanctions really to have that kind of laser-like impact in terms of weapons production and undermining the ability to make missiles, and making sure that things like tank production are very much affected, as opposed to the kind of things that might affect ordinary Russians, who suffer under this terrible and evil leadership.

In addition to the impact on UralVagonZavod, which other disruptions in the weapons supply chain and the military equipment supply chain are likely, and what steps could countries friendly to Ukraine take to exacerbate those supply chain problems even further?

I guess that I will ask Nigel first and then Elina. Neil, if you have anything to add, please do.

**Dr Gould-Davies:** Very briefly, I think the sanctions that have been imposed since late February have covered most of this. In retrospect, it was quite startling how much had been permitted, even after 2014, in terms of dual use sales to Russia, but that appears to have been choked off entirely now. The semiconductor export ban is important and will have effects.

I think that maybe the focus now is on enforcement and implementation, and making absolutely sure that there is no evasion—that neither we nor our partners allow any evasions of this. There is evidence that for some other countries—not the UK, to my knowledge, but some of our partners on the continent—in some cases after 2014, when partial sanctions on military transfers were imposed, there was some evasion. Clearly, it is



very important on the enforcement side to make sure that things are watertight.

**Elina Ribakova:** It is important for us to invest more time and research in this area, and of course on the Russian side, it will become increasingly more secretive. The Russian military complex is almost an oligopoly, so if there was fraud in every other area of the Russian economy, it is unlikely that it did not exist in the military as well. Russia produces a lot of its hardware, and we know it exports a lot of it as well, including to MENA, to India, and to many other countries. That should give us some information.

Also on the expenditure side, there is allocated expenditure to military spending in the Russian budget, which can be seen—it is transparent and can be compared to other countries—but also since 2014, we have had many years when we have had hidden expenditure. It used to be a couple of percentage points, then it went almost to 10% and 8% of expenditure. It is very high, and we really do not know where this money went to. Nobody has good visibility, so this is definitely where we need to do more work, at a time when Russian authorities will probably hide it.

**Harriett Baldwin:** Neil, any additional information on this?

**Neil Roberts:** I would just comment that enforcement is the one area that insurers cannot deliver on, because we are not in the locations. We do not have enforcement powers and we do not have constabulary powers. We are extremely accustomed to complying with sanctions, but we cannot enforce them ourselves—we are neutral in that sense.

Q229 **Harriett Baldwin:** We touched on food and medicines earlier, as well. Again, certainly speaking for myself, it would be preferable to see the kinds of sanctions that disrupt the supply chain for the military-industrial complex, as opposed to food and medicines. Do you have any observations to make on those two sectors, Nigel and Elina?

**Dr Gould-Davies:** Not really, other than the obvious principle we all agree on: that for something like medicines, there should be carve-outs and exceptions to sanctions regimes. Food—well, of course, Russia is a mega agricultural country. In itself, since 2014, it has imposed food import bans on western countries, so that is a sanction it has imposed on itself rather than one that has been imposed by others.

**Elina Ribakova:** I can add that indeed, on pharma, we do not have direct sanctions. A lot of countries have the moral dilemma of whether they continue working in Russia or want to withdraw. Some of the financial sanctions, and also indirect problems with deliveries and shipping, have made delivery of drugs more complicated.

Russia is very reliant on international pharma companies. This is one of the sectors where Russia tried to do some more onshoring and create domestic production, but it clearly was not successful. Concerns range from thyroid medicine to hip replacements and more advanced dental services, and people are already beginning to experience difficulties. There are supplies; the inventory stocks, depending on the industry, might be



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three months. In some industries it might be six months, but once that runs out, it will definitely be problematic.

On food, indeed, Russia has limited—or rather, stopped—its grains exports to unfriendly countries, as well as sugar, and I think there are limits on fertilisers, so that will have an implication for the domestic market. The prices will come down, but that also means for next year, farmers are not going to plant as much because they might be worried. We might have tightness in the domestic Russian food market, but also global food markets, for some years to come.

**Q230 Harriett Baldwin:** To go back to the questions we were asking earlier about where there are other countries that have not imposed sanctions that may well be willing to step in, what are you picking up, Nigel, in terms of other countries being able to step in and provide supply into those supply chains?

**Dr Gould-Davies:** I guess the most important is—even if the substitutes would be imperfect—potentially China, which is not going to join the sanctions. However, even there I would make the observation that there are several kinds of transactions that China has been deterred from engaging in for fear of falling foul of sanctions—most notably, and really strikingly, on the part of Huawei. Given the nature of that company—this is of course in no sense a purely private decision on their part—it will have been a decision of the Chinese state.

I think there are nine G20 countries that are not part of the sanctions regimes that have been imposed. I think Argentina is one. There are a number of others—as I said, I think nine in total. If one is looking at the diplomacy of sanctions, I think that, in the first instance, those would be the ones to focus on.

**Q231 Harriett Baldwin:** Elina, do you have anything to add to that?

**Elina Ribakova:** Just looking at the responses from Russian corporates, clearly with the reorientation, they have tried to focus more on Asia, LatAm and Africa, in terms of both import and export markets, because they lost not only the imports but their export markets. That is towards China but also towards Asia. You see transportation picking up—the volume of transportation going that way and back.

**Q232 Harriett Baldwin:** Thank you. Finally, within Russia, will it be the rural or urban populations that will be seeing the impact of sanctions most vividly?

**Elina Ribakova:** I think the rural population has been feeling the impact of sanctions since 2014 because of the earlier fiscal adjustment we talked about. The sheer level of desperation in many rural areas will now be more emphasised by the fact that the factories will be shutting down, at least temporarily, as they are finding new markets for imports and exports.

There are many towns in Russia that are monotowns. They only have one factory in that town, and if the factory stops, they will have nothing else to do. We are already seeing reports of companies putting their employees



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on unpaid leave. That is not just foreign companies, which have already paid severance and are withdrawing—that gives clarity; “Three months from now, you will no longer have a job”—but in other regions, you have just basically unpaid leave or shortened work hours. That is a typical Russian way of containing reported unemployment.

In terms of the big cities, in Moscow or St Petersburg, people behave as if nothing has happened. It is almost like a collective denial. The restaurants are still open and things are still happening, and I think that is one of the reasons why the central bank is trying to open their eyes and say, clearly, “This is the tsunami that is coming; you need to stop being in denial.” However, in the short run, some stocks still remain. You know, if some Chanel shop is closed, for a middle-class Muscovite it is not a big problem. Disproportionately, of course, this will fall harder on the middle and lower classes.

Q233 **Harriett Baldwin:** Does anyone want to add anything?

**Neil Roberts:** To touch on something that Gareth brought up earlier, the self-sanctioning aspect may affect this as well, because certainly the more US-focused—or US-backed—syndicates and companies are looking very hard at involvement with any aspect of Russia, whether it is legally permissible or not, and are pulling out completely. If they are reinsurance, they will be pulling out as well, which means that the direct market won't be able to write such risks, and it will limit the participation from the west. That might completely change the way that Russia gets its suppliers.

Q234 **Alison Thewliss:** That moves us on quite neatly because I was going to ask about the impact of self-sanctioning. Neil Shearing, the group chief economist at Capital Economics recently told us that “the self-sanctioning that we are seeing by firms operating in Russia...could have some unanticipated consequences”. Neil, since you started off with your point on self-sanctioning, could you maybe pick that up and say what you think those consequences might be?

**Neil Roberts:** It could be a pull out by western businesses overall, and it could spread. There is no incentive or appetite for writing new direct Russian business in the London market. It is not unprecedented; we saw it with Iran, when people pulled out because it was simply too difficult. If it wasn't actually impossible in legal terms, banks were reluctant to help for their own reasons of due diligence and caution, even though things were permissible still—with Korea, on food and medical supplies.

Yes, it is definitely growing. It is at a relatively slow burn at this stage, but everybody is examining their moral position and looking at their reputation and at what their shareholders might make of it. They are taking views on their own basis. However, they are, of course, tied in with contracts that are running for the time being, so I don't see an immediate shift. It will be gradual in terms of effect, but there are certainly orders out to individual businesses not to do new business with Russia in certain aspects.

Q235 **Alison Thewliss:** Do you think sufficient pressure is being put on companies to do that by their shareholders and investors?



**Neil Roberts:** Yes, I think so. They have taken their own views. There are still things we are asked to transport, for example oil and gas, so there needs to be clarity about what we can and cannot do. That is the basic problem. Certainly, some businesses have taken the individual view of no business at all or no business in a certain area, so it is happening.

Q236 **Alison Thewliss:** Elina, you mentioned that it is perhaps not sufficient for people to notice at the shops that some brands have closed down or some organisations are no longer present in Russia. Can you tell us more about the extent of that and whether you think that will begin to be noticed by consumers in Russia?

**Elina Ribakova:** I think consumers noticed some of the goods immediately. For example, many female hygiene products are imported, so they started disappearing, and then there was some natural response of hoarding, which might be temporary. As the inventory is depleted, in three to six months, consumers should clearly see that, and there will be an effect on real income and unemployment, and also hidden unemployment, in the coming months. I originally thought that might be this quarter, and we are already seeing that, according to the surveys, but it will take a longer time to work through in the statistics.

Q237 **Alison Thewliss:** You mentioned that western businesses would be more likely to pay people off rather than put them on reduced hours, so that would then have more of an impact.

**Elina Ribakova:** The withdrawal of western businesses is very direct, because they have the specified legal severance payment that they need to make and there is clarity for the employees. For those employed by local businesses, it is more problematic. For western businesses the difficulty is also in the mechanics of the withdrawal and their relationships with other western businesses. Some of the financial institutions are servicing multinationals, and they are waiting to see how those withdraw support before their own withdrawal. It is clear to them they are going to leave the country in the coming months, but they cannot do that abruptly.

Q238 **Alison Thewliss:** Nigel, do you have any thoughts on the impact of self-sanctioning?

**Dr Gould-Davies:** Not beyond the fact that what we have seen is unprecedented—in effect, a voluntary private boycott. It is across most sectors, although not all. It seems to me there is much less of this on the banking side, in particular. Its effect will be felt not only in consumer shops, but in more significant business services of various kinds, including software, IT services and things like that, which a range of institutions and businesses depend on. This is a significant addition.

It raises the bar for future events of this kind, it seems to me, for other countries that might be subject to sanctions. The question that will be asked in future is, "But what is the private sector doing now beyond compliance?" It has shifted the political risk landscape in an unprecedented way.



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**Elina Ribakova:** If I could just say one thing on the energy sector, we might find ourselves in the situation where the private sector has moved ahead of the public sector, where self-sanctioning is moving ahead of Government measures.

Q239 **Alison Thewliss:** There was a bit of a campaign by Ukrainian MPs to highlight some of the western firms that are still trading and making money out of Russian consumers. Do you think there needs to be a wider awareness of what those investments are? What more can the public do to engage in that?

**Elina Ribakova:** There is definitely a campaign. I am very well aware of that, and I have sometimes discussed it with the Ukrainian authorities. My concern is that although it is fantastic that the private sector is taking the initiative and thinking about the ethics of their suppliers and their business engagement, it is also very important for Governments to take the necessary measures. That is where the discussion has to be first and foremost, rather than moving the burden not only of the application of the sanctions but also the decisions of making the sanctions to the private sector.

Q240 **Alison Thewliss:** Yes, it does feel that there is a passing over of that responsibility to some extent. I think the Chancellor has said that firms should stop investing in Russia and has welcomed self-sanctioning, but do you think more could be done by Governments, including the UK Government, to force firms to withdraw from their operations in Russia on a more wholesale basis, rather than just this voluntary scheme?

**Elina Ribakova:** I think that the decision by companies to withdraw is a complex one, because they cannot just switch off the lights and leave. Many of them have thousands of domestic employees who have worked with them for many years and were probably more liberal than anybody else domestically. They also have the business partners and suppliers that they still need to close their business with. For us to put pressure on them that, "You need to leave tomorrow" might be unproductive. Then, of course, there are industries—we talked about pharma—where there are other ethical concerns.

Q241 **Alison Thewliss:** Looking further into the future, at what point do businesses start to say, "Right, we are going to undo these self-imposed sanctions. We are going to go back to trading in Russia." What would need to happen for firms to start doing this? Is it just about reputational risk as an issue?

**Neil Roberts:** The first thing, from a physical damage point of view, is whether it is safe. You would want there to be a ceasefire. You would want a change in what is going on, so that you would feel secure. Can you pay? Can you be paid? Can you pay losses? All these things will feed through. There is another effect that we might see if we limit the oil. Everything is powered on diesel, and the supply chain is powered by diesel. The price will go up and if the price goes up, the consumers will bear it. We need to be aware that we will be making a rod for our own back in that sense. You cannot do economic games like this and not have a cost to pay.



Q242 **Alison Thewliss:** I was interested to hear that the Ukrainian Parliament is currently passing legislation to increase the level of tax by 1.5 times on all multinational companies in Ukraine that continue to operate in Russia. That seems quite an innovative way of dissuading firms from investing in Russia. Is that something that other countries ought to adopt as an economic disincentive, rather than an outright ban?

**Elina Ribakova:** The Ukrainian Parliament has been passing a lot of legislation recently, and I am very happy that you have brought that to our attention, because some of this is not the most fantastic legislation—not necessarily this one, but there are questions about independent directors on the boards in some legislation that was recently passed. I know that Ukraine is at war and is protecting its democracy, but at the same time it should not be passing legislation that is facilitating some of the corrupt practices.

Specifically on this one, I think there is an important discussion—I'm sorry; I am coming back to energy because this is the main point—on the mechanics of it: whether it should be month-to-month targets or tariffs. I think the economists are engaged in that. I would rather be focused on decisions like this and the effectiveness of implementation using secondary sanctions or insurance and financial sector sanctions, rather than trying to go after companies on their reputational risk.

One last word is that Ukraine has a gap of \$4 billion to \$10 billion per month on its fiscal balances. It now has a fixed exchange rate regime because that is the only nominal anchor, so there is a risk when it has no exports. More than 80% of its shipments are going through ports. Ports are now effectively locked. If you have no exports, you have a fixed exchange rate regime and you have a risk of printing money, you might have a proper balance of payments crisis as well, so we need to be very aware of that.

**Dr Gould-Davies:** If I might add something briefly on the previous question about the possible erosion of the self-sanctioning—the private sector boycott. It would be very unhelpful if at some point, without a signal from countries themselves—western and other countries—that this is time to ease sanctions, if private companies spontaneously began to reverse what has been, until now, a very welcome boycott. That would be worrying. That would give encouragement to Russia in the absence of the sort of political settlement that we would hope for in Ukraine and would be something to be resisted.

This has literally just occurred to me, so there may be good reasons why it should not be implemented, but on the matter of civic regulation, which is the mechanism by which consumers, investors and employees impose pressure on companies to do the right thing, is there something that Governments can do to support this? Well, there may be a loose comparison to the Modern Slavery Act, which requires every company to put in its annual report a statement on whether it is complying, on whether it is in any way involved in a supply chain that involves slavery. Could there be a Russia-specific version of this—something that uses that



as a model? It is not the Government passing new laws and restrictions as such; it just requires companies to say whether they take part in Russia business or not, and lets consumers, investors and employees draw conclusions for their own behaviour and the pressure they impose on companies.

**Neil Roberts:** There is also a move in our market. There are clauses out there to exclude Russia completely from future business. So there is a model clause out there for Belarus, Russia and Ukraine; that sort of thing can be applied.

Q243 **Alison Thewliss:** I think that is very interesting, because the question is how you get that accountability when companies and their supply chains can be so very complex.

**Neil Roberts:** It is the same with modern slavery, of course. Where you are dealing with China, it can be problematic to prove whether or not the supply chain is secure in that sense.

**Alison Thewliss:** That is very interesting. Thank you all very much.

Q244 **Chair:** Thank you. Alison mentioned Belarus. Nigel, I think you said you were ambassador to Belarus at one point. Should we be expanding this sanctions regime in a more consistent way to, for example, Belarus? What should we be thinking about with them?

**Dr Gould-Davies:** I believe so. Of course, sanctions have been imposed on Belarus as well, and that has been very welcome. There were good reasons for doing so even before 24 February this year—going back to August 2020, when the nationwide peaceful demands for change in Belarus erupted and then were suppressed in an extremely brutal fashion. We have seen all sorts of pariah-state actions carried out by the Belarusian state since. They include the forced downing of the Ryanair jet and the weaponisation of migrants and refugees on the borders with Poland and Lithuania in the autumn of last year.

In addition to that, since this second invasion of Ukraine began, we have seen Belarus be an effective co-belligerent in basing Russian forces and allowing Russian forces to conduct attacks from Belarusian territory. So we need to think about all these parts together—Ukraine, Russia and Belarus in a single strategic space. On the matter of sanctions, yes, absolutely, there are war reasons but also pariah-state reasons for scrutinising and expanding the sanctions measures that we, with partners, impose on Belarus.

Q245 **Chair:** In short, when it comes to Belarus, are we not doing enough—yes or no? Do you feel that we are just not doing enough at the moment?

**Dr Gould-Davies:** We can always do more.

**Chair:** Great. That brings us to an end. Thank you very much indeed for joining us. Thanks go to Elina and Nigel for joining us from so far away, although you seemed very close in the room to us today as we got into the discussion, so thank you very much indeed for your input. Of course,



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thanks also go to Neil for joining us in person. This has been a useful discussion about the extent and the nature of sanctions, what their effects are, what might be working and what might be less successful. There have also been lots of thoughts about where the Government here might take this in terms of being more effective overall in restraining Russia, and there is of course lots to inform our thoughts as a Committee. So thank you very much indeed for joining us today. That concludes this session.