HOUSE OF COMMONS

Foreign Affairs Committee

Oral evidence: The UK’s sanctions strategy, HC 699

Tuesday 4 February 2025

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Watch the meeting

Members present: Emily Thornberry (Chair); Alex Ballinger; Aphra Brandreth; Phil Brickell; Uma Kumaran; Blair McDougall; Abtisam Mohamed; Edward Morello; Sir John Whittingdale.

Questions 1-43

Witnesses

I: Tom Keatinge, Director, Centre for Financial Crime and Security, Royal United Services Institute; Maya Lester KC, Senior Barrister, Brick Court Chambers; Freya Page, Director of Global Outreach, Kharon.

Examination of witnesses

Witnesses: Tom Keatinge, Maya Lester and Freya Page.

Chair: Today we have a one-off session on the UK's sanctions strategy. It is an opportunity to take some views on how the UK uses sanctions as part of its foreign policy. Could our witnesses please introduce themselves for the record?

Freya Page: Good afternoon. My name is Freya Page. I am director of global outreach at a company called Kharon. I am giving evidence today in my personal capacity, but I also have experience of working for almost eight years in HM Treasury for the Office of Financial Sanctions Implementation.

Maya Lester: I am Maya Lester—forgive my croaky voice. I am a barrister at Brick Court chambers. My background is public law and European law, but it has very much become sanctions law. I deal with all sorts of legal issues arising out of sanctions regimes. I also have a website, globalsanctions.com, which keeps track of all sorts of sanctions legal issues and is updated several times a day.

Chair: I love legal directories. They call you the queen of the sanctions Bar, I think.

Maya Lester: We all know about legal directories.

Chair: I know, I know, but still.

Tom Keatinge: I sometimes wonder when Maya has time to represent her clients, given how regularly the website is updated.

Anyway, I am Tom Keatinge. I am the director of the centre for finance and security at RUSI. A significant portion of our work has covered sanctions for many years; of course, that only increased after February 2022.

Q1 **Chair:** I will kick off. For the sake of people watching, I think we ought to begin with some general questions about what sanctions are, how they work and why they are a live issue in the UK. Shall we start with Tom?

Tom Keatinge: Let's use Russia as a case study, because it is a good place to start. Sanctions are tools of foreign policy that Governments use to try to create an effect of some sort. It might be signalling—for example, the UK might issue sanctions in relation to people who are deemed to be human rights abusers. They will not have assets in the UK that we can freeze; they will not want to travel to the UK, and so they would not suffer from any travel ban we might put in place. But it is a message: it is a foreign policy message that we disapprove of what they are doing.

Q2 **Chair:** Can I interrupt you with an even more basic question? What is a sanction?

Tom Keatinge: The main things that sanctions do include allowing the banking sector of a country to freeze the assets of the person, entity or company named in the sanction. The sanctions might put in place weapons embargoes: for example, sanctions on al-Shabaab or on Somalia might stop weapons being sold into Somalia. They might put travel bans in place: we might put in bans that mean that people cannot come to the UK.

It is important to recognise that sanctions have historically been a tool of the United Nations Security Council. Sanctions work best when everybody agrees that the assets of person X or organisation Y should be frozen or that there should be an arms embargo or travel bans. In this day and age, when the UN Security Council is essentially broken when it comes to any kind of agreement on sanctions, the result is that individual countries have made their own way: the United States, most notably, for many years; the European Union; and of course the UK, which since Brexit has had to have its own sanctions-making capability. We take decisions in the UK at the Foreign Office to use sanctions to advance our foreign policy objectives and those of our allies.

I can feel that Maya is itching to come in, but it is probably important to make one final point. These are fundamentally administrative tools. They are decisions that Governments take to place sanctions on somebody, subject to certain hurdles and certain checks and so on. They are administrative tools, so we should always be asking ourselves, "When we use sanctions, what is our objective? What is our end goal? What are we trying to achieve? Ultimately, what needs to happen in order for the sanctions to be reversed?" You are ultimately trying to achieve a change in behaviour or a diversion of activity. Very simply, we are trying to have an effect on what Putin is doing in Ukraine by using sanctions, so we need to communicate to those who are subject to sanctions how those sanctions might, at some point in the future, be reversed.

Chair: They can be used as a tool of foreign policy, rather than sending a gunboat. It is another way of doing things.

Tom Keatinge: Yes, and it is it is a beguiling tool to announce. I do not know whether we will talk about this, but the Government recently announced plans to introduce organised immigration crime sanctions to support the ambition to, quote unquote, "smash the gangs". I would like to see the theory of change that suggests that sanctions, as part of a toolkit, are going to contribute to that mission. But yes, they are easy to announce and easy to bring forward. You do not have to send soldiers to war; in some ways, you delegate it to the private sector to take action on your behalf.

Q3 **Edward Morello:** You have raised an interesting question. Originally, when the League of Nations started to institutionalise sanctions, Woodrow Wilson said that it would remove the need for force. You have raised the question of what the purpose of sanctions is. Is there any evidence that sanctions are actually an effective way of dissuading an aggressor, or do we just use them post hoc to punish people?

Tom Keatinge: I will finish, and then I am sure the others will have plenty to say. It is probably fair to say that the sanctions on Iran brought Iran to the nuclear negotiation table to agree the nuclear deal, the joint comprehensive plan of action, back in 2016 and in the period up to 2016.

Chair: And South Africa?

Tom Keatinge: South Africa is often cited. Politicians are wont to overpromise on sanctions: when sanctions were first introduced on Russia, there were all sorts of hyperbolic phrases about smashing the Russian economy, decimating the Russian economy, crippling the Russian economy or whatever it might be. Frankly, expectations were way overblown.

Chair: It is not going well in Russia. Let's not overstate it the other way.

Tom Keatinge: The EU sanctions envoy has an interesting characterisation: he describes sanctions as a slow puncture. It is also important to note that no one has ever said that sanctions are a singular tool that will achieve an objective by themselves. In the case of Russia, its central bank assets have been frozen. That is $300 billion taken off the table, so it is not as if they have done nothing, and we can debate where we are on the scale from stopping the war to being hopeless, but I think it is unfair to say that they have achieved nothing.

Maya Lester: On the nuts and bolts of your question, "What are sanctions?", obviously they are tools of foreign policy, but what does that really mean? They are legal instruments that are imposed either by groups of countries, such as the European Union or the United Nations, or individual countries, such as the UK post Brexit and, very significantly, the US, as well as Canada, Australia and New Zealand. All sorts of jurisdictions have what have become known as unilateral sanctions.

Sanctions are instruments of law, of basically two kinds. One kind is targeted sanctions, which are sometimes called smart sanctions. These are lists of companies and people drawn up by Governments that generally have two types of restriction aimed just at the people and companies on the list and the companies owned or controlled by them. First, there are financial restrictions. Within a jurisdiction—if we are talking about UK sanctions, within the United Kingdom—all the people and companies named on those particular lists cannot access any funds, so their assets are frozen. It is also a criminal offence for anyone else to make funds or resources available to those people. Secondly, there are travel bans: people normally cannot come to the country where the sanctions apply.

Then there are the non-targeted sanctions, which apply across the board within the particular jurisdiction that is imposing the sanctions. In the case of Russia sanctions, those are an extremely far-reaching, complex web of different kinds of restriction on trade, export controls and a hugely complicated web of different sorts of restrictions aimed, in theory, at achieving a certain foreign policy goal.

Those two basic buckets of targeted sanctions and non-targeted sanctions are a feature of almost every sanctions regime. Every regime has a particular goal. Syria sanctions, for example, were originally aimed at stopping the Assad regime from repressing democracy, or however they were labelled. The lists of those who are targeted are, in theory, drawn up to try to achieve the foreign policy goal. Likewise, the extent to which there are other kinds of trade restrictions varies. Russia is probably the most far-reaching web of current sanctions restrictions that we have, but there are an awful lot of different sanctions regimes, so the particular restrictions depend on which regime we are talking about.

Q4 **Chair:** Could you tell us about the legislation on which sanctions are based? Could you also take us by the hand and explain how it comes about that sanctions are started?

Maya Lester: If we are talking about the UK, all this was done through the European Union when we were a member state, so there was not really any such thing as UK sanctions pre-Brexit, apart from terrorist asset freezing. We always had the capacity to freeze terrorist assets.

The first legislation to go through Parliament in the Brexit process was the Sanctions and Anti-Money Laundering Act, because the UK wanted to be able to continue to impose sanctions post-Brexit and basically to continue what the EU had been doing, but to have the power to do so as the UK. The legal framework is that sanctions Act, which gives very broad powers to Ministers to impose sanctions and make sanctions regulations. It also sets out the basic legal framework for people on sanctions lists to challenge their sanctions, and for different kinds of sanctions to be imposed—targeted asset freezes and transport sanctions. All sorts of different sanction powers are set out in the sanctions Act.

You then have roughly 40 sets—I am not sure what the current count is—of regulations made using the powers in that Act, such as the Russia regulations, the Syria regulations and the Iran regulations. That is where the particular restrictions relating to each regime are laid out in secondary legislation. Those were originally copied over pretty much exactly so as to mirror the EU sanctions; now they are UK secondary legislation, so they can diverge from the EU.

Chair: We will come on to parliamentary oversight if we get time later. That is probably an important part of this, too.

Q5 **Aphra Brandreth:** I want to dig a bit more into the foreign policy aims of our sanctions policy. Are we clear about them? Are we articulating them clearly? What would good communication of them look like? Perhaps Freya Page might want to come in.

Freya Page: I think the sanctions aims are communicated to the broader sector, particularly those that are already actively engaged, such as the banks, the legal sector and others. But there is very much a difference between what the Government are trying to communicate and to whom they are trying to communicate it. For example, if the Government are talking to the financial institutions or RUSI, there is very much an understanding of what those aims are and of the context behind the sanctions. In terms of a specific set of designations—Tom and Maya mentioned that they are thematic and are targeted sanctions—I think more can be achieved through that communication. There is room for improvement and for a much clearer set of narratives around those specific designations.

For example, OFAC—the Office of Foreign Assets Control, the US equivalent of the sanctions implementation unit—designated two people associated with a Russian agricultural company called PhosAgro. When it designated those two individuals, it also issued an FAQ that stated two very specific things. First, it stated that although two people were designated, those sanctions did not mean that that company, PhosAgro, was considered to be owned or controlled by those people. Ownership and control is still a knotty issue in sanctions. Secondly, it said that the agricultural and medical sectors in Russia were not the intended targets of the sanctions. It very clearly separated the intention behind the designation; it became very specific to those two individuals. That was good, because it helped industry to understand the intent behind the sanctions and the foreign policy goals.

As a private sector business, you want to understand that you are taking a risk-based approach with your business, and you can make other strategic decisions accordingly. However, in the UK we do not give that same context. We are very good at communicating the designations and putting them out there, but we could be doing a lot more to communicate to the industry the context, knock-on effects and the contextual basis, to provide that background for the private sector.

Q6 **Chair:** It is also all pretty new for us, isn't it?

Freya Page: Absolutely. The last couple of years have been a whirlwind of sanctions. A few years ago, sanctions were an asset freeze; they were traditionally very financially focused. They were about freezing bank accounts, stopping assets being moved and preventing them from being made available to or for the benefit of designated persons. But in the last few years particularly, we have seen a real evolution in how sanctions are used. Since 2022, with the invasion, we have seen a complexity around sanctions; they are hitting very niche areas, such as energy and trade, in ways that we have never seen before. They are hitting sectors and parts of industry—not just in the UK; this is a global issue—that have never really had to think about how sanctions apply to their business.

The context makes it even more crucial that those communications are really clear. Maybe we will come on to this point later, but it is also about how that outreach is done with various different parts of sectors that have not been habitually engaged in sanctions, such as the financial, legal and insurance sectors, which are all very well versed in how to handle a lot of these issues.

Tom Keatinge: Essentially, we are deputising the private sector to prosecute foreign policy on our behalf. We therefore need to give it all the tools that we would give to the military we deputise to go and prosecute wars for us. If we want to achieve whatever the desired effect is—we should clearly state at the beginning of this process, "We are trying to achieve the following effect"—we need to give the private sector all the support we can. All credit to the US: it has many, many years of working with its private sector in a way that the UK has not quite had to do. Much more guidance comes from the United States authorities about how sanctions should be implemented than from the UK, or indeed the EU or anywhere else.

Q7 **Sir John Whittingdale:** Sanctions against individuals are clearly designed to punish them and inflict pain when they cannot access their money, particularly if they have been guilty of human rights abuses or are associated with senior figures in the regime. Then you have sanctions that are designed to stop countries doing specific things, such as developing very high-tech computers or missiles, so you choke off exports of chips, for example. Then there are sanctions that appear to be designed to cripple an economy and make the people conscious of what is going on—Russia is the obvious example. To what extent do you feel that sanctions are being deployed not in a targeted manner, but to send a country's people a general message, "Your Government are doing things that we condemn, and we want you to suffer the consequences"?

Maya Lester: If you asked the Foreign, Commonwealth and Development Office, which is responsible for sanctions, it would say, on your first point, that sanctions are designed not to punish individuals, but to coerce a change in the behaviour of individuals.

Q8 **Sir John Whittingdale:** But things like Magnitsky sanctions are clearly on people who have committed human rights abuses.

Maya Lester: Magnitsky sanctions are slightly different. My guess is that the FCDO would say that foreign policy sanctions are not about punishment. That is quite an important point, because the way targeted sanctions are now imposed is that they are very rarely aimed at people for something that they have done that is wrong. The categories of people who could be included in Russia sanctions are absolutely enormous and probably include several people in this room, by which I mean that they are not wrongdoers or even close to President Putin. The categories are now so large and so broad that they include, for example, people associated with people who used to be in business in Russia. There are hundreds of thousands of people who could be included on sanctions lists. The Government pick and choose who they think it is appropriate to include.

Why are the categories so broad? It is because the Government are trying to cast the net as wide as they can, in principle to achieve a foreign policy goal—in the case of Russia, that is stopping the war in Ukraine, putting it crudely. Whether the sanctions are effective, particularly in changing the behaviour of those individuals, is a really vexed question. One of the legitimate criticisms of targeted sanctions is questioning whether they give the individuals who are the targets of sanctions any incentive to change behaviour. In my view, the Government have not made that clear.

Why do I say that? It is because there are people on those lists who have, for example, divested themselves of all their business in Russia and have done everything they could to say, "I have nothing to do with President Putin." There are some very western-facing people on those lists—not all of them; I am not suggesting that by any means—who remain on the sanctions lists when other people, a handful, have been removed from sanctions lists by the Government, but the Government do not say why.

There is no published policy that says, "Here is what we are trying to achieve, and if you do something—whether that is paying for the reconstruction of Ukraine, denouncing the war or whatever—you will be de-listed." That is something that the Government have talked about doing, but to my knowledge it is not something that they are doing. That goes back to the important question of what sanctions are designed to achieve. Are they clear about what they are trying to achieve, and are they encouraging the targets of sanctions to try to achieve those goals?

Q9 **Sir John Whittingdale:** What about the general sanctions that are meant to empty shelves or put up inflation, or just make life harder?

Maya Lester: It is all part of the same package. If you take Russia, part of it is targeted sanctions on individuals; the other part is very far-reaching trade restrictions. What is the goal of the trade restrictions? To try to cripple an economy, you could say—to make things harder economically. That is a pure foreign policy goal. Is that something that is likely to achieve change in a particular country? Who knows?

Sanctions are often imposed in jurisdictions where the leader of the country is unlikely to be motivated by the suffering of the people of that country—but this is foreign policy, so in some cases the calculation may be, as Tom said on Iran, to see sanctions as part of other diplomatic tools, the theory being that they can create a situation in which negotiation happens or a foreign policy goal is achieved. I think the general calculation is that sanctions alone are unlikely to achieve them.

Sir John Whittingdale: If I—

Chair: Let's move on, if you don't mind, because we have a lot of questions to ask. I am sure you will get an opportunity to say what you are going to say. Let's go to Uma, who has some challenges.

Q10 **Uma Kumaran:** Maya, your point about the Government not being entirely clear on what they want to achieve by the sanctions is quite an interesting one. What is the point of having sanctions in place if the end outcome is not made clear? What does it achieve? Tom, you asked earlier what we want to see changed or reversed. If that is not set out from the off, what is the point of putting sanctions in?

Maya Lester: That is a question that you should put to the FCDO, because I am not responsible for foreign policy, I am pleased to say. It depends on what level you are asking the question. I think what the FCDO would say is that if enough people are put on sanctions lists, their theory is that somehow pressure will be put on President Putin to change his foreign policy. Not to get too legalistic, but one of the issues that was before the Supreme Court last week was to what extent the Government need to show that each individual designation—each person added to the list—could make a difference in itself. I think the Government's theory is that, if you have enough thousands of people on lists, you are seen to be doing something that will impose pressure on the Government.

Tom Keatinge: I will allow myself to slightly disagree, because I think it is pretty clear what the Foreign Office wants to achieve with the Russia sanctions regime, for example. Where I think it becomes more complex is if you interrogate individual decisions that are made as part of that regime. For example, why was a particular non-targeted decision—to use the description that Maya used before—made to restrict the provision of legal services to Russia?

The question the Foreign Office needs to ask itself are: "If you go back to the sanctions regime that you started to put in place late at night in February 2022, have the sanctions achieved the objective that you had in mind at the time, or are they working against us rather than against the Kremlin?"—very possible—and "Are they in any way achieving this overarching objective of restricting the funding and resourcing of the Russian military and therefore crippling its ability to fight its war in Ukraine? If they are not, we should consider reversing those sanctions." There is a bit of work that needs to happen in the FCDO, to go through that period and say, "Realistically, we know what we're trying to achieve as a high-level objective. How are these individual decisions made over the last three years contributing to that?"

Chair: The parliamentary oversight is something that we will come back to. It keeps coming back to that.

Q11 **Uma Kumaran:** In the light of what you have said, and taking on board the FCDO point, do you think the Government could be bolder in their use of sanctions, including Magnitsky-style sanctions?

Maya Lester: I think they are missing an opportunity to have a real win when it comes to targeted sanctions, because they could be clear with the targets of sanctions about what they want them to do. They could say, "If you do those things"—it could be putting money into a pot for the reconstruction of Ukraine, or divesting themselves from Russia—"we will take you off the sanctions list, and we will count it as a foreign policy win." I think that is a missed opportunity. They could be achieving that, but because of the lack of clarity around this policy at the moment, that is not being achieved.

Tom Keatinge: That relates to individuals. The bottom line is that every time we issue sanctions, the Russian economy sees us coming a mile away. I would therefore argue that the mistake that we have made over the last three years is to tiptoe down the sanctions road at a point when shock and awe, to coin a phrase, may have been more effective. We have been nervous about roiling energy markets and food security around the world, and the result is that we have kind of done a little bit. I like to bring to mind the Monty Python fish-slapping sketch: we have done the little tip-tap, tip-tap, but actually we should have got out the big fish, like at the end of the sketch, and slapped the guy into the canal. Realistically, we probably have not leaned into sanctions as much as we could have, because of other considerations such as energy and food security.

Q12 **Uma Kumaran:** I appreciate that you have mentioned Russia, but in a previous session I pushed the Foreign Secretary on why we have not sanctioned individuals from the former regime in Sri Lanka, for example. The USA and Canada have imposed Magnitsky sanctions on certain individuals, but we are lagging behind. That is a clear example where the US and Canada have imposed sanctions, and we have not. What in your opinion stops us being bold on things like that? Sri Lanka is a clear example where the US and Canada have done it and we have not. Is there a general reluctance in the Foreign Office to impose sanctions?

Maya Lester: The answer to that is that it will be a foreign policy decision. With sanctions, the Government is always open to the criticism of picking and choosing where it wants to impose sanctions and where it doesn't.

I will just make one comment on human rights sanctions. They are generally, for better or worse, symbolic. By that I mean that most people on these global human rights sanctions lists do not have assets in the UK. Since all our sanctions regimes do is basically freeze assets in the UK, the question is whether it is really bold to put people on global human rights sanctions lists. Is there value in signalling that we disapprove of these people, or could the Government be bolder and, for example, put resources into helping to prosecute corruption in those jurisdictions? Those sanctions are symbolic. You may think that symbolism is a good thing, but they certainly are not achieving a concrete goal.

Edward Morello: I want to circle back to a topic that we touched on earlier: guidance to the private sector.

Chair: Hang on, sorry—before you do that, I think Blair has a question.

Q13 **Blair McDougall:** At the risk of sounding like a politician who wants to gather more power for himself, can I ask you about your views on whether Parliament's role in sanctions—not just the scrutiny, but the commissioning—is appropriate? I will ask you first, Freya, as you have been the gamekeeper.

Freya Page: I think there is already a good amount of scrutiny. There are various avenues that can be taken through Parliament, and it can have very constructive debates on sanctions.

Q14 **Chair:** Sorry, but Blair and I have had the same experience: we have gone into the Chamber and said, "Why aren't you sanctioning X, Y and Z?" and we are simply told, "We don't discuss sanctions."

Freya Page: Yes, but there is also a critical role. When you are looking at targeted designations and at creating that policy, in my experience the risk, certainly from within Government, is about ensuring the integrity of that information and that data. You don't want to risk certain discussions being made public and tipping off potential targets or areas where there is a risk of asset flight. If you really want to make those sanctions effective, you do not want to give anybody a chance to move their assets out of the UK before there is a chance to really have that pinch point. You want the ability to use sanctions to bring people to the negotiating table and to ensure they understand your messaging.

Q15 **Blair McDougall:** The trouble with that—and this is a frustration that the Chair and I have felt—is that a Government who are being very active in preparing sanctions look exactly the same as a Government who are kicking an issue into the long grass and trying to delay things. It is very difficult for us parliamentarians, or the public we represent, to know which is which.

Q16 **Chair:** Cameron set the targets in the summer, so they have had a long time to think about it. He said that the Foreign Office was thinking of sanctioning the most extreme members of the Israeli Cabinet and that a plan was in place. He did not explain why he had not implemented it, but he said that a plan was in place. Whenever we ask about it, we just get back from the Foreign Office that it does not discuss sanctions.

Freya Page: It is a tricky one, like I said, because it is about balancing the confidentiality of that sort of foreign policy with national security, and making sure that there is the right process in place. Allowing that slight separation allows for appropriate scrutiny, debate and a place for escalation. I think there is something to be said about having more open conversation. Maybe that should be—

Chair: The Foreign Affairs Select Committee?

Freya Page: Potentially, or maybe a sanctions Select Committee. Something like that could be set up with the pure focus of ensuring that confidentiality and focus, where it actually is a lot safer to discuss those issues and might lead to better transparency between Parliament and Government before they announce policy.

Q17 **Blair McDougall:** Can I build on that? I mentioned in my first question the commissioning of sanctions, so other Parliaments and other jurisdictions, particularly the United States, will have the power to initiate sanctions. I wonder whether that is not just giving more power to the legislature but is maybe helpful in some instances to the Executive. The hand that is holding the carrot is not holding the stick. Russia is an easy example, because we have such a cold relationship with them, but many countries where sanctions are in place are countries with which we have existing commercial relationships. Would it be better for Ministers to be going into these rooms not being the ones who have initiated the sanctions, so that they can have the conversation about the commercial relationship separately?

Freya Page: There is definitely room for more involvement, certainly with the private sector, to understand effective implementation. There are definitely gaps there, but I do not know whether Maya or Tom has any thoughts on this as well.

Maya Lester: I think there is very little debate in Parliament about sanctions. There is a massive amount of executive power with almost no parliamentary scrutiny in this field. Yes, there is obviously the parliamentary statutory framework, but look at when the Russia regulations came in, for example: pretty much all the sanctions regulations are under the made affirmative procedure. They are retrospectively approved, but there is really no debate in Parliament on the kinds of questions that you have been talking about here, such as, "Has a cost-benefit analysis actually been done?", "Is this the right way to go?" and, "What are the alternatives?"

If you bear in mind the enormous powers that Government have and the delegation of powers to Ministers both to put people on sanctions lists and in all the other spheres, I think it is an area that could benefit enormously from more parliamentary scrutiny. I think there have been six or seven different Committee reports over the years, such as during the Brexit process and before that, and different Committees of Parliament have produced reports on sanctions issues that have been enormously valuable.

Tom Keatinge: I am all in favour of parliamentary scrutiny, but the only thing I would say is that it is important to draw a distinction with the Russia regime, where everyone is pulling in the same direction. Slightly picking up on a point that was made earlier, when we have sanctions discussions at RUSI, and I saw this with my own eyes just a couple of months ago, you had people at one end of the table who were from the sanctions directorate, so they want to pull the sanctions levers and are itching to pull the trigger. At the other end of the table, there was a group of Foreign Office officials who represented the XYZ desk that we were discussing. There was clear tension between those two ends of the table.

One of the reasons why I can somewhat favour the model we have right now—although one should always have more scrutiny—is that when the diplomats go to those countries, they are kind of pulling and pushing on different levers. One of those levers is, "Well, we have the opportunity to issue sanctions, but on the other hand we have the opportunity to offer you this." If you view sanctions in pure isolation, there is a risk that you overlook, if you like, your other foreign policy objectives.

To go back to the original point, sanctions are a tool in the foreign policy toolbox. We should scrutinise the Government's foreign policy as it relates to Sri Lanka, for example—what role should sanctions have in that? You should be querying that. But suggesting that person X or person Y should be on the list, as they might do in the US, is maybe a different step.

Q18 **Chair:** But surely it would be helpful if somebody—the British ambassador to Egypt, say—were able to go and speak to the powers that be and say, "We have this up-and-coming parliamentarian called Blair McDougall. He's a real pain in the neck, but at the moment he wants X, Y and Z sanctioned because they are responsible for the imprisonment of this or that British citizen." Or Uma on what is happening in Sri Lanka.

Tom Keatinge: I do not dispute that. Indeed, there are NGOs that have a pipeline into the Foreign Office and can suggest packages—"We think this person should be added to the global human rights regime" and that sort of thing. There are plenty of opportunities to feed ideas into the Foreign Office.

Q19 **Blair McDougall:** Your view is that the benefit of being in the room to have the wider discussion is greater than the risk of the conversation about sanctions—or, for that matter, about any other kind of challenge—being pushed down the agenda in those meetings.

Tom Keatinge: I think so, if I understand the question correctly.

Q20 **Edward Morello:** I want to return to what we were talking about earlier on the private sector, understanding the guidance and the circumnavigation of sanctions more broadly. There are some interesting numbers. Prior to the war in Ukraine breaking out, UK car exports to Azerbaijan were valued at about £58 million; since the war broke out and sanctions have been imposed on Russia, car exports to Azerbaijan have reached £523 million. That is a tenfold increase. British exports of heavy machinery to Kyrgyzstan have increased 1,100%—although I guess from a fairly low bar. Are sanctions effective if we are seeing private companies circumnavigating them to that level? Is that a sign that those companies do not understand the sanctions being imposed? Is there lack of clarity in the guidance from the UK Government? Maya, let us start with you.

Maya Lester: One thing about sanctions not being imposed by the UN is that they are only imposed by and effective in the jurisdictions where they apply. People talk about sanctions circumvention by the likes of China, Kazakhstan or wherever, but the fact is that our sanctions simply do not apply to those countries, so it is not that they are circumventing them; they simply do not sign up to our policy on Russia sanctions.

What do the Government do about that? They are engaged in a massive diplomatic effort to go to third countries to try to persuade them that they should not be trading with Russia, and they should be signing up to our foreign policy. But that is difficult because China is enormously enriched by the fact that we have stringent sanctions on Russia.

Q21 **Edward Morello:** Those are country-level issues. What I am trying to understand relates to British manufacturers exporting to third countries with the clear understanding that there is a clear pathway into Russia—because there is absolutely no way that the demand for heavy machinery and drones parts in Kyrgyzstan has shot up 1,100% overnight, for example. Is that a lack of understanding among British companies, or a lack of enforcement? Why does a British manufacturer feel that it can do that when it is if not a breach of the literal sanction, then certainly a breach of what the sanction is trying to achieve?

Tom Keatinge: Ed Conway at Sky News would love this discussion. The reality is that we have tended to approach everybody who is responsible for implementing sanctions as if they were a bank. There are many companies in this country that had no clue about sanctions before

February 2022. We have worked hard to educate them, but clearly more can be done there. I honestly do not believe that there are companies in the UK that are actively engaged in circumvention; what I do think is that there are companies in the UK that are ignorant. As I have said to the Committee previously, if your sales to Kyrgyzstan have gone up by 500% over the last year, that is not a reason to go and celebrate in the pub; it is a reason to look at your order book and try to understand why that has happened.

There is one point that gets overlooked, and I want to make sure that people understand. I am not giving this as an excuse, but many companies used to export to Russia as the first stop within the Eurasian economic union. They can no longer do that, so if they want to export to the Eurasian economic union they now have to do it to somewhere else, and that might be Kazakhstan and then onward. I am not saying that this explains all of the massive spike, but it is something that we need to bear in mind.

Fundamentally, it is about educating the private sector and making sure it knows what is expected of it, has the tools to analyse its supply chain and—we will come on to enforcement—knows that if it gets it wrong then it is going to face consequences. We have not delivered consequences on industry in this country to create a teachable moment. I know from my own time at J.P. Morgan that when one of my competitors got blown out of the water by the US authorities, you worked all night to understand why that was and to ensure that it did not happen to you. We have not created those teachable moments in the UK over the last three years.

Freya Page: I want to come in on that, largely to agree with Tom. I think you would really struggle to find any witting breaches in the UK, certainly within UK financial institutions in the banking, legal and insurance sectors.

This also speaks very specifically to the complexities we have seen with the Russia sanctions, and how they have really mushroomed and grown. There are those who are very experienced and well versed in sanctions—for example, the three sectors that I named—but we are now looking at sectors that have never previously had to engage in sanctions. If you speak to a manufacturer of auto parts or microchips—whatever it is that they are shipping—and they are using third countries to evade, the companies will know the export control restrictions and requirements, but they will not understand export sanctions requirements. That is the difference.

It is very different, which is why critical importance needs to be put on the improvement of Government outreach to those sectors. We see a lot of outreach happening. It is very London-centric, which is good because the banking sector is here and there is lots of very important business that is worked out of London. But actually, the businesses and areas that you really want to be targeting are not based in London. It needs to be a lot broader—Government outreach needs to go broader on that.

Q22 **Edward Morello:** For clarity, would any investigation into any kind of breach fall within the National Crime Agency's purview?

Freya Page: Yes and no. I do not know whether we will come on to enforcement later, when I can probably go into a bit more detail about how the enforcement is split in Government. Again, that speaks to a slightly more fragmented process, where we have the National Crime Agency, which is the law enforcement partner for the Office of Financial Sanctions Implementation, and HMRC, which is the law enforcement partner for the Office of Trade Sanctions Implementation, which was established in October. You also have Border Force.

Q23 **Edward Morello:** The NCA is pretty experienced at dealing with the financial services sector. Is there any evidence that HMRC is fulfilling its duty? On Tom's point about learning opportunities, what we are talking about there is somebody being hung out to dry and made an example of. Is HMRC doing that?

Freya Page: There is a slight problem here in terms of enforcement. If you are happy, I can explain a bit more on this.

If you are looking at criminal investigations, the UK is among the best in the world at doing what we do. We have a very good legal process, and we know what a good investigation should look like. The National Crime Agency investigate crime—they are essentially a police force. They get thousands of suspicious activity reports a day from banks—money laundering and various other criminal activities. They do have a kleptocracy cell, which is specifically around Russian oligarchs. But that is not just a sanctions problem; it also looks at things like corruption, bribery and other offences.

Sanctions is only a crime when evasion happens. The evasion of sanctions rarely happens within UK borders; it happens outside. As you mentioned, third countries are where the evasion and circumvention are happening. What role, therefore, does the NCA have in administering criminal enforcement capabilities on offences that are happening outside the UK border?

For me, sanctions do not sit in the NCA's wheelhouse. It is not for the want of NCA trying, but it is very difficult for the NCA to get time with the CPS and see a case through when it is fighting for very valuable court time against domestic issues—murders and other things happening—that the taxpayer will want to see brought to justice. It is very difficult to say to the CPS, "Why should you not bring that murder trial? Because we have this Russian company that has been buying microchips from a company somewhere." It is very difficult with that.

Then, of course, you have HMRC. It has been imposing compound penalties on businesses for breaches of UK trade sanctions, but they do not work. That is because it is not a sanctions enforcement tool; it is a criminal tool. They start as a criminal case, but when that case goes through and the CPS says it does not want to continue with that any more, it then gets settled out of court, and because of that settlement it is confidential.

We know that enforcement drives compliance. Particularly in this area, where we are looking at businesses that are evading through third countries, you need to get that message across. Enforcement is the best way of doing that. It sets a standard and a legal precedent. If you cannot make those cases public, you have no lessons that the industry is learning. There is nothing to take from it. The private sector or the Government—certainly other areas of Government—do not understand the details of these cases. It is hard to understand where the outreach is needed and where there is a real need for support and guidance, because we do not know any of these things.

I think it is important that we look at what tools we have. We need a review on where that enforcement sits, because currently we have the FCDO as the implementer cascading down to, I think, four different implementing departments working with three different law enforcement bodies, because Border Force assists with HMRC at the UK border. It is not coming from one HMG, and there is a lot of fragmentation within that.

Maya Lester: The UK has criminal and civil sanctions enforcement powers. To my knowledge, there has been only one sanctions criminal case, which is now being brought by the NCA. There has been almost no criminal enforcement of sanctions breaches, but a case would go to the National Crime Agency if it were seen as serious enough, as a criminal case. The primary sanctions enforcement is done by OFSI, not by the NCA. That is because OFSI has the civil fining powers, as part of the Treasury. It can impose significant fines. It has not done it in many cases, but it has indicated that there are more to come.

It is really important to note that the UK has enormously onerous reporting duties on industry to report on suspected breaches of sanctions. If you have reasonable grounds to suspect that there has been a sanctions breach, you have to report it to the Treasury. The Treasury is sitting on, as in the anti-money laundering sphere as well, enormous numbers of self-reports and reports by banks of transactions that come in. That forms mainly the body from which it will then investigate where there is a breach.

The difficulty with that situation is that there is certainly a risk that those who will be penalised by civil fines are those who have done the right thing, as it were, and reported. They are almost, by definition, the more compliant. My impression is that it is more people making mistakes in a context of enormously onerous, fast-paced changing sanctions restrictions, rather than knowing criminal evaders of sanctions. Obviously, there might be some of those but, exactly as Freya said, I think they are few and far between.

Q24 **Alex Ballinger:** Freya, you said that it was very difficult to find any examples of sanction breaches, and the evidence of only one criminal sanction in the last year shows that they are hard to find. You also said that the system is very fragmented, with many different actors in it. You gave a good example of why we need a review, but what would you change? How would you organise it differently? Are there lessons to be learned from the way that the Americans do it in the way we prosecute those sanctions, so that we can ensure that where there are breaches, the system works, we catch them and they are publicly put to account?

Freya Page: That is a great question. On the US model, a lot of people are very aware of the extraterritoriality the US has. It has a very different legislative framework from ours.

Chair: For people watching, do you mind giving us a couple of sentences to explain that? If you were if a member of the public, you might not know about this.

Freya Page: Of course. They have secondary sanctions that apply outside of the US border. They apply to anything connected largely with the dollar. With the dollar obviously being very important in terms of global trade, it means that US sanctions have a much more far-reaching effect.

They have also implemented, just over a year ago now, executive order 14114, which applies to foreign financial institutions that may be involved in supporting, or in breaches involving, Russia's war effort. That makes them liable to US fines and enforcement action, which can be eye-watering, as we have seen in lots of US action over the years. UK institutions and the UK private sector are very aware of the risk of US enforcement, so I do not necessarily think that is the model—certainly in our current framework—that would work for us.

To talk to the slight fragmentation of what we have, and following on from the previous point, we do now have OTSI. Maya mentioned OFSI in relation to the financial sanctions implementation unit, and we now have OTSI, which is the trade equivalent. It is important to outline that when OTSI was established, largely we were all expecting it to come in and be able to deal exactly in the issues and cases that I outlined HMRC is currently not able to bring about through its compound penalties. However, OTSI's remit has been changed to what I guess everybody else was expecting, and it is only looking at third-country shipments now. It is not looking at the domestic and UK at-the-border offences, which is slightly cutting at the wings of what OTSI can really do. There is room, I would like to think, for expanding that position for OTSI so that it does not just do the third-country trade services but does domestic trade export controls as well, and takes over that civil enforcement responsibility.

Ultimately, there is great work happening across Government. Even given the framework of how it is at the moment, there are lots of people working extremely hard putting together what is very difficult policy and trying to implement it. That is coming from a place where lots of civil servants are struggling to understand the private sector, because there is a lack of expertise in terms of understanding how banking, corporate structures, trade and exports, or shipping goods work. Understanding definitely needs to be increased, and that would be a great way of bringing the sanctions units together.

Personally, I would love to see a joint unit—a centre of excellence—where we would have a sanctions hub. That would maybe still sit under one Department, which is likely the Foreign Office—I guess that makes sense in terms of the foreign aspect—but would bring all the units together where information can better be shared. Lots of sanctions offences may involve different aspects—it might involve financial, trade, immigration or even the Department for Transport, which also has a role in the maritime and aviation sanctions. That would be a lot better.

It would also permit the civil servants who are working in sanctions to actually make a career out of it. It is a very niche area of policy, and the issue we have at the moment is that—this is not a comment about a particular Department—the civil service leans itself to a very generalist skillset, where you can work around the civil service from different Departments and policy areas, and that is great, and you can build up a really good level of skills so that you can turn your hand to these things. But sanctions are very different, because they balance foreign policy, diplomacy, defence, national security and humanitarian needs—there are lots of different things that come together in it and it is very litigious.

If you had a unit that just looked at sanctions, that would allow for good career development and it would allow for expertise, in the same way as in the US. That is one thing that the US is very good at: within their public sector you do not see the churn of every 18 months or two years that we have here in the UK. You have people who stay there and actually become specialists, and we should encourage the specialist across the civil service. That would really do us well.

Q25 **Alex Ballinger:** I have one more question around deterrence. You mentioned that there are many cases that HMRC settles that are not made public. Why is that? Surely the Government would be incentivised to make these cases public to act as a deterrent. I do not understand it.

Freya Page: It is purely because of the nature of the compound penalties. Because they are settled out of court—maybe Maya, as our legal expert on today's panel, can speak more to this—they cannot be made public. But I do think that we should look at a different avenue of being able to do that. I think it is crucial to compliance.

Maya Lester: It is not just HMRC; OFSI does the same thing. It has published the number of investigations that have been settled without a public decision being made. That is obviously its policy decision, in how it settles that case, but a definite disadvantage of doing it that way is that you do not have very many public decisions with lessons learned.

For my part, I think that the US has a much better system of enforcement. First of all, it has a much better-resourced set of prosecuting agencies in, with the DoJ getting involved as well, and some very serious, eye-watering fines in the sanctions sphere that really make people sit up. But what it also does very well is that it uses enforcement decisions as an opportunity to teach lessons. It has very well drafted things, with, "Here are 10 reasons why we chose this particular company as a target for real investigations," and shows what other companies can learn from that. That just has not been a feature of OFSI's practice so far.

Q26 **Phil Brickell:** I draw the Committee's attention to my role as vice-chair of the APPG on Magnitsky sanctions and reparation, and to my previous role as a financial crime compliance officer for more than 10 years.

With that in mind, I wanted to ask a question of Tom about UK overseas territories. We talked about jurisdictions earlier; Transparency International has identified shell companies and trusts in the UK overseas territories as having been used to evade sanctions for Russian oligarchs to the tune of circa £700 million.

To what extent do you believe that secrecy jurisdictions, including the overseas territories, allow for designated individuals or entities to evade sanctions? And what should the British Government be doing about that? We will maybe come on to Freya after Tom, if that is okay.

Tom Keatinge: I knew that someone would roll the OTs grenade on the table. The bottom line is that the UK is steward of a global financial infrastructure and, therefore, we should ensure that it is part of the solution rather than part of the problem. In the case of sanctions, I think we should ensure that we are calling that out.

I think the territories are quick to say, "The data we have is fantastic; we have verified company registries, for example," which we still do not have yet in the UK. We need basically to bring to bear that information in order to help those who are investigating cases of sanctions circumvention or evasion.

I would refer to the fact that, when the Russia sanctions were first brought forward, jurisdictions such as Jersey very quickly identified up to $7 billion of assets connected with one particular individual, which were in trusts or companies, or whatever the structure was there. So, these jurisdictions have the capability. The question is, do they have the resource to use that capability for good? I think that some of them do and, as I say, I would point to Jersey—although noting that it is a Crown dependency, not an overseas territory. Others have really struggled; the British Virgin Islands is obviously such an example.

When the Russian full-scale invasion occurred, I think a Minister visited the BVI and made some sort of speech. I thought, "Brilliant: she's going to leave behind six civil servants to help the BVI go through all that information that it has," and of course that did not happen. I know from a visit I made to the BVI not long after the Russian full-scale invasion that they struggled with the responsibility. So, yes, they need to make sure their house is in order, but we need to help them to use the data and information they have in order to contribute to circumvention investigations, making sure that they actually know who is running money through the companies that are registered there.

One last point is that there is a very well-trodden route between the UK and these territories in the form of exchange of notes. If you speak to people at the National Crime Agency, the Serious Fraud Office or other relevant agencies, they will tell you that whenever we want information from those jurisdictions and request it under the exchange of notes, we get that information. The question in my mind is: are we empowering those jurisdictions and do they have the necessary resources to exploit the information they have, other than when they are requested to do so by the NCA or anyone else?

Freya Page: Tom has covered that really nicely, but I do think there is a bigger part that we should be playing in supporting territories. Resource is an issue. When I was part of OFSI we would do capacity building, and that included supporting the overseas territories—going out there and teaching and going through processes on how to better implement enforcement and licensing. We worked on how you can improve outreach, reporting requirements, the understanding of the sectors and businesses that are seen in those territories, and have better oversight.

I do think there is a role to be played, and not just in doing it every now and then. More should be done to support that and provide resource, because there is definitely a struggle within these territories to justify it. They are often very small units of a handful of people at most. Some of them are only now starting to develop their own financial intelligence units to give them a chance to start getting some powers and becoming operational in how they deal with it. We should continue that support and enable them to make their own decisions and build their own teams so that they can focus on sanctions as a priority.

Q27 **Phil Brickell:** There are a number of these jurisdictions, and it seems to me that some of them have moved quicker than others in addressing concerns around financial crime writ large. Others seem more reluctant to move, partly because of concerns about the impact it will have on their own economy, but also because they have a strong concentration of financial services. It is very difficult for the UK to talk about sanctions enforcement as a tool of foreign policy if there is a potential for that to be undermined in our own backyard. I wonder if anybody has any thoughts on when Britain goes out on the global stage talking about tackling dirty money.

Tom Keatinge: That is a problem in two places. I will come back to your point in a second, but it is also a problem when we go to third countries to talk about circumvention, which was the question earlier on. Those countries can quite rightly turn around and say, "When did you last prosecute somebody for sending stuff to a country that then got circumvented to Russia?" What we do at home matters writ large when it comes to sanctions implementation. The question of overseas territories is frankly more a problem of financial crime generally than just sanctions.

Everybody remembers when the President of Nigeria came here for David Cameron's anti-corruption summit back in 2016. David Cameron made a hot mic comment, and the next day President Buhari was asked whether he wanted an apology from the Prime Minister. He said, "No, I want my money back, because it's all stashed in property in London." We still have a reputational issue. I know that the Foreign Secretary has stood in front of various former tube stations to try to launch his campaign against illicit finance, but fundamentally people only take us seriously when we confiscate assets and prosecute people. Talking strong and doing social media campaigns is the beginning of a very long journey. As with all these topics, we need to be confiscating assets, arresting people where we can and prosecuting them through the force of law. Simply sanctioning people and freezing their assets does not get us there.

Q28 **Abtisam Mohamed:** If there is no prosecution, does it give a free way to the companies, individuals and countries we intend to sanction?

Tom Keatinge: If you were to survey banks and companies around the world and say, "When it comes to sanctions, what are you afraid of?", they would come back to you with four letters: OFAC. They would not come back to you with OFSI, the National Crime Agency, or any other agency in the world. Fundamentally, people are concerned about enforcement from the United States.

Going back to the conversation earlier, until we have demonstrated teachable moments to industry and to individuals that the UK actually has bite behind its bark, you cannot expect them to be concerned about the UK as an enforcement power. For the time being, everybody is a long way behind the United States. With the independence that the UK has in its sanctions regime now, we can afford to be tough; we do not have to move in step with the European Union.

We are never going to have the reputation of OFAC—we do not have the exorbitant privilege of the US dollar and everything that comes with that—but, going back to Phil's point, the UK can certainly do more to make it clear that we take the issue seriously enough to prosecute companies and individuals in our own country before going out and lecturing others.

Q29 **Abtisam Mohamed:** Let's move on to third countries and how countries that we might implement sanctions against would circumvent the policy we currently have. How do you think we could work with those countries—other than through diplomatic efforts, which might not work—to encourage them to work with the sanctions that we implement?

Tom Keatinge: This is why I think it is really important to consider and bear in mind—particularly on the topic of circumvention you talked about, which these days relates mainly to Russia—that this is a diplomatic conversation.

It is no surprise to me that the leading people who are going to Kyrgyzstan, Kazakhstan, Malaysia or wherever it might be to talk about circumvention are diplomats, because fundamentally you are trying to persuade that country to fall into line with what we as the UK and Ukraine's allies want to occur. Simply turning up there and saying, "You need to enforce our sanctions," will get you nowhere. You are trying to make it clear to them that there are these so-called critical, high-priority items.

There are just 50 items that the sanctions coalition really cares about when it comes to circumvention, such as certain types of technology and certain kinds of optical sites for weapons systems, tanks and the like. All you are saying to these countries is, "Look: we need your help to stop these items going to Russia. By the way, it is probably 0.000001% of your economy." It is that kind of conversation that we need to have, rather than turning up and saying, "Hello. We want to have a neo-colonial conversation with you about doing what is decided in London."

What has been learned over the last three years is that if you go down the route I described, countries will actually start to move in your direction on that particular point. Unfortunately, we cannot have that conversation with the Chinese, who circumvent everything and, in a way, drive a coach and horses through all the efforts we are making in central and south-east Asia, but that is the way to have the conversation, not to say, "I am here from London. Please do what I ask."

Q30 **Abtisam Mohamed:** How do we deal with countries that might say that we have a double standard in relation to our sanctions?

Tom Keatinge: That happens all the time. We have the opportunity to travel the world and talk to people about sanctions. I have Whitehall on my business card, because that is where RUSI is located, and that is one of the first things that people normally point to. That is probably why I am not a diplomat.

On the conversation of, "Okay, I hear what you say, but do you think it is right that a neighbouring country should simply, with absolutely no reason whatsoever, invade an innocent neighbouring country?", I think everyone can agree that that is out of order and illegal. We want to talk about how we can remediate that issue, but we have to go to these countries willing to have the diplomatic conversation, which will always be a push and pull.

There is no doubt that if you are a diplomat in the Foreign Office, you will have heard precisely the challenge that you have just raised on multiple occasions. Yet, they are managing to turn the tide in many of these countries and limit, to the extent possible, circumvention.

Can I say one thing about cars, by the way? We get very hung up on cars—in fact, there was a very good story overnight from Bloomberg in Japan about grand pianos going from Japan to Russia—but we need to focus on the things that matter, which are these critical, high-priority items. I just wanted to get that off my chest.

Q31 **Abtisam Mohamed:** I have a small question for Freya. How do we target networks rather than individuals, who will be across a range of different countries?

Freya Page: That is an interesting point; I can speak with my Kharon hat on. It is about understanding how those networks operate, because when a target, an entity or an area is sanctioned, that business gets pushed out. They do not just say, "I've been sanctioned. I'm going to give up and go home and take up a new job." Those networks will push out and go underground.

For me, it is about understanding those networks, the behaviour and the evasion typologies. How do they think? How do those illicit actors continue to work? How do they manage their business divestments, their personal relationships or old business contacts? How are they still enabling that? That comes down to research and data.

It is about not being afraid, certainly within Government, to understand where the gaps are and where it does not know. The Government has a wealth of information, but it is not privy to the sort of information that banks hold—they have huge amounts of client privilege information, in terms of transactions and banking. There is a big role there to understand, on an open-source basis, how that information can be used to inform Government decisions. When it comes to designations, it is about understanding and mapping out networks to ensure that those listings are being as disruptive as possible to a network, and to expose or move out those evasion networks.

There is also the private sector. From my experience, and from where I sit currently, the private sector is a lot more engaged and a lot better informed about how evasion is happening than I believe the Government is at the moment. That is purely down to the resource that is being put in by the private sector. It is aware of the risk and fully cognisant that, if it is committing a breach, it will be hauled over the coals and made an example of. The reputational damage and the remediation cost is far too great for it to take that risk.

We see a lot of private sector companies—corporations and banks in particular—pulling in on all sorts of areas and arming themselves with information and data to make informed decisions. That includes things such as, as Maya and Tom mentioned earlier, understanding where your exposure is to third-country evasion. It might be understanding what customers you have on your banking list who have been dealing with or trading in certain of these 50 listed high priority items. It might be understanding how those transactions have increased in volume or that, all of a sudden, your customer who has been doing business directly is now going via Uzbekistan, Georgia or Armenia. It is about looking at the behaviour and understanding it—a bit more business analysis of your customers.

Where Government needs to improve is in relying on—or investing in—that information and investing in tools. I do not say that coming just from Kharon; there is a whole variety of different tools out there that should be working together, because Government alone does not have all the information and all the answers.

The private sector would also be willing to support the Government in its work and its understanding. There is a lot of information sitting there that could be helpful to Government to understand how these networks evolve, because they are constantly moving.

Q32 **Sir John Whittingdale:** Can I turn to a different issue? This question is principally for Maya. There has been a lot of discussion in Parliament and in international gatherings about the reconstruction of Ukraine and the potential use of frozen Russian assets to fund it. I am not a lawyer—unlike our Chair—but can I ask to what extent you think it would be possible for the UK to legislate to allow assets held in this country either by the Russian Government or by individual Russians associated with Putin's regime to be used for that purpose?

Chair: And for that to then sit with international law.

Maya Lester: I think this is also one for Tom, because RUSI has done a lot of interesting work on that, but I will give an opener.

Legislation now provides for freezing and not seizing. There are two very distinct, different cases. One is if you are talking about seizing the assets of individuals on the sanctions lists. That would be an enormous step and potentially extremely problematic because, as I mentioned earlier, people on the Russia sanctions lists are not mainly there because they are said to have done anything wrong. They are on those lists because they fall within extremely broad criteria, which include, currently or formerly, carrying on business of a sector of the Russian economy.

Going in and seizing the property of those individuals who are not said to have done anything unlawful would be quite extraordinary and unprecedented, as you can imagine. Generally, in this country, we have not gone in for expropriation of property without enormous legal ramifications. For me, seizing the property of individuals would be hugely problematic. However, we have very well-established legislation for seizing the proceeds of crime—there are already legal powers to do that where there is criminal activity.

Russian state assets are a different category of legal problem. The practical answer to your question is that there are very few in the UK, so this is really an EU problem. The Russian central bank funds, which most of this conversation is about, are largely in Belgium—in the EU—anyway, so it is not really a UK issue. The problem with seizing central bank and state-owned funds is a different one: it comes down to sovereign immunity of different kinds. There are endless debates about different possible legal ways around sovereign immunity problems—in other words, seizing a state's property located in another state.

To my understanding, the current position is that there has not been EU consensus on seizing Russian central bank funds for the reconstruction of Ukraine but there is a scheme—which I think is currently in train—in which a loan is being made to Ukraine, secured on the profits generated by the state bank funds. The UK, as part of the G7, is contributing to that. There are lots of legal complications in either scenario.

Tom Keatinge: I am glad you made the distinction between the central bank assets and—let us just call them this for the purpose of the conversation—oligarch assets, because those are two very different situations.

I think the arguments about the assets of the central bank of Russia have been well rehearsed and the debate won, in favour of using those assets to support the reconstruction of Ukraine. The decision last year to nibble at that issue—which, as Maya pointed out, was heavily driven by the position of the European Union—has at least monetised some of those assets for the benefit of Ukraine, in the loan structure that has been talked about.

On the oligarch assets, I want to talk about the off ramps that Maya spoke about earlier on.

Q33 **Chair:** Sorry, but I still do not really understand. Are you saying that the issue is now settled—that money owned by the Russian state, in its bank, can be seized by other powers to pay for reconstruction in Ukraine?

Tom Keatinge: During last year, the arguments exhausted themselves in favour of what you have just described. However, there is also a political consideration, which is where the EU got nervous. If the assets of a central bank are seized in this way, what does that mean for the integrity of assets of other central banks that are held anywhere else in the world?

Q34 **Chair:** It is the basic rule of law, isn't it?

Tom Keatinge: There was a lot of reporting about certain countries whispering in the ear of the European Central Bank and others, and saying, "We might never trust buying a euro-denominated Government bond again, if this is what happens to our assets." My rejoinder to that is that as long as you are not planning on illegally invading a neighbour, your central bank assets should surely be safe.

The way of coming up with a solution that kept the EU happy, particularly certain elements of it, was to say, "Well, we will put together a loan secured against the profits that these assets, which are immobilised in Belgium, are earning." It is no more complicated than that. The point is that when it comes to discussing reparations, for example, I do not think anyone would dispute under international law that the assets of Russia should be used for reparations for Ukraine.

On the oligarch assets, in summer 2023 the Ukraine reconstruction conference happened here in London. At the beginning of that conference, the Foreign Office flew a kite that went along the lines of, "If oligarchs are willing to donate their assets..." And there was tumbleweed: to the best of my knowledge, nobody took up that discussion with the British Government, although others may have insight into that. That raises an important point, which is that for some of these individuals who have properties in London and so on, those properties could be frozen for the rest of their lifetime at this rate, given relations with Russia. Surely at some point, it is worth having a conversation about the off ramp that allows them to unfreeze those assets.

Of course, the case that we have right in front of us in SW6 is Chelsea football club, where the proceeds are sitting in a trust somewhere. They are meant to be for the victims of the war in Ukraine or something like that, but the money is still sitting there and we have not yet figured out a way of unlocking the hold that their owner has over them in order for them to be used for the benefit of victims of the war. We have not managed to solve that conundrum, which is probably an easier conundrum than what we should do about other oligarch assets that are frozen in London and the UK.

Q35 **Sir John Whittingdale:** Can I ask about a separate case where, in a sense, the argument is even stronger and simpler? A large amount of assets in London are under the ownership of Bashar al-Assad. It is inconceivable that we would give them back to him, or that he will be in a position to return to power unless something extraordinary happens. Are you saying that those assets will just sit, and the property and everything else held in London will remain technically in his ownership but untouchable?

Maya Lester: That is the Syria sanctions regime. It is now in a very odd situation because it is still a sanctions regime directed at the Assad Government, and has not been amended to deal with the fact that Assad is no longer in power. I imagine that the Government will have to change it so that it becomes directed at restoring assets of the former regime to the current regime in Syria, or something of that nature. That has happened before in sanctions regimes, but there has not yet been any legislative amendment to deal with the change in power in Syria.

Q36 **Sir John Whittingdale:** But we can legislate to achieve that?

Maya Lester: What has happened in the past in the Arab spring countries, albeit wholly unsuccessfully, is that assets outside Tunisia, Libya, Egypt and so on have been frozen when they were stolen from the people of that regime, with a view to them going back to those jurisdictions. None of those sanctions regimes actually resulted in any money going back to those jurisdictions, so they were very unsuccessful, but yes, restoring former regime money stolen from a state back to the state can be among the foreign policy goals of sanctions. That may be where the Syria sanctions go.

Q37 **Blair McDougall:** I have a very similar set of questions with regard to the Russian sovereign assets. It seems inconceivable that we would ever hand back collectively that $300 billion to Putin, unless he has paid the reparations that he is legally bound to pay, which will be more than the $300 billion.

Tom, you said that the legal arguments and the legal commentators have exhausted themselves on the side of saying that there are ways of seizing the assets, yet political leaders absolutely do not seem to be in that place all the way across Europe. Is there a risk that we end up in a situation where that $300 billion sits there in perpetuity—neither handed back to Putin nor used for the benefit of the people of Ukraine?

Tom Keatinge: I think the argument for those assets being used for reparations is relatively clear, and I do not think anyone would dispute that. But of course we have not reached that part of this process, unfortunately. We obviously all hope that the war concludes as soon as possible; at that point, there is a decent precedent on reparations—a lot of people look at the case of Iraq and Kuwait, for example.

Again, the outcome is not great in terms of how much people actually get, but none the less, on using assets, I think there is a good case study there. The question is, when does that process start? I was at a rather depressing dinner last summer where somebody said, "Well, the reparations process for Kuwait in the context of the Iraq invasion of 1991 has just concluded after 30 years." So it is a very, very long journey.

Chair: They still have not got the hostages' bodies back.

Tom Keatinge: Exactly.

Q38 **Blair McDougall:** I recognise your point, Maya, about the fact that most of the money is held in Belgium, but I think about a tenth of it is held in London. If we think that is where we are inevitably getting to, should we be passing legislation now to make clear that, when we get to that stage, we will be seizing it so that we have the legislative framework to do it?

Maya Lester: My understanding is not the same as Tom's. I had not thought that there had been a legal resolution as to how it is possible to overcome the state immunity problem. As far as I know, there have been lots of international lawyers commenting on whether one can characterise this as the use of countermeasures, which is a temporary measure designed to counter an international wrong. I had not thought that legal consensus had been reached, and then politics took over. The EU did not have a unanimous agreement to do anything with the Euroclear funds. My current understanding is that what is happening as an alternative, I suppose, is to use profits on the Euroclear frozen funds in this sort of loan arrangement.

Tom Keatinge: I think I need to come back to you on this, because I was under the impression that there is already legislation that says that the sanctions stay in place until reparations are paid, or something like that.

Maya Lester: An additional purpose has been added to the UK sanctions regime so that they can stay in place.

Q39 **Blair McDougall:** If we do not give ourselves the legislative tools, which we do not currently have, to seize those assets, the loans that are underwritten by those assets ultimately are for our taxpayers to underwrite. I come back to the question that we surely have to pass that legislation, and we should do it sooner rather than later as a statement of intent.

Maya Lester: I am going to pass on that one, I am afraid.

Tom Keatinge: I am all in favour of statements of intent.

Q40 **Chair:** Could you write back to us on this?

Maya Lester: On whether it is wise to start passing legislation now to restore Russian state assets frozen in the UK?

Chair: And on Blair's point: if we are giving loans to the Ukrainians on the basis that we will be able to get the Russian assets, then should we be passing legislation to shore that up so that we do not end up asking British taxpayers to pay it?

Maya Lester: There are certainly international lawyers who could give more chapter and verse on that, but I would be happy to follow that up.

Tom Keatinge: I will go and have a look at the loan agreement.

Chair: I have to say that I am very far from convinced about all of this. It is an internal debate that we have regularly about exactly what the situation is.

Q41 **Alex Ballinger:** Trump has famously been talking about introducing new sanctions on Russia as a way to force Putin to the negotiating table. I wondered whether Tom or others had any reflections on what those new sanctions might be, or how effective they might be.

Tom Keatinge: I refer you to an article I wrote for *The Kyiv Independent* last week. Every day we are seeing Trump's love of economic levers: let's call them that—tariffs. Obviously, last time round he was a maximalist on sanctions as related to Iran. I can see a line that essentially says that Donald Trump goes hard on sanctions on Russia to try and drive Putin to the negotiating table, to do the "great deal" that Trump has written about on social media.

Earlier, I mentioned the fact that G7 allies had sort of nibbled at the edges on sanctions and perhaps had not gone as hard as they could have, because of concerns about what that might do to energy markets and that sort of thing. I can see a line that says that, at the end of the day, the product that continues to finance Russia's ability to fight the war is the export of energy, and I think that we have started to understand how to disrupt that. This is the whole question of the shadow fleet that is bobbing around like a duck all over the world. We have started to see more pressure put on that, and the pips have started to squeak.

I can therefore see an argument where Donald Trump says, "To hell with what happens to energy markets. We should go full-bore on going after the energy infrastructure. And do you know what? Country A, B, C, if you are struggling with sourcing the oil that you need to source, hello, we're one of the largest exporters of oil in the world. And guess what? We will sell oil to you. It's a great deal for the American people. It makes money for the American people. And not only do I achieve peace, but I also achieve profit."

I can see a period of intense sanctions activity based around Russia's energy exports, and I am waiting to see that unroll when Trump has a gap in his diary from not putting tariffs on people. I think we can expect some pretty heavy action in that field.

Q42 **Edward Morello:** I have a question that I suppose goes back to where we started: the effectiveness of sanctions. I distinctly remember hearing somebody say a long time ago that, prior to the Iranian sanctions, the IRGC had control of about 5% of the Iranian economy, on the basis that no one wanted to buy a toaster or refrigerator from the IRGC. But then we imposed sanctions and within a couple of years the IRGC had their fingers in nearly every pie and were controlling about 80% of the Iranian economy.

Obviously, we have seen with Russia a growth of self-reliance. I am just wondering whether or not, when we impose sanctions on an economy, we increase self-reliance within that economy. And if we do, is it true therefore that the effectiveness of sanctions actually goes down over time?

Tom Keatinge: In a way, that is why you need to undertake the shock and awe campaign, because over time the economy shapeshifts. I cannot remember who raised the point earlier about sanctions affecting, if you like, the people. The people who profit out of sanctions are often the elite, who have the access to whatever is needed in order to continue to function.

I think that there is another mistake we have made, or least we have not been able to operationalise our response to this. Put yourself in the shoes of the Russian regime. Responding to sanctions is existential for them. Their economy is falling apart; inflation is where it is. So if they are not able to respond to sanctions, they are in really big trouble. I don't think that we have put ourselves in those shoes and said, "How do we push that so hard that the existential concerns of the Kremlin have come to pass?" The result of it being an existential threat for the Kremlin is that they will do anything they possibly can to avoid those sanctions.

That is why, when lists come out of sanctioned individuals who are involved in procurement networks for the Russian military, they are FSB people, because they are putting their best people to work to circumvent sanctions. We are not treating them with the same importance, so there is an asymmetry in what we do and how they respond. Unfortunately, the result is that they are always several steps ahead.

Maya Lester: May I add a footnote to that? One of the criticisms made of sanctions is that not enough thought goes into the cost-benefit analysis in advance and as sanctions progress. This is about a theme that we have been talking about today: are they working? Are they likely to work? What is the theory of how they are meant to work, and are they achieving that?

Daleep Singh, the outgoing Biden Administration deputy national security adviser for international economics, gave a very good talk a couple of weeks ago, which I am happy to send you. He said that sanctions are so much now the knee-jerk tool of choice around the world. He gives some interesting figures on how much the use of sanctions has rocketed. He thinks that there need to be some limiting principles to limit their use. One of the most important points he makes is that they should be used sparingly, for carefully defined and achievable goals, articulating in advance how they can actually influence the decision-making calculus of those they are designed to influence, including not only individuals targeted to change their behaviour, but the regime as a whole. He encourages data-driven cost-benefit analysis about whether, in fact, they are going to be counterproductive.

My overall impression, although I am not in government, is that—perhaps for resourcing reasons or perhaps because of the need for urgent political action in response to world events—the calculation, "Are they going to work? Are they going to be counterproductive?", does not take place as often or as effectively as it could.

Freya Page: We are very good at putting sanctions on things, but when do we take sanctions away? When do we lift those sanctions? I often think of sanctions as putting someone in the naughty corner or on the naughty step and saying, "We're going to freeze your bank accounts, put you on the naughty list and not do trade with you until you improve your behaviour—until you make a change." That happens, you take that person off the naughty step, and off we go again.

But we are not very good at taking people off the naughty step. We are good at making sure that people understand that the sanctions are coming in, but what does it feel like when we lift them? Where is the benefit? Where is the carrot with the stick? We need to think not just about imposing sanctions, but about how we can much more creatively and carefully lift them. At the point of designation, at the point of imposing them, how do we do that? How do we make sure that we do that in collaboration with industry, so that it understands the messaging?

I remember being in government when we had the Iran sanctions and the notification authorisation requirements were in place. They were lifted, and the Government messaging at the time was to encourage UK business to re-engage with Iran, but it was so difficult doing engagement within Government at the time. I was talking to banks and various sectors, and everyone was still de-risking, because it is about messaging and ensuring how we are doing that, so that we are giving an incentive to sanctions, as well as doing that. It is one of the very important foreign policy tools that we have. It is one of many options that we have, but are we making sure that they are feeling the benefits of complying? What do you have to do to have those sanctions lifted, so it is seen more as a holistic journey, rather than just as a punitive action all the time?

Q43 **Phil Brickell:** Tom, you mentioned the Russian energy sector. One mechanism that has been used to influence policy has been the oil price cap. How effective has that been as a mechanism for driving a change in behaviour?

Tom Keatinge: I will freely admit that when the Treasury official who was primarily involved in designing that rang me up on a Sunday afternoon to ask, "What do you think of this idea?", I said, "It's crazy—it's never going to work." Actually, it probably initially achieved something of an objective. It is hard to say, because if the oil price declines, then suddenly maybe the market is at $60, so a cap of $60 is not really a cap at all.

We have probably gone beyond the point at which the oil price cap has any value. To go back to a point I made earlier, the target shapeshifts, as people figure out how to circumvent and how to react. That is why, in a little bit, I think we may get to a point at which the new President of the United States says, "Are we going to go for full oil, the full press on oil, in a way that no one was willing to do two and a half years ago when the oil price cap was first introduced?"

The one thing I would say that was positive about the oil price cap—it is about the only area where the private sector points to this—is that, in the design of the oil price cap, Governments worked very closely with the private sector: "We have the following ambition. We want to achieve the following objective. Let's work on this thing that we are going to call the oil price cap." What you will hear from insurance companies, shipping companies and all affected by the oil price cap is that they felt that there was a community effort on that. We should take that case study and apply it to the other areas where Governments want to achieve a certain effect with their sanctions—but that does not happen. It was a unique case, I gather.

Chair: I speak on behalf of us all: we are really grateful to all three of you for coming today to give us your time, and for your interesting answers. It is a difficult area, and it is developing. We want to make sure that we get it right in order to make sure that it works as well as possible—anything that we can do to push that in the right direction. Your help in informing us and the public generally is greatly appreciated. If there is anything additional that you think we ought to know, we will be grateful if write and share it with us. Thank you again.