

Treasury Committee

Oral evidence: Are the UK's Russian financial sanctions working?, HC 604

Tuesday 30 April 2024

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Members present: Dame Harriett Baldwin (Chair); Mr John Baron; Dr Thérèse Coffey; Dame Angela Eagle; Stephen Hammond; Danny Kruger; Dame Siobhain McDonagh; Anne Marie Morris.

Questions 1-79

Witnesses

I: Tom Keatinge, Director of the Centre for Finance and Security, Royal United Services Institute; Ben Cowdock, Senior Investigations Lead, Transparency International UK; Natalia Kubesch, Legal Officer, Redress.

Examination of witnesses

Witnesses: Tom Keatinge, Ben Cowdock and Natalia Kubesch.

Q1 Chair: Good morning. Welcome to the first evidence session of the Treasury Committee's inquiry into whether the UK's Russian financial sanctions are working. May I ask our witnesses to introduce themselves?

Tom Keatinge: Good morning. I am Tom Keatinge, director of the Centre for Finance and Security at RUSI. We have an extensive programme looking at sanctions, which obviously has only got bigger in the last two years.

Natalia Kubesch: My name is Natalia Kubesch. I am a lawyer at Redress, an NGO based in London that represents victims of torture and helps them to seek accountability and justice. We work closely with Ukrainian partners. In my role, I advocate for the use of sanctions and asset confiscation to respond to serious human rights abuses and corruption.

Ben Cowdock: Good morning. I am Ben Cowdock, senior investigations lead for Transparency International UK, a global anti-corruption organisation. A major part of our work is looking at the UK's role as a hub for illicit finance and money laundering. Much of that work focuses on Russia, unsurprisingly.

Q2 Chair: Thank you. Before we get into the issue at hand, could you help



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the Committee by explaining who funds your organisations? Who are your backers?

Ben Cowdock: Our primary backers, in terms of the dirty money space, are foundations like the OSF.

Chair: And they are?

Ben Cowdock: The Open Society Foundations, which is a charity fund.

Natalia Kubesch: That makes it easy for me, because it is the same for us: we are also funded by charitable organisations and particularly by the Open Society Foundations.

Tom Keatinge: My programme at RUSI in this field is funded by two main partners. One is the US State Department, for implementation work that we do—basically, training banks and others how to implement sanctions effectively. Secondly, there is the National Endowment for Democracy, from the United States. And we have had some money from the economic deterrence initiative of the FCDO, to organise things like conferences and workshops around Europe.

Q3 **Chair:** Is RUSI the only organisation on our panel that receives funding from Governments?

Natalia Kubesch: For other projects, we have received funding from the FCDO, but not for this project.

Ben Cowdock: We receive some funding, in other parts of Transparency International, from Governments like the Swedish Government.

Q4 **Chair:** Thank you. It is good to get that all out in the open, right up front.

The purpose of Russian sanctions—certainly the economic ones—in response to the illegal invasion of Ukraine was to create a lot of economic problems in Russia. Yet after two years and a bit, we can see not only that the Russian economy continues to be able to earn and grow, but that a lot of the proceeds are going into a much greater budget in Russia for the armed forces, which is being used to attack Ukrainians. Things don't seem to be working, do they, Tom?

Tom Keatinge: I read your comments in Lucy Fisher's *FT* article with interest this morning. You make that point about what the objective of sanctions is. I am sorry to sound like an academic, but I think we have to be very clear about what we mean by "Are sanctions working?" My understanding of what we are trying to do with sanctions is that we are trying to reduce the funding and, critically, the resourcing of the Russian military. The Russian economy is, of course, growing rapidly because of the amount of industrial military production occurring.

Let me give you an example. If you have 10 factories producing trucks that were driving produce around the country and contributing to an economy, that, to me, is economic growth. That is economic value. If those 10 factories are now producing trucks for the military that get



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destroyed in eastern Ukraine two weeks later, that is still economic growth to some extent—people get paid and spend that money on food and so on—but is it productive economic growth?

While of course we would like the Russian economy to feel the maximum pressure, we need to dig into what we mean by economic growth. We should not fall into the trap that I think the Kremlin has created for us, which is to guide us towards certain statistics which suggest, “We’re all right.” Are they mortgaging their economic future in order to meet the finances that they need to fund their war? I would caution against looking at the Russian economy as growing more than the German economy, or whatever it might be. The critical thing is how the goods that the Russians need to resource their military are continuing to get to where the Russians need them. That would be a nuance on that point.

Chair: But by that metric, they are still getting the resources.

Tom Keatinge: They are. Correct.

Q5 **Chair:** Can you therefore sit here today and say that you think that the sanctions are working?

Tom Keatinge: No. They are not working, because they did not deter Putin’s invasion. Putin was threatened with intense sanctions in 2021 and January 2022; he still went ahead and ordered the illegal invasion. By that metric, they did not work—past tense.

Are they working today? You can argue both sides. I recently had an official from President Zelensky’s office tell me that they were noticing a deterioration in the quality of some of the technology in the drones that they shoot down, pull apart and analyse. They would suggest that that is because sanctions are having an effect. Are they working in so far as stopping all the flow of military goods that the Russians are getting from Ukraine’s allies around the world—the United States, Europe, the UK? Against that metric, they are not.

If you had David O’Sullivan here, the European Union sanctions envoy, he would say that sanctions are a slow puncture, not a light switch that switches off the Russian military resourcing overnight. You can agree with him, but that puncture is far, far too slow for the Ukrainian people who are suffering every night.

Q6 **Chair:** There are others who say that the longer sanctions are in place, the more ways people find to get around them. Natalia, do you think that these sanctions are working?

Natalia Kubesch: First and foremost, I concur that we need to define what it means for sanctions to work. Of course, one metric is economic impact, but sanctions, in the words of the FCDO, have various purposes. On the one hand, they have a specific purpose for victims in Ukraine, because sanctions serve the public accountability function by recognising their suffering and targeting those who are responsible. Sanctions also have a significant stigmatising impact, which I think has been clearly

shown: the sanctions have served to stigmatise any affiliates and associates of the Putin regime. They have an economic impact and a private sector impact, in terms of other entities diversifying from Russia.

A key issue in this inquiry will be that sanctions cannot work if they are not being enforced properly. No law will be successful in deterring the violation they address, unless we actually take an approach that actively penalises violations.

Lastly, in concurrence with what Tom said, we cannot look at sanctions as a panacea. We cannot look at them as the tool that will solve the war within two years. We need to look at their long-term impact, and we need to see them as one tool among many that can address Russia's aggression. We cannot treat them as the holy grail of international justice and economic deterrence.

Q7 Chair: Ben, the stated objective of these financial sanctions is "encouraging Russia to cease actions which destabilise Ukraine, including actions undermining or threatening the territorial integrity...of Ukraine." Given that that is the stated objective, you cannot argue that these sanctions are working, can you?

Ben Cowdock: I agree with everything that I have heard so far. It is important to look at the final element of the UK's stated intentions, which is to demonstrate.

To demonstrate that we are serious about stopping Russia, we need a complete package of sanctions and designations. When you look at various metrics for measuring that, a website called "Nowhere to Run" has compiled a list of 3,000 individuals who have been sanctioned anywhere in the world at one time. It shows a de-alignment between ourselves and our allies in how many of those 3,000 we have sanctioned. We have sanctioned about 60% of them; the US and the EU have sanctioned, I think, 53% and 47%. There is a lot of de-alignment between the different regimes, so it is easy for people to pick and choose the gaps they want to if they are on those lists.

There are various other ways of getting round our current sanctions that undermine the effectiveness of the demonstration element and that we also want to look at.

Q8 Chair: The UK has targeted just over 1,700 individuals and 298 entities. Are they the right entities, or are you arguing that there should be more?

Ben Cowdock: There should definitely be more. For example, if we look at how Putin's oligarchs structure their wealth, essentially they put everything in their family's name. The UK has done a reasonable job of looking at family networks, but I think we can go much further.

For example, we did an investigation with *The Times* in March last year where we identified a £100 million freehold plot of land in the centre of London. It was owned through a Jersey company, which was ultimately owned through the wife of a sanctioned oligarch. That wife is still



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unsanctioned, which poses various difficulties for the UK businesses that are presumably paying rent on that piece of that land. Also, if that person ever wanted to sell the property, that would pose difficulties for estate agents and lawyers. They would be in a difficult situation: she is not sanctioned, whereas her husband is, but she claims to own the property. That family element is really important, so the UK needs to spread its wings.

Q9 Chair: Is your recommendation to widen the list of people to include family members of designated individuals?

Ben Cowdock: Definitely. RUSI's evidence talks about taking an intelligence-led approach. There is a lot of work done within civil society and by journalists around the world to look at family networks, which should be incorporated into the FCDO's analysis.

Chair: Tom, would you agree that we need to widen that list of individuals?

Tom Keatinge: I would, but my caution—again, I come back to a point that I will make repeatedly—is that I have no problem with sanctioning oligarchs and their families and taking a wider approach, but if we are trying to disrupt the resourcing of the Russian military, let us use the intelligence approach to identify who is facilitating that resourcing and whether there are companies in the UK that are still, wittingly or otherwise, supplying the Russian military through Kazakhstan, Armenia or anywhere else. That is where we should be spending more time.

Natalia mentioned the importance of enforcement. That is what has been lacking in the UK. In the UK, the manufacturing industry does not fear sanctions. If you are a bank, you fear sanctions. You have seen your competitors being dealt big fines or you might have been dealt one yourself, but if you are in the manufacturing industry, your modus operandi as a manufacturer is to produce more stuff and sell more stuff around the world. You celebrate sales rising. You should have had it drilled into you by now that if sales to Kazakhstan or Armenia are suddenly rising, that is not a reason to go to the pub and celebrate; that is a reason to question why your sales are rising. That is where I think the nub of our failing is at the moment.

Q10 Chair: How would you address that, Natalia? I presume you agree with that point.

Natalia Kubesch: Which point in particular?

Chair: First, that it should be a wider group of people, including family members, and secondly that the people who are indirectly selling to Russia ought to be somehow captured by the sanctions regime. How would you actually do that in practice?

Natalia Kubesch: In answer to the first question, it is fair to sanction anyone who meets the legal criteria and the policy concerns that are raised within the statutory framework. I want to stress that the legal criteria need to be met. It is still a legal tool and if we go about widening

it, there needs to be an evidence base to protect the general due process rights of those affected. It is worth stressing that we cannot widen it for the sake of it; it needs to be evidence-based.

As for targeting those who indirectly participate in sanction violations or continue to transact with them, this has been a loophole so far in the UK regime. The US has been much more forceful in targeting them. Effectively, they are individuals who are potentially assisting in the commission of war crimes by providing economic benefits. They should not be allowed to continue profiting from these associations.

Q11 Chair: On that list of 1,701 individuals and 298 entities, are there any that should not be sanctioned, in the view of our panel?

Tom Keatinge: Crikey. I do think that there is an argument for reviewing what was done late at night at the weekend in February and March 2022 and determining whether, against the measure of restricting the resourcing and funding of the Russian military, those decisions were necessarily the right decisions. I cannot immediately point to any, but if you speak to industry in particular, they will tell you, "Look, we know what the Government are trying to achieve, but there are areas"—you will see this in the UK Finance evidence, for example—"where things could be improved or removed in order for us to focus on what really matters in trying to achieve the aims of the sanctions regime."

I would call for a review of what has been done thus far to ensure that it is genuinely hitting the target we are aiming for. Otherwise, we will increasingly see opportunities for those who want to argue in favour of Russia to say, "These sanctions are hurting the west more than they are hurting Russia." We need to avoid that, because that gives the Kremlin an upper hand in the strategic communications game.

Q12 Chair: You keep reiterating the point about the military supply being the key objective, but is that not subservient to the overall objective of getting Russia to cease attacking Ukraine? I just wonder where that second point that you made is coming from.

Tom Keatinge: That is what you hear many leaders from the US and everywhere else saying. Ultimately, what is it that the G7 in particular has focused on most closely in recent months or the last year or so? It is what is called the common high-priority items list: the 50 goods that are deemed to be critical to the Russian military. This is the centre of focus. In the work we do—travelling around Europe, visiting member states and auditing how they are getting on and implementing sanctions—we hear repeatedly from customs authorities that that is what they are focusing on. Luxury cars finding their way to Russia has been a popular story from Ed Conway at Sky News in recent weeks; we accept that we need to investigate those stories, but that is not going to be our priority. That was said to us explicitly by a customs agency in a European member state. We are focusing on the common high-priority items, because those are the items that Russia needs to resource its military.

Chair: That is a subset of the overall objective, which is to get Russia to

cease this attack.

Tom Keatinge: I would agree with that.

- Q13 **Stephen Hammond:** Good morning. Thank you for coming to give evidence. I am going to ask about how the financial system in the UK is working, in terms of the operation of sanctions, but before we get into detail I will start with an open question. How well do you think the UK financial system is implementing the financial sanctions regime?

Ben Cowdock: To look at this, you need to be able to look at different parts of the UK financial system, because there are different capabilities within it. The big banks have capabilities stretching back years looking at the illicit finance problem and money laundering regulations, which lend themselves well to this.

Our investigations have looked at the margins of the financial sector, where the problems have started to occur. Our Russian colleagues in exile, for example, conducted investigations where they looked at the black market sale of accounts at payment firms, some of which enable people to move money into the UK. These are smaller firms that the FCA might not be so aware of that are providing a vulnerability here.

There is also the nexus between cryptocurrency and cash in the UK. If you go on certain Telegram channels, you are able to make a payment in cryptocurrency in Russia that results in cash being couriered to you in the UK. That is another way of moving money into the UK under the radar.

Our previous work on payment service providers here in the UK has identified a number of vulnerabilities. When we take a step back and look at the Wirecard scandal, for example, you have Jan Marsalek, a Russian asset who is running a payment services firm. I would be surprised if he were the only one who had embedded himself into institutions like this. This is something that we really need to get a grip on. It is something that the FCA needs to work on with agencies across Government, to get to the bottom of it.

Stephen Hammond: I will come back to the detail of that in a moment, if I may. Natalia?

Natalia Kubesch: I defer to other panellists.

Stephen Hammond: That is fine.

Tom Keatinge: There is no doubt that the big banks, as Ben referred to them, were match-fit for sanctions prior to February 2022. That being said, the work that they have had to do is enormous. Again, I am sure you will speak to UK Finance, but the way in which financial sanctions have been designed has not necessarily always lent them to the most effective implementation by the banking sector.

What I would point to as worth looking at in more detail is the increasing responsibility being placed on the banks. If in doubt, Governments turn to



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the banks and say, "You need to stop human trafficking," "You need to stop the illegal wildlife trade" or whatever it is. Now we see, particularly as very clearly stated in US executive order 14114 from 22 December, an explicit requirement for banks to really pay attention to what their corporate customers are doing, to the extent that they are banking people who are sending goods that are circumventing and getting to the Russian military—back to the point about the Russian military.

That is a tremendous challenge for the banking sector. It requires the sector to know an awful lot more information about their customers than was previously the case. But on the basis that export controls are not working as well as people would like, we have heard directly from the US Treasury, "Well, we're going to go after the banks, because there are 100 big banks that we can go after and there are thousands and thousands of small companies."

- Q14 **Stephen Hammond:** At the end, you were talking about the US system, but in your written evidence to us you make exactly the same point about the UK system. You say, "increasing expectations are being placed on the financial sector to not only implement their direct responsibilities, but also police the sanctions implementation of their clients."

Tom Keatinge: Correct.

Stephen Hammond: With regard to the UK specifically, what impact is that having? Does it mean that the implementation of sanctions is less effective because of the role of the banks in having to gain more access to their clients' activities?

Tom Keatinge: I don't think we know enough about how the corporate sector is operating in relation to Russia sanctions. If I were still sitting in a bank, as I used to, I could imagine that there would be all sorts of extra due diligence on clients who are connected with, say, central Asia, and with industry codes that are on the common high-priority list. I know an awful lot more work is being done by the banks. The question is whether—there is this word that gets used in this environment—de-risking is occurring. In other words, "You are a manufacturer of ball bearings. We don't care where you're selling your ball bearings in the world; we're just not going to bank you any more, because ball bearings are something that we need to be alert to." I have not seen evidence of that de-risking yet, but that is something we should be concerned about, and we should help the banks be as smart as they possibly can be.

- Q15 **Stephen Hammond:** Which leads to the obvious question: do you think the UK Government are doing enough to support banks? They are asking the banks to implement and police. Are they providing enough evidence and information to the banks to allow them to do those policing activities?

Tom Keatinge: The answer is that they are not. Again, you will ask UK Finance, I am sure. The banks have a neurosis: they want to know everything possible about their clients all the time. That is fundamentally the position that they have been put in by policymakers and supervisors.

Stephen Hammond: KYC.

Tom Keatinge: Correct. As I say, in this situation we should expend as much time as possible helping the banks achieve the objective that we have set them, which is to police the corporate sector on our behalf.

Q16 **Stephen Hammond:** How different is the UK system of asking banks to implement and police geographically? Are there geographic locations that do this more effectively and jurisdictions that do it less effectively than we do?

Tom Keatinge: The UK banking system, for good or bad, has much more experience of getting things wrong on sanctions and feeling the heat of US authorities—that is obviously well documented. I think the UK banking system is more sophisticated in this regard than pretty much any banking system on the other side of the channel. Where we lag some of our friends on the other side of the channel is in the extent to which—take the Netherlands, for example. Obviously, that is a much a smaller case, but there the degree to which it is a whole-of-society response is really quite palpable. I do not feel that in the UK to the same extent.

Q17 **Stephen Hammond:** This one is for anyone on the panel. If we wanted to de-risk, should we just instruct UK banks not to lend to the Eurasian Economic Union?

Tom Keatinge: There is an argument, which I would support, that as we add more and more requirements, it would be easier just to say, “You can’t do anything unless it is approved.” There is an important point that I want to make this morning: until we acknowledge that we are at economic war with Russia, I am not sure we are necessarily going to be as effective as we can be, because we are always going to be thinking, “How can we continue to operate?” rather than, “We should not be operating, and we should find the areas—medicines or whatever—where we should be engaging with the Russian economy.”

I do not think we should be saying, “No business with the Eurasian economic area.” That seems to me to be counterproductive, but I do think we need to be making it much clearer to manufacturers and exporters in the UK that if you start to see an increase in trade with those countries, that is a reason in the context of the banking world to file a suspicious transaction report, raise a red flag and say, “Can somebody help me here, because I’m feeling uncomfortable about this expansion in sales that I’m witnessing?”

Q18 **Stephen Hammond:** Thank you. Can I go back to Mr Cowdock’s comment? I would be quite interested to understand your point about how you make a crypto transaction in Russia and it results in cash elsewhere in the world, such as the UK. What needs to be in place for the UK financial system to be able to recognise that transaction? You quoted the one example to us, but would you be able to give this Committee evidence of widespread usage of that mechanism?



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Ben Cowdock: With the crypto to UK cash mechanism, our colleagues' investigation found eight different service providers in Russia willing to do this. They tracked a handful of crypto wallets in Russia and found that half a million pounds a month was moving through just a handful of those wallets.

In terms of how the UK can respond, underground banking systems are a threat across the financial crime space that the UK is going to have to start facing up to. It is not just Russian underground financial banking; it is Chinese and elsewhere. It is happening outside the financial system, almost, because this is all cash-based, and it has nexuses with organised crime as well. We need to scale up the police effort of cracking down on these systems here in the UK in order to stop this. It is not something that the UK financial system can do a massive amount with, apart from stopping the money—

Stephen Hammond: This is the National Crime Agency, as opposed to UK regulators.

Ben Cowdock: Exactly.

Q19 **Stephen Hammond:** Natalia, what else would you like to see the UK financial system do to make its sanctions more effective?

Natalia Kubesch: Very broadly, I would like them to effectively monitor their client base and comply with sanctions, and to cease transacting with those who have been sanctioned or where there are suspicions of sanctions. It is extremely disillusioning for civil society in Ukraine to see the high level of sanctions breaches, and that Russia is still able to maintain financial resources through western partners. If we want to demonstrate commitment to Ukrainian civil society and victims of the war—

Q20 **Stephen Hammond:** Are you going to draw distinctions between particular parts of the financial services system that are operating better? RUSI's evidence says that the banks are "actively blocking transactions that could be in breach of sanctions".

Natalia Kubesch: We do not monitor bank activities as part of our work, so I would not be able to comment exactly on how well each sector is doing. I will defer to RUSI on this.

Q21 **Stephen Hammond:** Just one last question: which particular parts of the financial system were you referring to, so that we can look at that?

Natalia Kubesch: Talking about financial sanctions, it would include the banking sector or anyone providing financial services. I would not be able to name one sector specifically.

Stephen Hammond: Thank you for your time.

Q22 **Dr Coffey:** I am going to talk about maritime insurance. My colleague Anne Marie Morris will speak about the oil cap. I am conscious that you might stray into that, but if you want to hold back some of that, that



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would be helpful.

My constituency has Felixstowe port in it, so maritime is very important, but it is also one of the only areas in UK waters where there is ship-to-ship transfer of oil and there is that stuff going beyond the 12 miles. The UK insurance sector is required to implement maritime sanctions on vessels. We have had some evidence suggesting that a lot of non-G7 countries are providing insurance, but how would you characterise the sanctions and their implementation by the sector?

Tom Keatinge: Shall I have a first shot at that? Sanctions are an extremely imprecise science. I will happily say that when I first heard about the idea of the oil price cap—I happen to know the person at the US Treasury who was the brains behind it and she rang me up and asked me, “What do you think of this idea?”—I said, “I think it’s barking mad. It’s not going to work.” That is the baseline that I and I think many people started with. US Treasury and others will suggest that, actually, it has worked far better than sceptics such as me would have suggested. I am happy to say that I was wrong in suggesting that it was never going to work.

What I think is also wrong is to suggest that somehow it is working perfectly. The one thing about the oil price cap, which is difficult to divorce from the oil price cap activity, is what has happened to the oil price globally. If the oil price is coming down, is the oil price cap working or is it simply that oil prices are coming down globally? It is clearly an important revenue earner for Russia and we should do everything we possibly can to make it work.

It points to something quite interesting, which is how you get countries that do not view the war in Ukraine as their problem to engage with what is happening in Ukraine. What the G7 has done is gone to countries and said, “Would you like to buy oil cheaper than the price on the open market—yes or no?” They respond, “Of course we would like to buy oil cheaper than the price on the open market.” Therefore, it has been a way of getting third countries to engage with our mission to reduce the funding of the Russian economy, as the Chair has pointed out, in a way that does not mean that they have to sign up to sanctions. From that perspective, it has been quite smart.

Is it being breached left and right? Are there attestations that are false? Are there ship-to-ship transfers happening? Are there huge shadow fleets developing? Yes, absolutely.

Chair: We will have more questions on the oil price cap.

Dr Coffey: I was going to suggest that Anne Marie might want to take over, and I will come back with maritime. How’s that?

Tom Keatinge: I precisely ignored what you asked, Dr Coffey. I apologise.

Chair: Yes, let’s stay on the oil price cap and then we will come back to maritime insurance.



Q23 Anne Marie Morris: It is clear that you do not think the oil price cap is working. The bit that we have not covered is how we are going to fix it. You may wish to disagree with that conclusion, but it seems to me that there are so many workarounds to the balance that was intended to try to ensure that while we hurt Russia, our allies could still get oil. What is it that we need the UK Government to do to support industry enforcement? You mentioned that before in another context and there is clearly an issue about that. Do we need to spread the net wider in terms of the people we want to catch? In other words, should those who facilitate the circumvention be included?

Tom Keatinge: For the avoidance of doubt, I do not think the oil price cap is not working. I think that it is inevitably a somewhat leaky tool. There are two mistakes we make when we think about sanctions. First, we think that they are absolute; we think they can somehow draw a box around an economy or a situation or a person, and—to my second point—that that person will simply sit there and do nothing in response. What we need to do—this comes back to the point that was central to our evidence—is to be constantly generating the information and intelligence that identifies where the leaks in our ambition are.

What we still are not doing as a G7 community is responding rapidly enough to the evidence that is generated, such as that from my open-source intelligence colleagues at RUSI, who are constantly monitoring these ships for the ship-to-ship transfers and the like, and we are not moving fast enough to shut down the evasion activity when we identify it—for example, by naming vessels that are involved in the evasion activity. We have set out our stall, and now we need to make sure that we are responding as rapidly as possible to evidence that indicates that circumvention or evasion is occurring.

Q24 Anne Marie Morris: Is that a lack of political will, a lack of manpower or just an inefficiency in the process that needs to be fundamentally revamped?

Tom Keatinge: I don't think it is a lack of political will. Ultimately, civil servants are doing things that they did not anticipate doing two or three years ago. We will probably talk about the capacity of OFSI, for example, and the expertise of these people. There are lots of people doing jobs that they had never even dreamed of one or two years ago. It is amazing how often you meet people involved in sanctions in Government who say, "Well, I've just joined the team." There is not a high degree of expertise there.

Frankly, what we need to do is recognise that if we are going to implement sanctions effectively, we need to change the way in which we view sanctions. They are one of the few tools, along with providing weaponry, that we have to support Ukraine, therefore we need to staff with professionalism the people who are responsible for that and make much more of the expertise in the private sector. There is lots of willingness in the private sector to try to help make sanctions work more effectively, and ultimately it is the private sector that we rely on to make sanctions work



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effectively. I would like to see a much greater willingness of Government to essentially embrace the expertise in the private sector when it comes to trying to enforce sanctions.

- Q25 **Anne Marie Morris:** What about extending the net to those involved in assisting the circumvention?

Tom Keatinge: 100%. Again, if you identify people who are assisting with circumvention or evasion, within the rule of law—as Natalia pointed out—they should be added to the list. If you find that you need to change the policy to expand the list, that is what we should be doing. I cannot stress enough that if we issue sanctions and sit there and say, “We have done everything that we need to do,” the target moves and shapeshifts.

Anne Marie Morris: That is helpful. Do we want to go back to maritime now?

Chair: Yes, we will go back to maritime insurance.

- Q26 **Dr Coffey:** One of the issues is that people are getting insured elsewhere, outside of the G7. The concern is that they may not be quite as effective in that insurance, and at the same time we have conflicts with insurers’ international obligations. I am trying to get a sense of whether it is really possible for the insurance industry to implement the maritime sanctions on Russia effectively.

Ben Cowdock: We have not looked at the maritime insurance issue at all, unfortunately.

- Q27 **Dr Coffey:** All right. Perhaps I will direct this to you, Mr Keatinge, because it is in RUSI’s written evidence. You suggest: “As a global centre for insurance, the UK should show leadership in addressing the insurance challenge”. What does leadership look like to you in this regard?

Tom Keatinge: This is an example—and I am sure that behind the scenes some of this is happening—involving the insurance industry, in which Lloyd’s of London is still a global player, and OFSI and the FCDO when it comes to designations. There is an amount of information that Lloyd’s of London has that could be leveraged to extend the net, to use the phrase that was just suggested, and identify where, within the reach of the UK and the G7, there are insurers providing insurance that is in breach of the oil price cap. These are names that should be being added to the sanctions list, and it should be drawn to the attention of the international community that dealing with that particular insurance company is going to get you into hot water.

- Q28 **Dr Coffey:** Okay. Thinking through the potential risks, it is suggested at the moment that Russia, dealing with people who are not part of the sanctions regime, is starting to operate a fleet. There was the recent incident of the UAE-managed Canis Power oil tanker breaking down while carrying Russian crude through the Danish straits. The impact of that, if it did break, could be catastrophic for nature in our area. Is it fair to say that you do not think that there is anybody who can do anything about that, or is it just about casting the net? It is okay if you don’t.



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Tom Keatinge: I am mindful of your former environmental portfolio, in all of this. I don't think we have thought through the potential unintended consequences of what we are trying to do on the oil price cap side, so it is alarming when you look at the details of some of the vessels that are being used to carry crude oil around the world. I fear what may happen.

There are discussions, for example, about whether we should be more aggressively policing maritime choke points around the world. We were in Denmark recently and got into a big conversation about what the Danes could do, given the waters that they control.

We need to accept that the oil price cap and the related maritime sanctions are there. How do we respond to what the Russians do in order to try and circumvent that? If that means we have to be stopping vessels and checking their insurance and all that stuff, then that is where we need to go to.

Ultimately—I reiterate my point from earlier on—we are in a level of economic conflict with Russia and we need to, in a way, staff ourselves accordingly to deal with that. This is not something that we can just do off the sides of our desks.

Q29 **Chair:** On the oil price cap, you have said in your evidence that you believe that very little is actually being sold subject to the cap and a lot is being circumvented. Is that true? Do you have a percentage?

Tom Keatinge: I do not have any numbers, but we have to recognise that there are a good many countries to which Russia sells its oil that are not interested in what is happening in Ukraine and will pay whatever they need to pay.

Chair: Does anyone else have an answer on that one?

The witnesses indicated dissent.

Chair: If you do find one and follow up by writing to us, we will be grateful.

Q30 **Anne Marie Morris:** Can we move on to the seizure and confiscation of assets? We will look at Russian state-owned assets first and then individuals' assets—they are different.

Clearly, the challenge here is that, once you move from a regime whereby you freeze assets to one where you actually seize assets, you give rise to all sorts of questions about the execution of that new right, setting a precedent, with the impact that that might have on financial systems and whether or not that is a breach of international law. They are very complicated issues.

I am going to ask you, Mr Cowdock, to start us off. The US is one of the most recent examples, in the Bill it has just put through to try to sort out the Ukraine challenge. They now have this power to seize. What is your sense as to the impact that that has on the financial order internationally? Do you think they will actually use that power and, if so,



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in what way?

Ben Cowdock: We have only looked at this issue in terms of seizing assets from oligarchs, so we can only speak to that, but I know that others on the panel have looked a bit more—

Anne Marie Morris: Okay. Is that Mr Keatinge?

Tom Keatinge: Sorry, yes—you are going to be bored of me.

I think that we are, at a glacial pace, reaching a point where the international community recognises that the central bank assets primarily held at Euroclear in Belgium should be used to benefit Ukraine. There is a question of financial engineering: how do you do that? There are various ideas floating around.

One of the points that I would want to emphasise is that there is this suggestion that seizing the assets would somehow spook the markets and destabilise the markets and, in the words of the president of the European Central Bank, bring mistrust to the euro. I think we should strongly dispute that for the simple reason that the central bank's assets were immobilised in February/March 2022. In a way, that was the point of maximum jeopardy for market confidence—the fact that a central bank's assets could be treated in that way.

I do think that those in the financial sector, both central banks and also CEOs of major banks, should be standing up and saying, "Even if there is volatility in the markets, we will support the markets—that is what we are here to do." I think it is an easier argument to make and to take forward than perhaps the oligarchs, which my colleagues will talk about much more than me.

Q31 Anne Marie Morris: Could this be seen as a breach of international law? Would this depend on whether we are yet at war?

Tom Keatinge: There are plenty of well-argued papers from KCs and others that make it very clear that we would not be in breach of international law. For example, we could be taking countermeasures against Russia in response to its invasion of Ukraine. The other example, which I think has got quite a lot of traction, is that, ultimately, an international tribunal would judge that Russia owes reparations to Ukraine. That claim could be monetised by the central bank assets.

There are a bunch of financial engineering ideas out there. What is needed right now is the political leadership in Europe to stand up and say we are going to do this. I think there is leadership in the UK, and there is clearly, as you pointed out, progress in the United States. The problem is that the assets are primarily in the EU, and not in the UK or the United States.

Q32 Anne Marie Morris: Okay. Let me just drill down into what we mean by "seizure" and "use", because this is about which bit you seize and what you use it for. There is the underlying asset, and there is the profit derived from that asset. In terms of purpose, you have said that it would



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be justified if it were used—which clearly would be the intention—to put Ukraine back together again. How would you see the playing field in terms of ensuring we do not breach international law? Can we use both the underlying asset and the derived profit? How would you define or prescribe the use to ensure it is for the purpose of putting Ukraine back together again after the war is over?

Tom Keatinge: There are three levels of asset that people have been talking about: tax on profit, the profits and then the underlying assets themselves. Whether we go fully, at stage one, for all the underlying assets, or just the profits or the tax on the profits, I think is for political leaders to determine. Legally speaking, there have been very good arguments made that seizing the underlying assets would be appropriate.

Let us be very clear: Ukraine needs assets for its survival. We should be doing everything we possibly can to fund not just its survival but its victory. If you look at the importance of the \$60 billion-odd that the United States is now providing, we cannot overestimate how valuable not just the profits or the tax on the profits but the underlying assets are to the survival of Ukraine. We feel very strongly that this needs to move forward, and we need to be taking the central bank assets and using them to benefit Ukraine. If we wanted to limit that to reconstruction, that might be something to consider.

There is another point I want to make. Some countries have said, “We wouldn’t want to see this happen; it would be bad for trust in the euro”—well, only if you are thinking of invading a neighbour. That is fundamentally why we are having this conversation. I really think that this is something the G7 ought to be concluding on at the upcoming meetings in Italy, and we need to stop asking UK, American and EU taxpayers to fund Ukraine if we are not prepared to take assets from Russia to do that.

Natalia Kubesch: I just wanted to come in on it setting a precedent, on the legal basis and then on how funds should be used. In terms of precedent, this is not the first time that assets have been seized. They have been seized in other contexts, but what distinguishes this situation is that Russia has a veto power on the UN Security Council. The US has already seized Iraqi assets as well as Afghan assets, and was able to do that under UN article 40. We are now in a position where Russia has a massive economy, massive financial footprints in the G7 countries, and a veto power. This is quite an exceptional situation, which also calls for exceptional measures.

The legal basis is not something that Redress has a formal position on, but the legal argument gaining the most traction—it has been used by the European Council, as well as the US—is the countermeasures doctrine. This doctrine essentially says that when a state commits an internationally unlawful act, the international community can take measures to induce that state to comply with its international obligations. Those are to stop engaging in the unlawful act and, once that is done, to provide reparations.



That is also crucial when we talk about how funds should be used: if we follow that doctrine, funds should be used for reparations. Those reparations are owed to Ukraine, and they should incorporate a number of elements. They should of course address the reconstruction of Ukraine, how we establish the economic recovery, and support defence. But, fundamentally— we think this is often missing from the conversations— they should also support individual victims. There is a vast number of victims of human rights violations, and they need the money now to rebuild their lives. That, as well, is fundamentally important to the recovery: we cannot build a workforce if we have traumatised and violated individuals who receive no support.

- Q33 Anne Marie Morris:** We will come on to human rights in a minute. For now, I will talk to Mr Cowdock about private individuals and the sanctions regime we have at the moment. The UK has no proposals for confiscation or repurposing. Do you think that we should? Do you think that we can put in place checks and balances to ensure that we are targeting the right individuals? What is it that we need to do to use the regime not only as a tool to freeze assets that would otherwise go to the Russian frontline, but to reduce the attractiveness of doing that?

Ben Cowdock: If you look at the UK's toolkit at the moment, it does not look particularly promising in terms of how we would go about using those assets. Currently, the UK has the Proceeds of Crime Act, which would enable you to seize these assets on the basis that they are the proceeds of crime. For that, you need predicate evidence from Russia that these are the funds of Putin's kleptocracy, which is not going to be particularly forthcoming. You also need to be able to prove that these assets belong to who we think they do, and at the moment there is a lot of confusion caused by trust structures and things like that, which make that problematic as well.

So the UK authorities would have to prove that a mansion that belongs to an overseas company that belongs to a trust actually belongs to that sanctioned person, rather than to that sanctioned person's friend, which we see a lot of at the moment. We need to have transparency around trust arrangements, which we do not currently have in the UK on a public basis, even to be able to lay the groundwork to be able to link these assets to the oligarchs we want to seize them from.

When we go back to the UK's toolkit, there has been a lot of talk about unexplained wealth orders as a way of asking the oligarchs to prove how they came by this money. Those tools were not brought in to seize the assets of oligarchs; they were brought in to take funds from overseas politicians who have put money here and whose assets far outstrip what their official salaries are. So unexplained wealth orders, unfortunately, are not going to be the answer here. That puts the UK in a position where, realistically, we will not see any oligarch seizures under the current set of powers.

In terms of for how we fix that, it would need changes to the law to create what RUSI called "tripwires", which would enable you to have an



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enforcement hook and to take that money away from someone. Essentially, you are looking at possibly creating a new offence that you would then judge these oligarchs to have committed. What that offence looks like is open to interpretation. You might want to hang it on human rights grounds, which I know Redress have looked at, or you might want to create a new definition of the proceeds of kleptocracy, which would enable you not just to seize Russian assets, but to look at the UK's broader proceeds of corruption and kleptocracy problem.

Again, that would come butting up against human rights considerations. We want the UK to be seen as a bastion of the rule of law, but if you start changing the rules of the game halfway through, what is acceptable? That needs to have international buy-in, so we need to work with international partners on what kleptocracy looks like and to have international feedback and buy-in on that. On the human rights stuff, we have not looked at that, but I know that Redress has.

- Q34 **Anne Marie Morris:** Finally, Mr Cowdock—I am sure the Chair wants to move on to other things—you rightly say that we will need new legislation to achieve this. You also rightly say that international agreement is needed. Has any country, or have any countries, already introduced appropriate legislation that looks like the groundbreaking right way forward that we should all look to for guidance?

Ben Cowdock: Unfortunately not. We have not seen an international comparison that we think would be usable, so far.

- Q35 **Chair:** Does the whole panel agree that this needs to be done internationally, rather than one country going first?

Ben Cowdock: I think you would need to create a model that could then be implemented at a national level. But there would need to be some sort of understanding among the EU, the US, Canada—that kind of thing.

Chair: It would be across different countries. Okay. Thank you, Anne Marie.

- Q36 **Danny Kruger:** I am going to ask a couple of questions about OFSI and then about human rights. Ben, perhaps you could help answer this very general question. One purpose of OFSI is to maintain confidence in the UK financial sector with respect to potential sanctions breaches. What would you say the state of global confidence in the UK financial sector is in this regard?

Ben Cowdock: In terms of international comparisons, the UK is probably doing as well as other major financial centres. In terms of OFSI's role in that, something that they have been—

- Q37 **Danny Kruger:** Sorry, but just before we get on to OFSI, can you tell us about people's view? What is your view, and the view of international observers, of the UK financial services sector with respect to potential breaches of sanctions and financing the Russian military effort? What do you think people would say about London at the moment?



Ben Cowdock: In terms of the scale of the UK's exposure to the international financial system, it is obviously large, but at the same time the UK has, over decades, developed systems to detect illicit finance and possible sanctions breaches. The UK, especially in terms of its major banking sector, is fairly well developed, comparatively with international standards. While there might be weaknesses, I think the UK is not letting itself down, essentially, in terms of its financial system.

Q38 **Danny Kruger:** Natalia, would you concur with that?

Natalia Kubesch: Is that a question about OFSI's general enforcement work?

Danny Kruger: I want to come on to that. I am talking more about how much you think we should have confidence in the City's general reputation with respect to Russia, in particular, at the moment.

Natalia Kubesch: I think the reputation is slightly tarnished by London also having a reputation for hiding oligarch moneys or illicit finance. I think this has been called out by the Foreign Affairs Committee before—that this is something that London has built a reputation for. Frankly, I think that that undermines its international reputation as a financial centre.

Q39 **Danny Kruger:** Coming on to OFSI, I will ask each of you to give a quick answer. I think OFSI has trebled in size since the Russian invasion, so there is a huge amount of resource now going in, but it has a pretty poor enforcement record. Is that a fair judgment of its work? Despite hundreds of suspected breaches last year, OFSI only issued seven warning letters, two monetary penalties and no criminal prosecutions. Does that suggest to the panel that they are not doing their job? If so, how do we account for that? Tom, can we start with you?

Tom Keatinge: If I had a pound for every time I have been rung up by a foreign journalist saying, "Can we talk about Londongrad?" I would also be an oligarch. I think the UK has a reputation problem that it needs to sort out, but I think that, actually, that reputation does not reflect the effectiveness of the system.

On your point, I think OFSI faces an enormous uphill struggle. It is probably too early to tell how effective they are being. The reason I say that is that the sanctions we are specifically talking about since 2022 are "relatively new" when it comes to enforcement activity. It is not like countries all over Europe, and the US, are bringing forward big enforcement activity.

The question is, what does OFSI do this year? I think the jury is out. I would stress that much, if not all, of the action taken by OFSI is normally self-reported: organisations fess up. What we need to see is actual action taken that has been discovered by investigations. That, I think, is what is missing.

I would say the jury is out. I am not particularly optimistic, but I do not think we can necessarily judge at this point.



- Q40 Danny Kruger:** Regarding the resourcing of OFSI, as far as each of you knows, does OFSI have the right overall capacity and the skills needed for this complicated work? What do you think of its performance, Natalia? Do you think it has the right skills mix and capacity?

Natalia Kubesch: Unfortunately, I don't have an insight into exactly how its workforce is made up. The low number of fines suggests that there is a resourcing issue, and potentially a skills issue that needs to be solved.

Ben Cowdock: Its work so far has mostly been to offer advice to the private sector. It will have been inundated by that because, as we said, this is a new regime, and it is absolutely enormous compared with anything else that has gone before. Understandably, there has been a lot of advice, and the licensing has taken up a lot of time.

The enforcement gap, which is undoubtedly there, can be attributed to the capabilities of the workforce and how it is able to trace funds and find issues with people's sanctions and anti-sanctions regimes. For that, you essentially need an army of forensic accountants, but with the salaries OFSI offers that is not what is going to be recruited. To the outside eye you will have people who fully understand the importance of this work, but you just don't have the necessary skills to take forward enforcement work.

- Q41 Danny Kruger:** That is very helpful. Let me move on to the question of human rights abuses and reparations. Natalia, you are presumably arguing that there should be sanctions, seizures and reparations flowing from state actors in Russia and the individuals who might be financing them. You are looking to resource a reparations regime from Russian assets held abroad and the individuals we can get hold of. Is that right?

Natalia Kubesch: Our position is predominantly focused on the individual assets, because we are looking at the direct perpetrators of human rights violations. To the extent that state assets are being confiscated, we also advocate for those to be used for human rights reparations. Lastly, we hope that if enforcement action is taken up and fines are imposed, the Government take active steps to consider whether in relevant cases a proportion of those fines could also go to Ukraine. A similar approach is being taken in the US, and it could help to create a healthy ecosystem whereby we enforce sanctions and at the same time help finance Ukraine.

- Q42 Danny Kruger:** Thank you. I want to come on to the question of how to direct the reparations payments to the victims. First, on the issue of sourcing the fines and seizures, if we are talking about individuals, how do you propose to designate the people who should be targeted? What is the mechanism, and can you point to examples of that from around the world? You mentioned the US, but I have also been told about the Canadian Special Economic Measures Act, under which a Minister can issue an order for the seizure of property on the grounds of a grave breach of human rights. Is that the sort of mechanism you would look to? If I understand it correctly, on a Minister's say-so it should be possible to seize assets. That essentially means that if you are designated, you are beyond the protection of the law. If a Minister says you are guilty, you



lose your assets. Is that the mechanism that you imagine?

Natalia Kubesch: No, it is not. You summarised it correctly. The Canadian mechanism is a very brave precedent, but it has significant due process concerns, and frankly it is likely that it wouldn't stand up against the European convention on human rights because it depends on a finding of wrongdoing by a Minister; there is no judicial finding of wrongdoing involved.

We have advocated for the UK Government to consult actively with experts and civil society in developing a new stand-alone law that could facilitate the repurposing of assets that belong to human rights abusers and corrupt actors. Such a mechanism needs to be proportionate. It needs to include due process protections and needs not to unnecessarily infringe on the right to property.

We always stress that when you talk about the confiscation of assets for human rights purposes, you have two conflicting rights. You have the right to property of the sanctioned person, and the rights of the victims, who are eligible under international law for reparations. The law as it stands is slightly too much in favour of the right to property. We treat the right of property as almost absolute, privileging the interests of oligarchs over the urgent need for support for victims. What we want is not a fundamental overhaul of our property rights system; we just want to move the system slightly more to the middle to ensure that both rights are equally protected.

The Canadian legislation is not the precedent we are looking for; it needs to be refined. But we could use it—

Q43 **Danny Kruger:** Is there a good precedent that you point to?

Natalia Kubesch: No. No legislation has yet been introduced that could serve as a basis in a way that would be compliant with the European convention on human rights. There needs to be international momentum to look into making that happen.

Q44 **Danny Kruger:** You mentioned this a little bit, but could you expand on how you envisage the mechanism for distribution? There is now understandably a concern that we could end up with the Government appropriating assets that go into its general fund, and essentially benefiting from human rights violations. Your proposal is presumably that they should go into a designated fund for distribution to victims in Ukraine. How do you imagine that working? Would it be on a country-by-country basis? Do you imagine an international fund? Would it be the Ukrainian Government that would distribute?

Natalia Kubesch: On whether there would be an international fund, that is something that would need to be created. Mechanisms already exist that could collate funds and send them to victims in Ukraine, which is what we have advocated for. There is the register of damage, which was set up by the Council of Europe and is already taking applications for victims who have suffered damage as a result of Russia's illegal invasion. The trust



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fund for victims at the International Criminal Court can provide reparative measures for victims of war crimes, crimes against humanity and genocide. And the Global Survivors Fund has set up a system in collaboration with the Ukrainian Government to provide urgent reparative measures to victims of conflict-related sexual violence. *The Guardian* reported on Friday that the fund will make the first payments within the next weeks. There are also mechanisms set up by the Ukrainian Government.

What is important to see is that those mechanisms exist. They are operating. They can take money right now. They can give out money within the next weeks. The UK Government should take seriously that when they make commitments to support Ukraine, funds should also go there to support victims.

- Q45 **Chair:** Wasn't part of the deal with the sale of Chelsea that the money should go to people who are victims in that way? Do we know where that money has got to?

Natalia Kubesch: No. We were hoping that those were some of the questions you could ask the UK Government. We have sent numerous letters as an organisation in collaboration with Ukrainian organisations asking for more clarity on where the funds are going, when they are going, and what level of oversight the UK Government have, but to date, we have not received satisfactory responses.

- Q46 **Chair:** Do you know where the money is?

Natalia Kubesch: It is currently still sitting in a frozen bank account, waiting to—

- Q47 **Chair:** Do we know at which bank?

Natalia Kubesch: I think I saw that it was a Barclays bank account, but I am not sure. I would need to double-check.

- Q48 **Chair:** Does anyone want to confirm or deny that?

Tom Keatinge: No comment.

Chair: No comment. Right.

Tom Keatinge: The critical error in that process was that the Government's point of maximum leverage was when Chelsea football club was frozen back in February-March 2022. That was the point to negotiate with Abramovich on what should happen to his funds—at the end of the day they are still his funds. Now, we are in the situation we are with any oligarch, namely that there is frozen money, but it ultimately remains his money, and what happens to it is within his gift. That is where this negotiation is occurring.

- Q49 **Dame Angela Eagle:** The transparency of property ownership and the register of overseas entities have been reformed a bit, but not so as to create total transparency, because Companies House is still prevented from publishing information about who owns the trusts and who the



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ultimate beneficial owner is for property ownership. Part of Londongrad, if you want to call it that, has been the laundering of oligarch money into property in the UK. To what extent could we cast a light on that if we made it the case the Companies House should publish, very rapidly, the beneficial ownership of some of the properties and companies registered with it?

Ben Cowdock: If I might jump in on this, I think that the register of overseas entities has been a big step forward in terms of the UK's property transparency measures. It is a credit to the UK that it took a first step on this internationally, but the point that you rightly make is that, currently, Companies House is legally prohibited from publishing the names of people who own trusts that own those overseas companies that own property. That is a major loophole in the law that is preventing the private sector, which is the first line of defence on sanctions, and civil society and journalists, from understanding who owns tens of thousands of properties across the UK.

We found that Russian oligarchs tend almost always to own their properties through trust structures. In February this year, the ICIJ found that an unfrozen property owned through a trust structure was in fact owned by one of Putin's cronies, and when that information came to light, it was frozen within a week. We are clearly missing properties owned through trusts. It is important that Companies House is empowered to publish this information, and that where trusts directly own property in the UK, that information is in the public domain as well.

Q50 **Dame Angela Eagle:** What about UK shell companies, which are currently opaquely owned and controlled and could be used in a similar way by the flood of corrupt Russian money that we know is present in London?

Ben Cowdock: We know from previous examples, and ongoing examples, that specific subsets of UK companies—limited liability partnerships and limited partnerships—have been a tool of choice for Russian money launderers. For one particular subset of these—limited partnerships that are not based in Scotland—we currently have no information on who their owners are because they have no "separate legal personality". That has prevented the Government, so far, in terms of legislating, from uncovering who the owners are. We think that that should be looked at, and a way found to understand who own those limited partnerships, because investigations by the BBC and Bellingcat have found that those are continually being used by sanctioned Russian individuals and entities to circumvent sanctions.

Q51 **Dame Angela Eagle:** How quickly would it be possible, if the Government were willing, to legislate for transparency in this area? It seems to me that it could be done quite quickly. There is no reason why Parliament shouldn't do it, is there?

Ben Cowdock: Limited partnership law is tricky—the current non-Scottish limited partnership law dates back to 1907—but I cannot see a reason why there would not be ways of tying the name of an individual to a limited



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partnership, like you could with Scottish limited partnerships. If a new economic crime Bill were to be introduced into Parliament, I am sure that that could be fixed fairly quickly.

- Q52 **Dame Angela Eagle:** The Crown dependencies and overseas territories were meant to have a deadline—the end of 2023—for publication of beneficial ownership of the structures that they register. That has still not happened, has it?

Ben Cowdock: Currently, only Gibraltar has a publicly accessible register of company ownership. That itself has some issues, but I think that we need to focus on some of the more egregious offenders in this space—for example, the British Virgin Islands. An IMF report produced in the past month or so cast serious doubts as to the BVI's effectiveness in tackling money laundering, and presumably sanctions evasion as well. Currently, there is no sign of a public register of company ownership in the BVI, despite its previous stated intention on that. We think that that should be introduced as soon as possible, and, if it is not introduced within a year, the UK should take action in the form of an Order in Council to require legislation to be passed in the BVI to create a public register there.

- Q53 **Dame Angela Eagle:** Why do you think that the Government decided to give the overseas territories and Crown dependencies so long to come up with registers of beneficial ownership—last year, that is? Why hasn't that deadline been met, and what do you think the Government should be doing about it?

Ben Cowdock: Beneficial ownership transparency has been on a bit of a journey recently. In the EU, they had a Court of Justice ruling that said that public registers were not in line with EU privacy law, so that meant that the EU has had to take another look at this issue. That is sort of being held up by the Crown dependencies and overseas territories as a reason why they are taking longer than we would hope to fix this issue.

- Q54 **Dame Angela Eagle:** With respect to sanctions, if there are jurisdictions where vast amounts of wealth can be hidden behind opaque structures and you do not know who the beneficial owner is, does that not render sanctions fairly inoperative over large parts of the world?

Ben Cowdock: I think corporate secrecy is a silver thread that runs through sanctions enforcement. Whether it is the UK's overseas territories or Dubai, secretive shell companies and secretive arrangements make it much harder to enforce a sanctions regime. *[Interruption.]*

Dame Angela Eagle: Don't worry about the bell. It signals Prayers, which will be going on without us.

Ben Cowdock: The UK should be trying to fix this where it can, including by putting pressure on its Crown dependencies and overseas territories and looking at international contributors to financial secrecy. But there are more immediate steps that could be taken. The UK has arrangements to access information from the overseas territories and Crown dependencies on company ownership.



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Q55 Dame Angela Eagle: So this information is there, just not published?

Ben Cowdock: Exactly.

Q56 Dame Angela Eagle: Therefore, surely we should be empowering those who are trying to enforce Russian sanctions to be able to look at it, even if it is not widely published. Is that happening at the moment?

Ben Cowdock: I think the information is being under-utilised.

Q57 Dame Angela Eagle: Is it possible that those pursuing the sanctions regime can rock up at the British Virgin Islands and say, "Let us have a look at your registers so we can see if there are any Russian oligarchs behind these trusts," but are not doing so? Is that what you are suggesting?

Ben Cowdock: Currently, the system is that UK authorities have to go to, for example, the BVI with an individual company name and say, "We want to check the owner of this." BVI has tens of thousands of companies registered there, so clearly that is not an effective way of doing this. You could create an ask for the BVI to go through their own register and identify every company owned by a designated person and publish that. You could give UK law enforcement open access to these registers while they produce this legislation for open registers.

Q58 Dame Angela Eagle: That sounds like the fastest way forward. Could that be done without legislation, or would it need it?

Ben Cowdock: That could be done without legislation. It is an information-sharing mechanism that could be produced between law enforcement agencies.

Tom Keatinge: May I just add one thing? In the early months of Russia's illegal invasion, Cayman, Jersey and eventually BVI did publish numbers of assets they had identified that were connected with sanctioned individuals or companies, but I am not sure what happened as a result of those publications. That is my first point.

My second is that these Crown dependencies and overseas territories make a virtue of the quality of the information they have. "Trust us, it is very good information," they say. Indeed, the National Crime Agency and others will confirm that on a name-by-name basis. What we have not done is empower the Crown dependencies and overseas territories to have the capacity to then take advantage of the information they have gathered. That is where the gap is. I endorse what you have just been discussing.

Dame Angela Eagle: That sounds like quite a fruitful way forward.

Q59 Dame Siobhain McDonagh: I would like to give a practical example of a company in my constituency and my attempts to help. Last year, a local business came to see me that imported sectional garage doors before Russia's invasion. They were the sole distributor of a Belarussian manufacturer, but after the invasion they sourced components from elsewhere in Europe, because they thought that was the right thing to do.



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Amazingly, their previous supplier Alutech is now circumventing the sanctions and continuing to import banned products into the UK. The Belarussian company is now stealing the British company's customer base and undercutting them by supplying at a lower rate. They have lost roughly £10 million and have had to make redundancies to cope with their losses. Do you think this kind of sanctions evasion is commonplace? If it is happening in my constituency, surely it is happening all around the country.

Natalia Kubesch: I would concur with your assessment—I think it is probably unlikely that this was an isolated incident. Sanction evasion is continuing. I do not have the figures. It is a very interesting example because it shows the implication sanction evasion has on everyone—on customers, on constituents, on citizens in the UK. It is really a multi-faceted issue that has a significant impact.

Tom Keatinge: I would just add that it underlines a point I was making earlier, which is that if we want sanctions to work effectively, we cannot stay on Whitehall. We need to get out to the industrial production areas outside London, outside Birmingham, outside Manchester, wherever it is in the country. That is because, ultimately, 20% of sanctions is the designation at the Foreign Office; 80% of it is what actually happens out in industry. I think there is an argument that we do not understand what is happening in industry well enough, whether it is the example you gave or others. The result is that sanctions are not operating as effectively as they could do.

Ben Cowdock: Is this an issue of de-alignment between the regime on Russia and the regime on Belarus that, from my understanding, is creating this opportunity to import?

Q60 **Dame Siobhain McDonagh:** What we know is that Belarus and Russia claim that the other is the importer, depending on how beneficial it is. We thought it was a simple issue of the coding. I had an Adjournment debate on this, but it is still carrying on even though the coding has changed. Part of this company's frustration—and they cannot believe this is happening, particularly given it involves steel and aluminium, so really important products for the Russian military—is they reported the issue to HMRC. The Office of Financial Sanctions Implementation told them that the onus was on their company to provide the evidence, even though the information required is only available to HMRC. Do you think the British company should be expected to provide evidence of sanction evasion, or do you think HMRC should carry out the investigation themselves?

Ben Cowdock: This kind of thing is a team game. We need the company to report it and then, when it is taken to HMRC and the relevant authorities, they should be taking the investigation forward. They have investigatory powers that will enable them to look at this issue and they would be able to look across the piece as well, as to whether it is happening elsewhere. I think the onus definitely should not be on the company to do the investigation. The authorities should be receiving



information, gratefully, from that company and then taking it off and doing their own investigation.

- Q61 **Dame Siobhain McDonagh:** On the whole issue of coding and running around between Belarus and Russia, one way the company is avoiding sanctions is unbelievable. There is a list of sanctioned product codes for Russia and one from Belarus, and in some instances the two lists do not match up. A product can be sanctioned in Belarus, but not sanctioned if it comes from Russia. The company has been shipping the goods through Russia and avoiding the sanctions altogether. Do you know why the sanction commodity codes differ for Belarus and Russia, two countries that we know work together, are part of the same economic bloc? Surely the sanctioned products should be exactly the same in the two countries, otherwise companies like Alutech will exploit the loophole.

Tom Keatinge: I think that two years ago, very few people knew what HS codes were. We have all become experts in those. It is probably not a rabbit hole to go down. I want to come back to the point Ben made earlier on, and I think you hinted at. Someone said this is about alignment. Let's remember the sanctions on Belarus were initially put in place because of the way in which their election was handled and human rights issues. The sanctions on Russia are a function of their war in Ukraine. I think one area that certainly does need looking at is ensuring that there is alignment, because fundamentally Belarus is an appendix of Russia when it comes to sanctions evasion. There are plenty of examples of stuff going to or coming from Belarus which is actually ending up in, or coming from, Russia.

- Q62 **Dame Siobhain McDonagh:** The latest we heard is that, in Germany, Hörmann, which now owns 100% of Alutech, are now subject to an investigation by the public prosecutor's office for violating sanctions. They have now delayed their imports to the UK and are apparently seeking a licence to import sectional garage doors. It does not seem right that Alutech Incorporated are allowed to apply for a licence in the UK. Do you think that we should have a full investigation in the UK to stop them being granted a licence? When I spoke to the constituent yesterday just to check, they believed that this company would get a licence, because they have been able to circumvent everything else in the UK.

Tom Keatinge: I am going to do what I learned from you as a community of politicians, which is slightly dodge the question. The fact of the matter is that there are lots of cases that underline that we can do better in the way in which we structure and enforce sanctions. We should take those cases seriously and we should improve the system, because the whole point of your inquiry is to ask, "Are sanctions on Russia working?"

All these examples prove that, to a greater or lesser extent, they are not working in the way that we would want them to be. There does need to be something, whether it is a unit at OFSI or whatever it might be, that looks at these kinds of cases and says, "What can we learn from these cases? Let's shut down the loophole that is allowing these cases to be brought to



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our attention.” That is the policy message that I would deliver from the unfortunate experience that your constituent is having.

Natalia Kubesch: I would make one point that supports our advocacy proposals: if there is a full investigation and a breach has been found that constitutes a criminal offence, anything that has been derived from the breach is a proceed of crime that can be confiscated and potentially used for victims of human rights violations. From that perspective, it would be full circle.

Ben Cowdock: I do not have anything more to add. Those are very sensible suggestions.

Q63 **Dame Siobhain McDonagh:** I have a last question, looking at what you have just said. Clearly, the companies importing sanctioned goods are well-funded and very determined. It is inevitable that they would be able to find loopholes in the legislation. Would it be simpler for the Government to just sanction the individual companies, such as Alutech Incorporated, rather than sanction specific product codes that the companies can then work around?

Natalia Kubesch: Potentially—that is something that, when we work with partners to prepare files on similar cases, we also consider. At the moment, we make dual demands to say, “Call for an investigation or designate.” There is a possibility that they would not designate, because certain policy factors are not met, but I think time will tell what is more effective. We are making the dual demands for it, because either of them would achieve some form of accountability.

Dame Siobhain McDonagh: It will be interesting to see what Germany does.

Chair: Definitely. We are going to focus on some international comparisons now.

Q64 **Mr Baron:** If I may, can I follow up in a way? We were discussing the slight differences in the sanctions against Belarus and Russia, but I will focus on Russia now and discuss the differences between the UK, the EU and the US sanction regimes. Are they sufficiently material and important to affect their efficacy? We know the differences—there are modest differences—but I would not mind a quick overview of whether you think they are of sufficient importance to affect the overall objective.

Ben Cowdock: We have not looked at the exact differences between them, but I will make a more general observation from looking at the US regime compared with the UK one. The US has done, from what I can tell, a slightly better job of going after enablers, if you like, so that they are sanctioning more wealth managers than I can see the UK is. Sanctioning those wealth managers, essentially, cuts off the head of those networks sometimes, whereas the UK is going after the lower-hanging fruit. Looking at and taking lessons from how the US has gone after those enablers would be something that the UK could look at.



Natalia Kubesch: Specifically on human rights, what we have seen is that the EU, for example, is better at articulating, in its statement of reasons, the grounds for designation. That is important on the one hand for the sanctioned person to have the information they need if they want to go ahead and challenge it. It is also important for victims because they can see that their suffering has been taken seriously. The UK's sanctions for Russia are quite extraordinary in that they hardly mention any human rights violations in the designation statement. There is vast mention of the killing of civilians, but, in comparison, the EU mentioned specifically the commission of war crimes and crimes against humanity. In terms of the statement of reasons, there is a difference, and it does matter from a symbolic perspective.

Tom Keatinge: Obviously, there are different legal bases on which the sanctions are raised in those three jurisdictions that you mentioned. It would be great if those were aligned and if we were all working together in lockstep. There are political reasons. For example, Roman Abramovich is not sanctioned in the United States—I wonder why that is. He is sanctioned here and in the EU. There are political reasons and legal reasons. What is perhaps as, if not more, important is whether there is unity in implementation. Even within the EU, where in theory they are all working off the same basis, they have different sanctions legislations in different countries, and implementation is a member state competence, not a Brussels-level competence. The gaps in the system are manifold, and it is on implementation where the non-alignment is causing us problems.

Q65 **Mr Baron:** I would agree that there is no point having sanctions if they are not properly implemented. I just want to explore this a little further. We have evidence to suggest that some jurisdictions are good at some aspects and others are not. I just want to drill down a little, because what we are interested in, as a Committee, is whether actually these differences are marginal or whether they are material in their impact. Let me give you a concrete case: both the UK and the EU's Russia-specific sanction regulations target conduct that undermines or threatens the territorial integrity, sovereignty or independence of Ukraine. However, the UK's regime appears tougher and wider in scope in that a person may also be so designated if they have obtained a benefit from or support from the Government of Russia. To me, that feels like quite a material difference, but how material is it as far as you are concerned?

Tom Keatinge: I would say that it is possibly not particularly material, because otherwise you would have vast divergence in who—I am thinking of particular individuals—has been sanctioned between the three different jurisdictions. I would stress that it is about how you implement the sanctions that you have decided to levy. That is where we should be focusing, which is why the Office of Financial Sanctions Implementation is so important in all this.

Q66 **Mr Baron:** Let me give you another example. In June last year, the UK amended its Russia sanctions regime to allow sanctions to be imposed for the purpose of "promoting the payment of compensation by Russia"—you



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will be fully aware of that—and “This means that, in lieu of compensatory payments from Russia to Ukraine, UK sanctions can remain in place even if the conflict were to end.” Again, it is a difference from the EU’s position. It feels a bit tougher, but what you are saying—or at least you, Tom—is that actually it will not make much of a difference.

Natalia Kubesch: I think that statement was taken from our evidence.

Mr Baron: Yes, I think it was. Sorry, I should have quoted Redress.

Natalia Kubesch: No, don’t worry. I thought that it sounded familiar. On that latter point in particular, what difference it will make comes at the point of the lifting of sanctions, because when the announcement was made, it was specifically pointed out that the purpose of this was so that sanctions can stay in place even when the war is over, so that they can stay in place until they are paid compensation. At this moment, we would not expect them to impose sanctions and, if they did, they would be imposing sanctions against an individual for Russia not paying compensation, which is a significant due-process concern. We would expect to see the impact when it comes to lifting—will they let sanctions stay if the war is over and wait until compensation is paid and how the EU would approach that situation?

Q67 **Mr Baron:** We won’t know the full effect until sanctions are lifted, if and when they are. That feels as though it is a bit of a tougher policy.

Let’s approach this in a different way. What do you think are the consequences of international misalignment of the sanctions regime? At the moment, I am getting the impression that you accept that there are differences and that certain regimes are tougher in certain respects than others, but that nobody is well ahead of or behind anybody else. What you are saying—taking Tom’s point, I think—is that it all comes down to implementation. At the moment, is that where your main criticism is, as opposed to misalignment?

Natalia Kubesch: I don’t have a specific example when it comes to Russia, but when it comes to misalignment in other contexts, we have seen the direct consequences. We have seen individuals who have been sanctioned in the US and the EU who can freely do business in the UK, despite credible reports of their having been involved in human rights violations. We have seen members of a paramilitary group travel to the UK to get security training, despite being sanctioned in the US. I don’t have a specific example for Russia, but the examples that we have seen in other contexts are deeply concerning. If there is misalignment, the UK becomes a safe haven that can be exploited.

Q68 **Mr Baron:** Have you already submitted evidence to us about what you have just said?

Natalia Kubesch: We have prepared case studies of the specific examples that we can send to you. They are in relation to different contexts, but they are helpful.

Q69 **Mr Baron:** We are talking here about sanctions on Russia, but we would



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certainly appreciate seeing those. It is our job: if there are loopholes here, and there is misalignment, we can perhaps play a small part in trying to put pressure on the Government to tighten things up a little. We would certainly like to see those specific examples, please, as well as any other examples where there is misalignment.

We are not playing politics here, or trying to score points off one regime against the other. What we genuinely want is not just proper alignment, but proper enforcement being implemented to ensure that the sanctions regime is as tight as everyone wants it to be.

Tom Keatinge: I would point to the EU, where in theory sanctions are fully aligned between the 27 member states, because the sanctions are designed in Brussels. However, the implementation is not aligned. This is why it is implementation that matters. You could have perfectly aligned sanctions, but if you do not actually implement and enforce them, they are not worth the aligned paper they are written on.

Q70 **Mr Baron:** I accept that. What we are trying to do here is put the spotlight on the UK Government, but I take your point. Again, have you submitted that evidence to us? If not, can you send us something to give us some concrete examples of where they may be aligned by way of the regime, but on implementation—

Tom Keatinge: Yes. Let me give you an example. Early in the illegal invasion, the UK Government came up with what I thought was quite a smart wheeze. We did not have the bandwidth to process sanctions designations at the time, so we introduced what is known as the urgent procedure, which I call the copy-and-paste procedure. Essentially, it means that if one of our allies has sanctioned somebody and we have not got round to it, we can, for 56 days, place sanctions on that person. That gives us time to review the file and come to a conclusion.

You would think that that meant that the UK's sanctions on individuals would be perfectly aligned with other countries', but they are not, because the UK was not able to reach the standard necessary to add that person permanently to the list. What you will be told is that the urgent procedure was not always used because there was a suspicion that we wouldn't get to that bar, and we would rather not be seen to fail than not add them to the list.

Q71 **Mr Baron:** Got you. If you don't mind, could you send us that information—in as shortened a version as possible, to save our Clerks—and some evidence? Again, as with Natalia, that would be very useful for our deliberations.

Tom Keatinge indicated assent.

Q72 **Mr Baron:** In conclusion, looking at the sanctions regime as a whole package—not just the sanctions themselves, but their implementation—do you think that the divergence we have talked about in this session, and specifically some of the examples we have talked about in recent questioning, is having an impact on the efficacy of the regime as a whole? That is what we want to know, at the end of the day.



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Ben Cowdock: One thing you want to do with sanctions is send a united message. If you can identify instances where there is de-alignment and it is a high-profile person or individual, and that person is sanctioned in one jurisdiction but not in another, that undermines the UK's stated intention to demonstrate that we are against this kind of activity.

Even if you do not have a material effect on frontline operations in Ukraine as a result of de-alignment, you have a potential weakening of the message. I think we could provide a couple of examples of where the UK has not sanctioned someone and someone else has, and that person has—

Mr Baron: Taken advantage of it?

Ben Cowdock: A footprint here. Yes.

Q73 **Mr Baron:** Could you send us those examples, please, because that would be useful?

Ben Cowdock: Yes.

Q74 **Mr Baron:** Finally, it seems to me as though there are differences here. We can debate how material or important they are, but you have certainly said that implementation is a factor in sanctions being perhaps not as effective as we would like. Is it beyond the wit of humankind for the heads of the three sanction regimes in particular to get together and iron this out? Is that just too much to ask?

Tom Keatinge: They do, regularly.

Q75 **Mr Baron:** Right. Yet you are each giving examples where an individual is being sanctioned in one country but not effectively in another. That does not sound like very effective collaboration, does it?

Tom Keatinge: I go back to what I said previously, which is that it is about implementing the sanctions that you have put in place.

Q76 **Mr Baron:** Yes, but that is my point. A sanctions regime is not just about the sanctions themselves; it is also about implementation. Looking at it in its entirety, including implementation, I am saying that we are falling short. I am getting concrete examples of our falling short, if an individual can be sanctioned in one country but not in another. It is a simple example, but it is one that exists. I am looking forward to seeing that example.

Tom Keatinge: If you think that is the measure of effectiveness—I am not saying it isn't, but—

Mr Baron: It is one example. It is one measure, surely.

Tom Keatinge: I will go back to something I said before you joined us. There is the so-called common high-priority items list, which is a list of goods agreed between G7 members. There is perfect alignment there on night vision goggles, communication equipment, ball-bearings—all that kind of stuff that we need to stop the Russians getting. I suppose what I would suggest is that what really matters on the resourcing of the Russian



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military, in my view, is the implementation of that list, which is uniform across G7 members.

Q77 **Mr Baron:** Right, but it's not uniform across the three jurisdictions. That is what we're saying.

Tom Keatinge: No, it is. That list is uniform across—

Mr Baron: Yes, but not the implementation across the three jurisdictions.

Tom Keatinge: Correct.

Mr Baron: That is what we are saying: that that is where it has to be tightened up.

Tom Keatinge: Correct.

Mr Baron: I look forward to receiving your individual submissions to the Committee. We will look at this further, no doubt.

Q78 **Chair:** Very interesting. People have said that the sanctions on Russia are very different from the sanctions regime applying to Iran. Could you highlight what those differences are?

Tom Keatinge: I am happy to go first. A really important point is that before February 2022, sanctions were primarily a foreign policy tool and a messaging tool; we have talked about messaging here. What happened instantly in February 2022 is that sanctions also became a tool that had to have impact, because there was such integration, particularly between European economies and the UK. In particular, that hit the manufacturing sector—exporters and so on.

On Iran, the focus was very heavily on financial sanctions. One of the reasons why the financial sector in the UK was match-fit in February 2022, or more match-fit than other sectors, was the experience on Iran. For Iran, it was very much about financial connections and less about trade, putting oil trade to one side. There is a big difference there that has been exposed over the last two years.

Natalia Kubesch: I would add that Iran is subject to numerous sanctions regimes: there is an Iran sanctions regime, a global human rights sanctions regime, a nuclear weapons sanctions regime and a counter-terrorism sanctions regime. Iran has been a target for years under all these sanctions regimes. The impact is also different. Iran has been economically isolated for 40 years. It has never been dependent on the west, as Russia has; it has never had those economic relationships.

I also concur on the messaging. In recent years, a lot of the human rights sanctions that have been imposed against Iran have been about demonstrating and signalling support and condemning violations. It is a different case study. There are different reasons why sanctions work, how they work and how they impact. A sweeping comparison is difficult to make, because they are fundamentally different case studies.

Q79 **Chair:** You have given us a great deal of written evidence, and your



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evidence today has been very wide-ranging and helpful to the Committee. The point that you made, Tom, about how many times you have been asked about Londonistan really sticks with me.

Could each of you bring this session to a conclusion by coming up with three things that you would like the Committee to recommend be changed, which might help address that reputation internationally but also have practical impact? Ben, you are nodding your head.

Ben Cowdock: I am nodding. I have got my three lined up, luckily.

The first would be to fix the issue around trusts, which really undermines the good work the UK has done on property transparency, and to publish information about trust-owned property here. That would allow us to really find out about any further sanctioned oligarchs who own property here whose assets have not been frozen.

The second is for the UK to do as much as possible to open up the registers of company ownership in its Crown dependencies and overseas territories, particularly the BVI, which is a real nexus for Russian money. I have spoken about intermediary measures you could take in relation to that.

The third point is about resourcing, both to OFSI and to the NCA's counter-kleptocracy cell. The broader law enforcement landscape needs more resourcing to be able to fully take on the massive challenges we have in the UK.

Chair: That is very succinct. Natalia?

Natalia Kubesch: I also have three. First, we urge the UK Government to start developing laws and policies that facilitate the repurposing of profits derived from human rights violations and corruption. That includes the confiscation of assets that are demonstrably linked to those violations.

Secondly, we urge the UK Government to ensure that in any future commitments of support to Ukraine, they prioritise victims' rights of reparation alongside the important efforts towards the reconstruction and defence of Ukraine.

Lastly, we advocate stronger enforcement of sanctions by all bodies involved in the enforcement of sanctions and, where possible, consideration of the repurposing of any fines imposed as reparations.

Tom Keatinge: I will conclude with a point that I wanted to make earlier, in regard to the Londongrad point and the question raised by Mr Kruger. OFSI has a very high standing and reputation around the EU. Wherever we go, people say, "We had a visit from OFSI; they've been really helpful" and so on. In addressing the Londongrad point, OFSI is quite a good soft power tool.

I will end with one recommendation, which is that we need to view sanctions on Russia for what they are: a tool in an economic war that we are in with Russia. We need to treat them as such. Per our evidence, we



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therefore need to create an agency that is pulling in all the information and intelligence that is needed to ensure that sanctions are implemented effectively. At the moment, we are spending too much time admiring what we have done and not enough time diving in and actually making these sanctions work.

Chair: That is very interesting. As colleagues have no further questions for the panel, all that remains is for me to thank you very much for your evidence. This has been a really good introductory session to our inquiry.