

## Foreign Affairs Committee

### Oral evidence: The situation in Ukraine and the UK's response, HC 1089

Tuesday 8 March 2022

Ordered by the House of Commons to be published on 8 March 2022.

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Members present: Tom Tugendhat (Chair); Chris Bryant; Liam Byrne; Alicia Kearns; Stewart Malcolm McDonald; Bob Seely; Henry Smith; Royston Smith; Graham Stringer.

Questions 63-142

#### Witnesses

[I](#): Tom Keatinge, Director, RUSI Centre for Financial Crime and Security Studies; Dr Justine Walker, Global Head of Global Sanctions, Compliance and Risk, Association of Certified Anti-Money Laundering Specialists; Timothy Ash, EM Senior Sovereign Strategist, Emerging Markets, BlueBay; Dr Maria Shagina, Visiting Senior Fellow, Finnish Institute of International Affairs.



## Examination of witnesses

Witnesses: Tom Keatinge, Dr Justine Walker, Timothy Ash and Dr Maria Shagina.

Q63 **Chair:** Welcome to this afternoon's session of the Foreign Affairs Committee. We are going to be talking about the sanctions process in the United Kingdom, and we have four witnesses. Tom, perhaps you could start off by introducing yourself.

**Tom Keatinge:** I am Tom Keatinge. I am director of the Centre for Financial Crime and Security Studies at RUSI.

**Dr Walker:** Hello. I am Justine Walker. I am global head of sanctions, compliance and risk at ACAMS, which is a global compliance organisation.

**Timothy Ash:** Timothy Ash. I am a sovereign strategist at BlueBay Asset Management in London.

**Dr Shagina:** Hello. I am Maria Shagina, visiting senior fellow at the Finnish Institute of International Affairs.

Q64 **Chair:** Thank you very much indeed to all of you for joining us. Tom and Justine, perhaps this is for you. Yesterday, we had the Foreign Secretary before this Committee, and she told us that the UK sanctions had been slower than those of the European Union and the United States because the House of Lords delayed them. Would you agree with that assessment?

**Tom Keatinge:** Yes. I recall a conversation back when the Sanctions and Anti-Money Laundering Act was introduced with the Foreign Office and someone in the Foreign Office at the time said, "Don't be surprised if you see names that are currently sanctioned while we are in the EU come off the list when we come out of the EU." It is clearly the case that the UK gold-plated its legislation, and the result is that we have found it very difficult to operationalise our SAMLA under certain circumstances.

Q65 **Chair:** What are the solutions to this immediate problem?

**Tom Keatinge:** The solution seems to be to copy and paste the decisions of others, as far as I can understand. The law, as drafted—the original from three weeks ago—would seem to be able to be applied to pretty much anybody who is benefiting from or supporting the Russian Government, anyone who is destabilising or undermining or threatening the territorial integrity of Ukraine. As written, it should be very easy to apply, but clearly there is a blockage in the system. As I understand it, the lawyers in the Foreign Office are finding it extremely difficult to deal with that blockage in the system.

Q66 **Chair:** Justine, do you have anything to add on that?

**Dr Walker:** I think Tom has given you a good overview on that.

Q67 **Chris Bryant:** On the regulations that I think you are referring to—there



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have been five sets of regulations this year, which all hang in the same way off the 2018 Act—as I understand it, you are saying that Foreign Office officials back in 2018 already knew that this would be problematic.

**Tom Keatinge:** I think I had that conversation in 2019, but yes. When they were basically designing the statutory instruments that were going to hang off the SAML A to bring into UK legislation Russia, Syria and so on, they had identified that as a problem.

Q68 **Chris Bryant:** Why didn't they do something about it rather sooner than waiting for a crisis in Ukraine?

**Tom Keatinge:** I have no idea.

Q69 **Chris Bryant:** And no Minister said this in the debates in the House of Commons in 2018?

**Tom Keatinge:** Not that I recall. In reality, we have discovered this problem, I suppose, under fire in the last three weeks.

Q70 **Chris Bryant:** Well, except that you said that officials said—

**Tom Keatinge:** We have discovered the impact of that issue in the last three weeks. I am not here to excuse—

Q71 **Chris Bryant:** Is the problem this, then? You would think that the Duma members, for instance, could be easily sanctioned under the regulations that you just referred to, but it seems not—or it is debatable. Is that because they have to produce a little paragraph in relation to each one? For instance, we still do not seem to be able to sanction the chairwoman of the Duma, who owns property all over the place and whose signature it was on the parliamentary authorisation for the invasion of Ukraine to start.

**Tom Keatinge:** My understanding on that point is that the Duma is not part of the Russian Government, and it is the Russian Government that can be subject to sanction. There is a group that I am part of that identified this issue quite early on in this process, when the document came out, and the critical missing language is that there needs to be reference to the Federal Assembly of Russia, which would then capture the Duma. That might be nickel-and-diming over language, but it appears to be an issue.

Q72 **Chris Bryant:** We asked about that in the Chamber, and they said, "No, that is not the issue." Are they worried that someone would take them to court, alleging that it is libellous or saying, under judicial review, "You cannot do this, because what you are saying is nonsense. You haven't got the factual basis for it"?

**Tom Keatinge:** I think the UK has generally become gun-shy of people with deep pockets and lawyers, and I suspect that this is a case in point.

Q73 **Chris Bryant:** Why is the European Union less gun-shy, then?

**Tom Keatinge:** Because the European Union seems to have a law that is easier apply than the UK's.



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**Chair:** Justine, did you want to come in on this?

**Dr Walker:** Yes. I do think there has been a challenge in the process of legal challenge with our departure from the EU. When we were part of the EU, it was clearly much easier to have a broader group of individuals and entities sanctioned. The UK's autonomous sanctions regime means that the UK is now looking at each and every designation in its own right, and whether that is then taken through civil litigation in the courts, which was previously much more difficult to do through the EU's more cumbersome process. I think we are seeing the challenge of building the designation and the legal threshold to a level that, five years down the road, will not be subject to litigation by those we are imposing sanctions on. The Government are probably very mindful of scenarios that they have faced recently under the Iranian sanctions regime and the civil litigation there.

Q74 **Chair:** The point, though, is that various people who would be sanctioned seem to be getting away with it, for two reasons: first, we are not in the broader scope of other sanctions, and secondly, we are not willing to bring the legal action necessary to defend ourselves. That seems to be your implication, Tom.

**Tom Keatinge:** Yes.

**Chair:** Justine, do you agree?

**Dr Walker:** Broadly, I do agree with that. My observation has generally been that we see more of a risk element in sanctioning and the legal process. The overall challenge available in the UK is broader. I think a number of factors are shaping thinking, but it is quite clear that this is a blockage.

Q75 **Chair:** How much is the solution better legislation? How much is the solution having the will and resources to act?

**Dr Walker:** I would say that there is probably a resource issue. We have never before seen this scale of sanctions environment and this level of sanctions. The type of sanctions we are seeing have never been imposed on a G20 economy—the 11th largest economy in the world. They have been applied only in scenarios such as Afghanistan, Syria, Libya, Venezuela—those types of circumstances. Building the case in this scenario, and the whole infrastructure that will be needed in Government to support these sanctions, is probably well beyond the capacity that the Government have at the moment.

**Tom Keatinge:** We have heard from the Foreign Secretary that the sanctions unit has been tripled in size. I certainly know people in the FCDO who have lost their teams to the sanctions unit in the last two or three weeks. The thing is that the capacity needed is legal capacity, not smart researchers. Lots of people are submitting ideas as to who should be sanctioned, with supporting information from civil society and, I am sure, from within Government as well.

Q76 **Chair:** So the real challenge is where the lawyers are coming from.



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**Tom Keatinge:** Yes. I have been approached by a number of lawyers who have said, "Look, if they need help, we are happy to provide bandwidth pro bono." There are plenty of people out there who would be willing to help.

Q77 **Bob Seely:** I am sorry; I just want to make sure of something. To what extent has the 2018 Act that we were discussing yesterday with the Foreign Secretary been a problem? Clearly, certain people were trying to make it treacher. Okay, hindsight is a great thing. Is that Act now part of the problem that we face?

**Tom Keatinge:** Yes. The statutory instrument that was introduced on 10 February is incredibly broadly drawn. The problem is that it hangs underneath an umbrella that appears to be providing the blockage.

Q78 **Chris Bryant:** Do you think the economic crime Bill that went through last night unblocks the blockage?

**Tom Keatinge:** We seem to be saying that if one of our allies applies sanctions, we can copy that for 56 days. Maybe that allows us to freeze people's assets immediately and then try to figure out our way through, but then what happens at the end of the 56 days? Are we back at the position that we are in currently?

Q79 **Chris Bryant:** And isn't the judicial review point still exactly the same as it was?

**Tom Keatinge:** Yes.

**Dr Walker:** One of the challenges and advantages of that is often the information sharing. If, for example, the US or another G7 counterpart has imposed sanctions, they will often do it based on their own analysis. Some of that analysis will be able to be shared across borders; some of it will not, to protect individuals who have provided the evidence. What you have within a sanctions designation, in general, is what is available if it goes to public scrutiny or into a court scrutiny environment. You also have the evidence underneath that, and sometimes the evidence cannot be shared across borders. That has, in the past, proved to be an issue in imposing multilateral sanctions.

The enablement of this timespan will give a bit of breathing space to like-minded allies to look at what they can share intelligence-wise, and the procedures for sharing that. That will then allow the UK to look at whether that gives us sufficient information to impose a designation and meet our own legal criteria. There are multiple aspects around alignment and designations that over the years have come to the fore and can be challenging. That is often why there is not always alignment. It is to do with the underlying intelligence and what can be shared across borders.

Q80 **Bob Seely:** Tom, from what you have just said, we have not solved the problem; we have just solved it for 56 days, and unless we act very quickly within that time and build up a case, the people will drop out of the potential sanctions regime.



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**Tom Keatinge:** I think it can be extended, but essentially we have created this workaround for ourselves, with a sunset clause.

Q81 **Bob Seely:** Does that solve the problem or does it just buy us a bit more time while we panic about the situation?

**Tom Keatinge:** It does not solve the problem for the future, but it buys us time. Hopefully, in those 56 days we can build the necessary case to meet the gold-plated standard that we have set ourselves in the UK.

Q82 **Bob Seely:** A high standard is important because natural justice is important, but shouldn't we just un-gold-plate it? We could stop gilding the lily when it comes to sanctioning bad actors.

**Tom Keatinge:** I would certainly support that.

Q83 **Bob Seely:** Right, so what does that look like in practical terms? There is a second economic crime Bill coming. What amendments should we be asking for to that Bill so that we do not gold-plate the law to help bad people get off sanctions?

**Tom Keatinge:** Can I take that as homework?

**Bob Seely:** That would be lovely if you wanted to do that as homework, and to suggest what an amendment or a series of amendments would look like to the previous Bill.

Q84 **Liam Byrne:** Lots of us are surprised that we are having to figure this out at speed while there is an invasion under way. Should the Government have had many of these sanctions packages ready to go, given that we were anticipating this invasion for some time?

**Tom Keatinge:** There clearly were sanctions packages ready to go because the rate at which the sanctions on entities have come forward is unprecedented in terms of their impact and the speed, so I would not suggest that there was an empty cupboard two weeks ago. Frankly, the error that I think the Government have made is that they have chosen to use oligarchs as the marquee, or the metric, for progress. It has been all about "Oligarchs will have nowhere to hide," so inevitably, if you are looking at progress, you will be looking at the extent to which oligarchs still have somewhere to hide.

I do not know how much time was spent on that particular element—on the individuals, as opposed to looking at entities. Frankly, sanctioning all the oligarchs would not have created the chaos and destruction to the Russian economy that sanctioning the central bank of Russia has created, so I think we need to be realistic about where it makes sense to focus our efforts if we want to meet our threat of visiting massive economic consequences on Russia.

**Dr Walker:** I concur with what Tom has just said, but what we are seeing is quite a multi-pronged effort around sanctions. Certainly for me, the most impactful ones have been the central bank restrictions, and indeed



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the SWIFT disconnection. That sent out a very clear message and will have had a major impact economically within Russia.

However, where I would add slightly to what Tom said is on the oligarchs issue. We are looking at multiple strands of sanctions; we are not seeing just one tool being used against Russia. We are seeing sanctions on not only the central bank and major financial institutions, but on those with power and influence. We are also seeing soft sanctions and export restrictions come in. All of those form part of a much bigger and—to my mind—multifaceted sanctions regime.

We were working closely with and listening closely to what the US was proposing two months ago, and it was clear that it would be that multifaceted framework. We have to look at each of the sanctions—the elements—within that. The SWIFT disconnection and the targeting of major banks are absolutely top of the tree there, but the other ones are having an impact as well—they are just having a different impact.

- Q85 Liam Byrne:** The concern about oligarchs laundering money in London is not a novel concern; it has been common currency in public policy for some years. Should the Government perhaps have anticipated that sanction packages needed to be readied, especially if we knew that there were problems—or challenges—with the legislation back in 2018?

**Dr Walker:** It is telling that when the US sanctions came out, they were able to issue the general licences at the same time. With the UK sanctions coming out, we are still waiting for quite a number of the general licences. There is definitely a time lag. That would indicate that maybe there has just not been enough bandwidth within Government to prepare them, but it was absolutely clear; we hosted the special presidential representative just over four weeks ago, and the head of OFAC, and they were very clear on the packages that they had sitting on the table, ready to push the button on. When they have done so, they have included a whole breadth of wider industry guidance and the general licences—the nuts and bolts that do not appear in the news headlines, but that really impact on whether these sanctions are effective.

- Q86 Liam Byrne:** Was American readiness for the sanctions roll-out ahead of the UK's?

**Dr Walker:** Looking at it factually, the answer would be yes. That is not to say that the thinking has not been happening in Government—I cannot comment on that. It is very clear that that thinking has taken place, but the US have been more ready. Also, their laws are much broader—the legislative framework, their ability to move and how they target are different from the UK—and that has helped them. They have not had to make any major amendments to the legal framework. They have had all the tools in the box to do that.

- Q87 Liam Byrne:** Was the EU's readiness ahead of the UK's?

**Dr Walker:** The EU is a very interesting scenario in that the speed at which they have pivoted and turned that around has been absolutely



phenomenal—much more than anyone in the EU had anticipated. I would say that if we look at what happened in 2014, when sanctions were imposed on Russia, they issued sanctions but it was about six months before they came out with the guidance. So while politically they have managed to turn it around very quickly, it will be interesting to see what guidance they come out with to implement, because it is all in the detail—the definitions, how wide they are, how limited they are and how many funds are caught.

One of the challenges on the EU side is the beneficial ownership and control aspect. There is not an aggregate ownership, and that is proving a real challenge to industry with certain entities and individuals who are sanctioned by the EU. They are sanctioned under EU legislation but hold assets in the UK and in the US, and the beneficial ownership aspect is proving challenging.

**Tom Keatinge:** On the EU, as last week progressed I had a number of phone calls from EU embassies in town, asking me to come around to try to explain why the UK was moving so slowly. EU embassies clearly were confused as to why the UK was struggling, again particularly on the oligarch point. That is the point that is so noticeably different.

Q88 **Liam Byrne:** It sounds like the UK was caught slightly by surprise by the pace of oligarch sanctions elsewhere.

**Tom Keatinge:** Anything I say will be speculation, but clearly the UK was not ready.

Q89 **Chair:** The number being bandied around at the moment as to how many people have been sanctioned is 228. How do you make that number add up?

**Tom Keatinge:** This is a really important point. BBC Reality Check has tried to solve that conundrum and has been unable to do so. This matters because, to a point that Justine made, it is not the Government implementing sanctions, but the private sector.

If the private sector, which is drawing on the Government's data either directly or through intermediary vendors, is coming up with only two dozen or whatever the number is, but certainly not the number that the Government are saying, then there is a problem with the system. If the Government think there are 200-odd names on the list and the private sector thinks there is something fewer than 200-odd names, what is going on? The question around data integrity and the quality of data is clearly an issue. As I say, if BBC Reality Check has to look into something like this and cannot figure it out, then there is a question to answer.

Q90 **Chris Bryant:** Two things from me. I think section 38 of the Act provides the only power that has any reference to judicial review. You may have to write to me, Tom, as you looked a bit quizzical there. I cannot see anything else that makes it more cumbersome than it need be, but maybe I am missing something.

**Tom Keatinge:** I will come back to you.



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**Q91 Chris Bryant:** Secondly, Justine, you are absolutely right that we have got to have everything—sanctions of individuals, organisations and economic systems, boycotts of sporting things, ballet dancers and literally everything. That is why I think the premiership should stop broadcasting to Russia. Why do we do oligarchs?

**Tom Keatinge:** I do not think you can be in the position that these people are in without being, to a greater or lesser extent, beholden to Vladimir Putin. You are wealthy with his blessing; you are wealthy in the knowledge that you are stewarding a portion of his wealth; there is a price tag on the wealth that you have accrued, and that price tag is a tip to Vladimir Putin.

I say this, recognising that it is a long shot, but those individuals have benefited from being close to Vladimir Putin. That needs to become a curse, and it needs to become a curse to the extent that if anyone is going to be able to say to him, "This is unacceptable and this needs to stop," or there is a palace coup or whatever, those are the only people who have any chance of speaking any sense to him. That is a minute possibility, but none the less it is a possibility that we have to pursue with as much vigour as possible.

**Q92 Chris Bryant:** Is there an unfairness in this? I agree with what you just said, but is there an unfairness that we might be saying, "Alright, you are Russian and rich. Sorry, we don't like you."

**Tom Keatinge:** That is just straight wrong. Clearly, we need to be careful. If you start reading about kids in schools in London beating up kids whose name is—I was going to say Boris—Oleg or something, then that is clearly unacceptable, so we need to be very careful that we don't unleash something here, but I'm not talking about that. I'm talking about people who are sitting on fortunes in large houses in London.

**Q93 Chris Bryant:** So the Navalny list, including Abramovich, for instance.

**Tom Keatinge:** Exactly, and indeed many others. There is a much bigger list circulating in civil society that has been passed to many people. There are plenty of names on there and, again, per the law, plenty of reasons why those individuals should be on the list.

**Q94 Chris Bryant:** Finally, to play devil's advocate, what is the crime they have committed?

**Tom Keatinge:** The crime they have committed is that they have benefited from or supported the Government of Russia, and that is one of the reasons that you can be sanctioned.

**Timothy Ash:** Perhaps I can add something? I am a specialist on the Russian and Ukrainian economies covering 30-odd years. I would say that there is no way an oligarch worth more than £250 million or £500 million could have made that amount in this 30-year period in Russia without breaking the law, frankly. They engage with organised crime or with the Russian state and state interests. It is inconceivable that you would make that amount of money, particularly in the 1990s, for example. On all three



counts I think these people should have an extra spotlight put on them in terms of dealing with the City or putting money into the City.

**Q95 Chris Bryant:** How many of them have condemned the invasion of Ukraine?

**Timothy Ash:** Well, it is quite incredible. Obviously, Mikhail Fridman came out with very robust comments that he couldn't possibly condemn Vladimir Putin because it would put him and his company at risk. Interestingly, plenty of other oligarchs have done that. Mikhail Khodorkovsky, famously, has come out. It is not a problem for Mikhail Khodorkovsky. Personally, I don't see any reason why people like Roman Abramovich, Fridman—if they value our culture, western liberal market democracy and so on, and if they want to live here, they should come out quite openly and say something that is crystal clear to the world: that Vladimir Putin is doing something absolutely wrong in Ukraine. In a way, that should be the test of whether they are sanctioned or not—whether they come out absolutely crystal clear in terms of whether they support Vladimir Putin or not. The fact that they don't leaves me very suspicious, frankly.

**Q96 Bob Seely:** To follow up briefly on Chris's point, is it frustrating that you find that it is very difficult? Is it frustrating that you try to explain that this is part of the state apparatus and people don't quite seem to grasp that—that this is part of the unofficial Kremlin foreign policy: the flow of money to tax havens, the translation of economic power into political power and indeed economic power as well? We just don't seem to have understood this element of the Putin hybrid conflict model. Or do you think it is not really part of that model? Or do you think it is implicit?

**Tom Keatinge:** To Tim's point, this is not something new that has happened. It has been going on for decades, and we have chosen to ignore it, with benign neglect—call it what you will. I am not sure whether this is an appropriate comparison, but we didn't object to jihadis sheltering in the UK until bombs started going off here. In a way, we haven't objected to this money being here in the UK until we started to realise the extent to which the influence has been occurring. We have lived with it; we have chosen to live with it, for decades.

**Q97 Bob Seely:** Briefly, how do you define what is somebody's and what is Putin's share? Or does Putin have 25% of everybody's wealth over £500 million?

**Timothy Ash:** I think the way Putin operates his kleptocracy, there is no way that you are a significant businessperson in Russia without the state security services and Putin's cronies coming to knock on your door and saying, "You know you are making the money because of us. When you are doing your business internationally, you should have Russian state interests at heart." In my career, I have had a number of examples where I have seen state-owned companies and I have seen oligarch funds try and push state interests, on me, for example, in terms of influencing my research in a particular way. It has been crystal clear for me.

**Q98 Bob Seely:** Is there a difference between Gazprom and an oligarch?



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Gazprom is not holding wealth for the Kremlin—it is a state entity, in a way that an oligarch holding wealth for Putin isn't a state entity, but it is part of the same formal/informal hybrid model.

**Timothy Ash:** In my mind, there is no difference between a big private business in Russia and state business in Russia. Again, I have had both trying to influence me and my views and what I write and what I publish—both entities.

Q99 **Chair:** The joke in Moscow is that there is no such thing as oligarchs, there are only people who work as oligarchs. Would you say that that hints to the truth—that there is simply no real distinction between private wealth and the ability of the public, in this case President Putin, to control it?

**Timothy Ash:** The biggest oligarchs made most of their money in the 1990s when you had the wild east capitalism. We knew that laws were being broken. They made their money largely because Russia in that period had laws that weren't really workable—they inherited the Soviet laws. We assumed perhaps naively that once they made their money, they would become like us and they would have an interest in the rule of law and all that kind of thing. If you remember, the oligarchs backed Yeltsin's second presidential election and then Putin turned up and we had Khodorkovsky, Gusinsky and Berezovsky—he kind of brought them all then and said, "Actually, you didn't really make all that money on your own account; actually you made it on my account." It was absolutely crystal clear. Berezovsky, Khodorkovsky and all those things were a clear message to the oligarchs: "You either follow my decree, my rule, or I will take the money back from you." I cannot imagine that any of the oligarchs who still have their money did not listen to Putin very carefully and adjust what they were doing because of that.

Q100 **Chair:** Putin nationalised the oligarchs; he didn't close them down.

**Timothy Ash:** Effectively, yes.

Q101 **Royston Smith:** Maria, how effectively have the UK, the EU and the US co-ordinated their efforts on sanctions since the invasion?

**Dr Shagina:** The co-ordination was unprecedented, as Justine pointed out. We have seen an unprecedented response in terms of the scope, unity and swiftness of sanctions. The sanctions that were imposed this time trumped everything that was imposed before. The central bank sanctions were not even discussed previously, and that is the nuclear option that is currently in place. As Justine said, the EU was very quick in imposing sanctions, which is unusual for a bureaucratic institution that takes ages to schedule sanctions and implement them.

However, I would like to insert some caveats. There is a lot of self-congratulatory rhetoric from the EU; they praised themselves for how quick they were. If something short of war had happened—if a lot of things had happened that were not war—I wonder how quickly the EU would have come out with these sanctions. This comes to the question that was raised earlier: shouldn't we have acted more swiftly and more



assertively earlier to be ahead of the game? Again, there is more reaction to Russia's action in Ukraine, and the red lines where sanctions should have been imposed perhaps should have been shifted when Russia recognised the Donetsk and Luhansk republics.

Sanctions take time. In this case, the west could have bought more time for the sanctions to work. As we know, with sanctions, banks cannot stop tanks; it takes time, and perhaps being more proactive would be helpful. That is something to consider for the future.

**Q102 Royston Smith:** Are we all—the EU, the US and the UK—just sort of engaged in one-upmanship and shaming one another into playing catch-up? I talk to people all the time who say, "You're not doing what the US is doing," and, "The EU is dragging its feet on this and that." I do not know if that is a strategy or not, but is that what we are doing?

**Dr Shagina:** Obviously, as Russia, you can impose counter-sanctions in one day—within a couple of hours. For us—for the west—it takes time to co-ordinate and then to implement sanctions internally, because it takes procedures and the rule of law; it takes standards to be fleshed out. Here, preparation is the key. That is why I think having those scenarios laid out is the most effective strategy.

**Q103 Royston Smith:** Is there anything that you think is preventing greater alignment between the EU, the UK and the US in future sanctions on Russia?

**Dr Shagina:** Every country has leverage vis-à-vis Russia and has its own vulnerabilities. In the case of the UK, imposing sanctions on oligarchs would be one of the most effective tools. For Germany, it is sanctions against Russian gas. You will never have the same level of sanctions that can be imposed, but some co-ordination and perhaps burden sharing within the countries would also be helpful in how to come to a common denominator.

**Q104 Liam Byrne:** Dr Walker, what effect should we be hoping our sanctions have in Russia?

**Dr Walker:** This is critical in terms of how we are defining the sanctions in terms of what effect we are hoping for. I have seen many sanctions regimes imposed, and I have seen conversations like this—but not at this level—many times before. When people are imposing sanctions, often what happens is that they do not then look at the triggers for the de-escalation of those sanctions and how you wind them back. That probably does need more consideration in the current environment. How do you still use sanctions as a deterrent against any further escalation but also as a tool to bring Russia to the table and be able to offer them something in terms of if they de-escalate, which sanctions will be rolled back? If we look at the Iran nuclear deal, all of us know the challenges of sanctions roll-back there. I do not think we will have an easier situation in this case, unless Russia steps back completely from Ukraine.



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The other aspect is that we have to be very, very careful that the current sanctions that are being imposed are not then linked to the wider 2014 sanctions, so to Crimea and eastern Ukraine. If you do that, you are essentially saying that those sanctions are on the table forever, because I do not think any of us are expecting Russia to move out of Crimea. It is a matter of how do you make these sanctions effective in their impact, and that really has to be aligned with what carrot you give Russia to say this is the policy we will follow, and if you de-escalate in this way, this is the type of sanctions that we will roll back. What I would say, and I think Maria and Timothy would also be very able to speak to this, is that from Russia's perspective, when they see sanctions come online, they just assume that they will be online forever. They have been very clear that US sanctions will never go away from Russia, and they were saying that before the current sanctions situation and the situation in Ukraine at the moment. We do need to link them to roll-back.

How do we make them more effective is very much a question of are we doing enough at the moment? That is clearly something for Governments to judge, and others will comment on that, but where do you go from here, because the current sanctions are clearly not having the effect of an immediate de-escalation of the conflict. You therefore hope that the current sanctions are somehow going to influence Russia's budget and its ability to finance a longer-term occupation or conflict in Ukraine. We have to separate out what we are trying to achieve at the moment in getting Russia to change policy and the medium-term objective of diverting resources from the military conflict. At the moment, there are areas we can go with sanctions if Governments choose and they wish to, and with that then comes a much wider set of questions.

**Q105 Liam Byrne:** If you compare the sanctions we have now got in place on Russia with those we have in place on Iran, how do you compare the two regimes?

**Dr Walker:** Of course we are in a very different environment in terms of the UK-EU to Iran than the US is to Iran. The US has a prohibition on Iranian engagement in terms of exports and general activity, with certain exemptions. That is not the case with EU-UK and virtually most other countries of the world. It is actually quite challenging to do a comparison. What I would say is that we are not at a comprehensive embargo with Russia, as we were at the height of the Iran nuclear deal in many essences.

One of the aspects we have been looking at is the wider longer-term unintended consequences of the sanctions for other parts of the world, in terms of food security and how it will impact, and whether those sanctions will fuel secondary conflicts because of wheat and grain restrictions and not being able to move them to other countries, which are dependent on either Russian or Ukrainian food and wheat supplies, and so on. There are a lot of wider elements that are not comparable to Iran. This is a really unique situation and you cannot compare it to Iran and North Korea. The type of sanctions here and how they will play out are totally unprecedented.



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**Timothy Ash:** I do like to compare with Iran, and if you think that Iran is 10 out of 10 in terms of sanctions, in reality the sanctions that we have lodged on Russia so far, well up until the recent invasion, were probably two to three out of 10 I would argue. I think market expectations for maybe the worst case of a Russian invasion were maybe five to six out of 10. I think in my view, we are now at an eight to nine out of 10.

**Liam Byrne:** Sorry, you think we are—

**Timothy Ash:** We are now at an eight or nine out of 10 on Russia compared with Iran. Iran was not as connected to global markets. Iranians certainly were not as honed in to consumer markets, banking and finance. What has been extraordinary, to my mind, about the collapse of the Russian market—debt, equity, you name it, banks and the currency market—is that the Russians did not expect it. Right? They believed Putin’s lies. Investors like ourselves and many other investors got out early, because they believed the message from US and UK intelligence. Russians stayed as investors.

I think you asked about the impact of sanctions. This has been a devastating blow on Russians: on the middle class; on oligarchs; and on ordinary Russians, who did not see this coming.

Q106 **Chair:** And on the credibility of Putin.

**Timothy Ash:** And on the credibility of Putin. He told them, you know, “Fortress Russia, we’re invincible, we’ve built up defences”. I think it was mentioned that no one expected the Central Bank of Russia, or CBR, to be sanctioned; that was huge. Look at the collapse in wealth of Russians.

Now, are these sanctions effective? Will they make Russians willing to come out on the streets to protest? Will the elites decide that they want to dump Putin? We have never tried maximum sanctions on Russia.

Q107 **Liam Byrne:** But is that the effect we are seeking, ultimately? Are we clear about the effect we are seeking?

**Timothy Ash:** I think the only person who can stop this conflict is Putin, in reality, and I think we have to do something to change his domestic political calculus and make him feel threatened. I think this does. Again, we have never tried maximum sanctions on Russia, for lots of different reasons: we worried about backdraft, and we worried about the impact on global markets. For the first time, I think we have taken the threat from Russia seriously and I think these are very significant sanctions, and Russia is different from Iran. So we will see how this impacts on his calculus.

**Tom Keatinge:** Can I interject one line of mild disagreement, which is that I don’t think we are at eight or nine right now, because we are not touching oil? What we have done is that we have very effectively targeted infrastructure, if you like: financial infrastructure, airplanes on the ground, shipping. What we haven’t touched is oil, which is revenue generation.



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I absolutely agree that on Iran we went comprehensive. We have not gone comprehensive yet on Russia, and until we go after energy, then the money will continue to flow.

**Liam Byrne:** But, Tom, could we go comprehensive—

**Chair:** Sorry, Maria is trying to come in.

**Dr Shagina:** To go back to the previous question about the effectiveness of sanctions, that should be measured vis-à-vis the goals, and I think the clear endgame is missing here. So far, we are in the phase of imposing maximum economic pain on the Russian economy, to erode Russia's ability to finance this war, but what's at the end of this is clearly missing.

Here, I would argue that sanctions need to be coupled with some conditionality mechanism. That could be linked to full withdrawal from Ukraine or some settlement on the European security architecture. But at the moment, the impact that is unfolding in Russia is destruction for the sake of destruction, and I think it should be leveraged, whereby some sort of concessions could be drawn from Russia.

At the same time, I can hear, not in this room but in the media, that there are some suggestions to link the lifting of central bank sanctions—these nuclear option sanctions—in exchange for a ceasefire. I would caution to link, or create this type of conditionality, because this will certainly only embolden Russia. Anything peaceful, anything incremental would not work with Russia. With maximum sanctions and maximum consequences of sanctions, maximum demands should also be there.

**Liam Byrne:** Thanks.

Q108 **Graham Stringer:** I would just like to ask Justine a question. You were talking about, as the pressure from the sanctions increases, negotiating with Putin for concessions. I listened to the Defence Secretary on the "Today" programme this morning and it was my impression—it was not stated explicitly, but by implication—that the Government's policy is for regime change and that is all that will satisfy them. "This is the end of Putin," the Defence Secretary said. Would you agree with that analysis, and how do you think it changes our policy on sanctions?

**Dr Walker:** I would say regime change is a very different end objective for sanctions than de-escalation of the conflict in Ukraine. I say that from a sanctions policy perspective. Now from a political perspective, they may be absolutely intertwined and impossible to separate.

However, certainly with sanctions, if you were then looking at regime change, then you are linking it, and it is a bit like what Maria has just said: how do you decouple? What are you aligning what sanctions with? What are you aligning the embargos with? What are you aligning the central bank restrictions with?

I think we have to be really clear. As a tool of conflict resolution, sanctions are actually part of a combination. One of the questions I was asked recently was: can sanctions solve this conflict? I think that is a



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fundamental question for us to consider. Do sanctions alone actually solve the immediate conflict? On regime change, I would say it does change the calculus around how sanctions are potentially scoped and then applied.

Q109 **Graham Stringer:** What was your answer to that question?

**Dr Walker:** From a sanctions policy point of view, if you are linking it to regime change, it does make a difference. I cannot comment on whether regime change should take place. I look at how we implement sanctions and the effectiveness of sanctions. Regime change is very much a matter for Government decision making.

Q110 **Graham Stringer:** Timothy, I think you said that the people around Putin—the middle classes—are going to suffer badly with these sanctions. International comparisons of sanctions have shown that it is usually poorer people who suffer badly, and the elite manage to secure their luxury goods and lifestyle, thank you very much. Are you saying this is different from previous sanctions, and that the elite will not be able to secure their positions and the poor will not suffer? I would be very surprised if that was the case.

**Timothy Ash:** I think sanctions will impact on all parts of society, but the key decision makers or the influencers around Putin are the oligarchs, the security types, siloviki, who have seen a massive hit to their wealth. If anyone could get through to Putin, it is possibly those people. But you are right. Poor and all parts of society will suffer because of this. Remember, this is not because of sanctions; this is because of Putin's actions in Ukraine.

**Graham Stringer:** I know what the initial cause is, but thank you.

Q111 **Alicia Kearns:** There was a leaked FSB memo, if you are to believe it is accurate, that claims that the Russian economy would likely collapse by June, based on the current action. I guess there would be some sort of trajectory built into that thinking. Do you agree with that assessment and how would you speed it up?

**Timothy Ash:** You said FSB?

**Alicia Kearns:** Yes.

**Timothy Ash:** So the Russian security service, did you say? Regimes like Iran can last a long time under sanctions. In life everything is kind of about expectations. The Iranians have learned to live with this. They expect it. What is different this time is that Russians did not expect it. Their fall from grace is absolutely remarkable. A week ago, Russia was investment grade—triple B. Now it is junk: from a situation of Fortress Russia, where Russians thought they were impregnable, to default, devaluation and being kicked out of all markets.

Interestingly, on the comments about energy not being subject to sanctions, the reality is that you cannot transact. Financial sanctions mean that it is very hard to transact in energy. We have seen a lot of



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international energy companies decide they do not want to trade oil with the Russians. They are very encompassing in terms of sanctions.

In terms of the impact on the Russian economy, I think it is going to be worse than '98. I lived through that crisis. It feels much worse. It feels much worse because '98 was, again, kind of expected. Russia had the international community behind it. It had an IMF programme. We all came in and helped them get through that crisis. This time around, the scale it was at and that rapid collapse in such a short period of time is extraordinary, and it has no one really on the other side who is going to help it through this—even the Chinese. I do not think the Chinese are going to be writing big cheques to help Putin out at this point in time, so it is really on its own. I would imagine that real GDP could be down 10% to 20%—really extraordinary. As I said, like Iran, people can learn to live with it.

**Q112 Chair:** The difference between Iran and Russia, surely, is that Iran did not start off at this level. Therefore, the contrast between Iranian sanctions, which do not let you have something you did not have before, and one day going to work and tapping Apple Pay as you go on the tube and the next day finding out that there are no train tickets, no tube tickets and your phone does not work is a pretty big surprise, surely?

**Timothy Ash:** Think of dollar GDP, right? Russia's dollar GDP was about \$1.8 trillion last year. With the combined impact of the 10% to 20% real GDP decline and then a massive devaluation of the rouble, dollar GDP could drop to \$800 billion to \$1 trillion.

In per capita terms, Russians are going to halve their spending power. When they want to go on holiday to Turkey, maybe they cannot buy a flight. When they get there, they cannot stay at the hotel they wanted to stay in. Remember that ordinary Russians travel and spend like us. They are used to it. They will realise that there is an impact of the mistake that Putin has made by his actions in Ukraine. They will feel the pain of that.

**Q113 Alicia Kearns:** How do we speed it up beyond the current sanctions that we are talking about? I am going to come specifically to energy in a moment, but you look like you want to come in, Maria.

**Dr Shagina:** On a scale of one to 10, we are somewhere between seven and eight, and there is still room for tightening sanctions. Energy is obviously the key here, since the Russia Government introduced a requirement that 80% of all exports of oil and gas, which are key commodities, should be sold for roubles. This creates a cushion to mitigate the impact of sanctions, so energy should be targeted in one way or another. For example, the US did not impose any energy-related sanctions when it comes to the Central Bank. Other banks, such as Sberbank and Gazprombank, are also important for energy. Sberbank is the largest bank for the Russian economy and has not been targeted, apart from being disconnected from the US and UK system, but there is more room to tighten the sanctions. Alfa-Bank, for example, was not targeted within the UK sanctions regime. Minerals, chemicals and coal, which are also



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important revenue-generating items, have not been targeted, so there is room to speed it up. Going back to the effects of sanctions, these will target ordinary Russians and they will feel it within Russia, as the Russian Government is becoming more repressive.

Q114 **Alicia Kearns:** Thank you. I think the weaponisation of energy is something that academics have been speaking out about for a very long time, but I don't think the Government has necessarily been as focused on it. If we are to do energy sanctions, obviously there is a great amount of fear about what that means. What is the blueprint? Where do you start? Do you start with minerals, or do you start with energy? Is that the wrong framework for looking at it? How do we protect ourselves as much as possible, given that we already have an energy crisis, but ultimately hurt their revenue making?

**Tom Keatinge:** The blueprint is probably the way in which oil was treated in the context of Iran: a ratchet down, and give countries time to identify alternative sources. Someone pointed out to me yesterday the rate at which commodity prices are rising at the moment. Actually, Russia could sell a lot less but still earn just as much money.

**Alicia Kearns:** Exactly that.

**Tom Keatinge:** I am sure Tim will have a view on this, but certainly what I understand from people in the US is that that is the playbook that they are getting out, because that is the playbook that they used in the context of Iran.

**Alicia Kearns:** Justine?

**Dr Walker:** If we are to target oil, there needs to be a much broader consensus. If you just have the US or UK targeting oil, you are, as Tom says, just going to drive up prices and will not actually be effective. One of the key elements that we saw in the US preparation for their sanctions package was where they could get consensus. It was very clear that oil was taken off the table because the EU would not go there for fear that Russia would then cut off the gas supply. One of the elements here is also countermeasures from Russia—what will they do? This links very much to Sberbank and why we have seen Sberbank not designated, because Sberbank is obviously a very critical payment channel for energy payments.

Q115 **Alicia Kearns:** When you say we need consensus, how big of a consensus are you asking for? What is the minimum international agreement that we need to act on this? The US have just announced in the last hour or so that they are now going to act on oil. We have not announced it yet, but hopefully we will. The EU does not look like it is going to. What is the minimum consensus? Who are the key players for this to hurt Russia and not just push up our oil prices?

**Dr Walker:** Maybe Timothy wants to add to this. I do have a view, but I will hand over to Timothy.



**Timothy Ash:** For the US, it is relatively easy, because they are not big Russian oil importers. It is a challenge for Europe. A failed energy policy for generations, and not understanding the threat from Russia—we are where we are. It is very difficult in the short term to diversify away from Russian energy, but the message to Moscow should be absolutely crystal clear: unless it gets out of Ukraine, we will accelerate diversification, and it may not happen next year, but in the next five years, we will totally cut Russia out of the energy supply chain.

Q116 **Alicia Kearns:** Essentially, on oil, unless the EU is on board, there is no point in imposing these sanctions, because it will push up oil prices. Or can we meaningfully shift the dial without the EU?

**Tom Keatinge:** Here we are talking about buyers, but of course there are also suppliers; there are interesting stories coming out of places such as Venezuela. We should not lose sight of the fact that price is obviously a function of supply and demand. What are we doing to work with suppliers to replace the capacity lost from Russia? But clearly the EU needs to buy into this strategy.

**Dr Walker:** This is where the analogy with Iran is useful: when the US removed itself from the nuclear deal, energy was still very much impacted. Oil was impacted because of the US secondary sanctions. We saw a real aversion to purchasing Iranian oil. If this is to be used as a tool in the way that the US hopes, it will probably have to put in a type of secondary sanctions provision, so that people just choose not to purchase that oil.

We have sanctions on a number of oil-producing countries at the moment—Iran, Venezuela, Syria—so one element will be a complex discussion of how you look at Russian oil sanctions in the light of the trajectory of your policy on other sanctions regimes; that could be very important.

Q117 **Henry Smith:** We have seen unprecedented sanctions against Russia, except of course relating to energy. We have also heard that when the SWIFT system was, to a significant extent, switched off for Russian banks, there was a possibility of their using a Chinese system. You mention that China is perhaps distancing itself from Russia's actions in Ukraine. This question is to Dr Walker and Mr Ash. Which countries are likely to help Russia and not join in with sanctions—indeed, to take advantage of the West having imposed sanctions? I am thinking not just of the obvious countries, such as China, but of India, potentially, and Pakistan and others. I am interested in your perspective on which countries may seek to help the evasion of sanctions.

**Dr Walker:** There is an element around evasion of sanctions, but there is also the question: which of those countries are dependent on Russia for essential commodities? It will come down to their individual security considerations. I mentioned food security. Russia is an important exporter of a number of commodities. You have to look at that, and then at whether those jurisdictions are able—not just willing—to replace what they get from Russia. There is a really big question mark around that. We



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should not for one minute underestimate how challenging that will be. These countries will have to make decisions that could really impact their stability. You have named some of those countries, but there is also Egypt, Lebanon, Nigeria—a whole raft of places. If we are looking at commodities, there are many jurisdictions in which Russia is really important. Then there is energy; you probably have to look at the two things separately.

That is the issue of dependency. As for evasion, it will really depend on what the next level of sanctions looks like and how robustly these sanctions will be targeted in an extraterritorial way. You mentioned China, but the Chinese banks are looking at this and saying, “Do we want to get involved?” In the case of Iran, after a number of sanctions enforcement actions, China became quite risk-averse. I think they will follow suit in this case. We are not necessarily talking about countries; it may be sectors in countries.

You always see sanctions evasion. Of course, you have Syria and other jurisdictions, and how that will play out. I think there is a number of central Asian countries that are dependent on Russia in many ways. Is there going to be a geopolitical response?

Q118 **Henry Smith:** Maria, sorry, I did not mean not to include you. What is your perspective on that?

**Dr Shagina:** I think China is the key here, and India to a lesser extent. China can definitely provide a lifeline. Because Russia’s central bank’s assets are frozen, you have two options: to sell around 140 billion in renminbi and about 80 billion in gold. China might be the only buyer here, so something to watch in future might be how much the Chinese Government can step in. Russia and China have signed a currency swap agreement that could facilitate that, but it has been mainly on the level of technical negotiations—it has not been used. The same goes for SWIFT and the Chinese system. It is unlikely that China will provide a platform for Russian’s de-swifted bank to be connected to the west. It still lacks this network effect and it does not compete with SWIFT.

The Chinese private sector always over-complied with US sanctions, and we are likely to see similar behaviour. Given the unprecedented level of sanctions, we are likely to see an even larger chilling effect and de-risking behaviour from the private sector. State-backed institutions such as Exim bank and the China Development Bank are the institutions that helped Russia in the past to fund sanctions projects, such as those in the Arctic, Yamal, LNG and others. Those are the ones to watch. At the beginning, we will also see a de-risking effect, but we have to be careful to see whether they stick of this line of policy, or whether the chilling effect will wear off.

India is mainly linked to Russia on energy and weapons. India’s smaller banks—those banks that are disconnected from western systems—have been used to conduct sanctioned transactions. This pattern of behaviour can be used potentially by a larger pool of countries, including Turkey and others in east Asia.



**Tom Keatinge:** So far, we have pulled levers that we can pull. At some point, we are going to want other people to pull levers on our behalf. The FCDO needs to be mapping out in detail how our partner countries around the world will be impacted by the levers we are pulling right now, and how we ensure that those countries then pull the levers that we want them to pull—that is, stop buying energy, source their grain from elsewhere if that is possible, and that sort of thing. I do not know if that analysis is being done, but it needs to be.

[Chris Bryant took the Chair]

Q119 **Henry Smith:** As an extension to that, the US Biden Administration is talking about a joint implementation taskforce. How effective do you think that could be, or is it something that sounds good but its ability to co-ordinate internationally will not be as effective as it promises?

**Tom Keatinge:** At the moment, sanctions are being effective, or are having an impact, because of the shock to the system—the unprecedented level, et cetera. In the medium term, there will need to be a focus on implementation. That is where, frankly, the world often fails. The US focuses on implementation—it comes after people who fail to implement. We have OFSI as part of the Treasury here in the UK, which tries to track implementation. Beyond that, there is not a lot of focus internationally on making sure that sanctions are properly implemented. The targets of sanctions move. You have to track them; you have to maintain the efficacy of the sanctions. Having a taskforce focused on implementation is absolutely critical, because otherwise, the sanctions decay in value over time.

**Chris Bryant (in the Chair):** Sorry, the Chair has had to leave, so I have taken his place. We are beginning to get tight on time, but we have a lot more questions. Let us go to Alicia.

Q120 **Alicia Kearns:** You all started touching on the fact that Russia will retaliate against these sanctions at some point. It would be really helpful to understand this. Obviously, I am not trying to give Putin a blueprint, but I am trying to make sure that we are more resilient. If you were Putin looking to retaliate, what is the soft underbelly that we need to be protecting as British politicians, and that we need to focus on shoring up?

**Dr Walker:** Every time sanctions have been imposed on Russia since 2014, there has been a level of retaliation, so I think that is an absolute given. Certainly, I know that people have started to map that out. Obviously, for organisations with a presence in Russia, such as financial institutions and others, it is about freezing their assets in Russia. There are certain things that they can do in their own territory. They can ban international entities that are in Russia from complying with foreign sanctions—a type of blocking regulation, in the same way that we have imposed against the US on Iran, and that China has imposed. There are a lot of tools there.

They can also look at who they supply their commodities to. Do they turn off the gas to Europe? Do they refuse to provide grain or other



commodities to European countries? In terms of retaliation, what are the key, essential levers that they have? They will absolutely be mapping out what they can turn off and the markets that they can then serve and step into instead, and become driven to those markets.

We have also seen them looking at payments in, for example, renminbi and other aspects, and roubles, so they can change how they are looking at their own payment chain. There are a number of measures that they can take to mitigate the risk of sanctions, and there are a number of measures that they can take by way of counter-sanctions.

**Chris Bryant (in the Chair):** Anybody want to add to that?

**Dr Shagina:** We should not expect formal counter-sanctions. Russia will likely use informal measures, similarly to China, and not announce anything in clear black-and-white form. They could take the form of cyber-attacks on western financial institutions or critical infrastructure. Today, as was mentioned, a Russian Minister announced that they will halt the gas via Nord Stream 1, something that Europe is largely dependent on. Russia is also a key supplier of nickel, palladium and titanium—those critical minerals can be halted as well. And, as Justine mentioned, expropriation of foreign assets in Russia will likely be the retaliation.

**Chris Bryant (in the Chair):** But they also need semiconductors, don't they, and Taiwan is helping on that?

Q121 **Alicia Kearns:** I think that covers that, unless you think there's anything that would shore us up better in multilateral terms. Should we be launching some sort of multilateral initiative?

**Timothy Ash:** We should be. Countries struggling to maintain sanctions have been mentioned. Turkey—an ally—still has its airspace open. That would be one area. They have a balance of payments crisis at the moment and Erdoğan is very vulnerable. We possibly should be encouraging the Turks, through whatever means, to hold the line a little bit more strongly than they are. They are providing drones to Ukraine, which is really valuable.

On energy and retaliation from the Russians, I guess I would say that, with the Russian economy and Russian financial markets in such desperate states, escalating through the energy or commodity channel may not be that wise for Putin. That would just push Russian markets and the Russian economy deeper into recession, so I am not sure that he will necessarily be that aggressive on that score.

Q122 **Chris Bryant (in the Chair):** Thank you. Can we move on to the general issues around the Economic Crime (Transparency and Enforcement) Bill that we considered last night—the more economic bits, rather than the additional bits around sanctions? Why do you think it has taken us so long to get to the point that we got to last night?

**Tom Keatinge:** Look, I work for an organisation that has pretty much been asking for this to happen since we started in 2014. Prioritisation, leadership—it is a combination of those two things, I think. Had we come



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forward with the register of overseas entities when it was ready to go originally in 2018, it would now be operational and doing what we want it to do. Negligence.

**Q123 Chris Bryant (in the Chair):** An amendment was tabled and voted down on 1 May, wasn't it?

**Tom Keatinge:** Yes. I gave evidence to the Bill Committee back in whenever it was—2018. This is something that has been hanging around for a long time, and many people in Parliament and civil society have been saying, "Why does it keep getting postponed?"

**Q124 Chris Bryant (in the Chair):** What are the bits that are missing still?

**Tom Keatinge:** I think the major thing that is missing is accelerating the reform of Companies House. We have got this slightly strange situation where we are going to gather additional information on who owns properties from overseas, but Companies House is not able to do the job that it is meant to be doing, so accelerating Companies House reform is clearly critical. The other area that—

**Q125 Chris Bryant (in the Chair):** Let's just stick with that bit first. It will be an offence under this new Bill to provide false information to Companies House, but Companies House has no means of checking whether the information is false. Is that one of the areas?

**Tom Keatinge:** Correct. We have got this ridiculous situation where there is an individual—Graham Barrow, who I am sure everyone knows—who is able to identify dodgy goings on in Companies House before breakfast every day, yet for some reason the Companies House system is not empowered to do that.

**Q126 Chris Bryant (in the Chair):** Any of the other witnesses? No? You were coming on to the other things that are missing.

**Tom Keatinge:** The other area is that there is a consultation on strengthening the supervision regime in the UK. It is a slightly dull point, but basically, how are lawyers, accountants, real estate agents, notaries and all of those being supervised? Is our supervisory regime fit for purpose? The answer is no, it isn't. It has come a long way in the last two or three years, but we need to continue to ensure that the enablers, broadly defined—to use that term—are doing what they should be doing to check people's identities, query where money is coming from and not facilitate money laundering.

**Q127 Chris Bryant (in the Chair):** Is the legislation around politically exposed persons adequate? It feels phenomenally irritating sometimes, as a politically exposed person, when your brother opens a bank account or something, but is it adequate?

**Tom Keatinge:** One of the things that we have to remember about anything in this world, is to, if you like, take a risk-based approach. The whole point is to allow organisations to ask, "Where are the risks that we are facing?", and not to turn it into a rules-based system, where anybody



who happens to be working for the UN is deemed to be a politically exposed person and therefore can't have a bank account, or whatever it might be. The reality is that these laws have been created on the basis of evidence over the years, so while it might be irritating for you, there is a history that suggests that people in political positions are in a position to abuse that for their own wealth.

**Q128 Chris Bryant (in the Chair):** Who checks whether anybody is checking?

**Tom Keatinge:** Who checks the checkers? Well, that is where my point about supervision comes in. You have a bank, a law firm or whoever it might be—a regulated entity—that is meant to be doing the checks. To your point about who checks that, it should be the supervisor, and if the supervisors are not doing their jobs, there is a realistic chance that no one will discover whether the checks are occurring.

**Dr Walker:** I would like to say, coming from a compliance organisation, a membership organisation, that the challenge we find is this consistent add-on, add-on, add-on. Yes, there is a risk-based approach, but where is the genuine threat? One of the elements that we have really tried to push forward is for Governments, law enforcement and the private sector to become more aligned on where the threat sits, so that instead of everybody looking at your individual bank account and then the banks receiving all these letters of frustration from ordinary customers because they are doing the checks they are expected to go through, the question is, where do you put the hundreds of thousands of compliance officers you have in institutions, in order to direct their resources? Is it really politically exposed persons, or domestic PEPs, or it is overseas wealthy individuals that you are looking at, or companies owned by them? There is a broader conversation here, not just about PEPs and other types of high-risk customers, but about how you manage the threat.

Then there is the broader element, which many committees will also look at, of de-risking. If you make it too complex, nobody will bank these entities. Many committees have brought forward these individuals from banks and others, saying, "Why aren't you banking NGOs sending money into Syria?" There will be the conversation soon about, "Why aren't you banking NGOs sending money into Russia or Ukraine?" I know that this is a really pressing issue for humanitarian community, who are already seeing a very big fall-out. I know that they have written to Ministers, but it is one of the unintended consequences, and there is a balance. We are seeing live issues now of lawyers, exporters and banks all stepping back from both Russia and Ukraine, and that is really having an impact on humanitarian action, and the ability to deliver humanitarian action.

**Tom Keatinge:** If I may, there was one new clause that was passed over last night. I do not understand the choreography of all this, but I think it was new clause 24, which basically wanted the Secretary of State to be required to audit and confirm that the resources—

**Chris Bryant (in the Chair):** New clause 2.



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**Tom Keatinge:** Okay. I will take your word for it; I wasn't there. This is a really important point. There is no point in bringing in all these new systems, procedures, laws and all the rest of it if we do not resource the system. They are not worth the paper that they are written on otherwise.

Q129 **Chris Bryant (in the Chair):** Well, I think that was an anxiety that was expressed by several people in the Chamber yesterday, wasn't it? You can have all the rules in the world, but if nobody is going to enforce them, they are a complete and utter waste of time. I think one of the anxieties is still that, if potentially sanctioned individuals or people who might be people of interest to HMG have very deep pockets, sometimes Government agencies run a mile because they do not want the whole of their annual budget for litigation to be consumed by one case.

**Tom Keatinge:** Correct—Lynne Owens, on the record at the Intelligence and Security Committee a couple of years ago. That is a major issue.

Q130 **Liam Byrne:** I want to move us on to the impact of this crisis on the global financial system. Coming into this year, there were already some significant stresses. We had very elevated levels of debt. We now have a significant hit to GDP. We have a rip tide being caused by rising interest rates in the United States and some pretty significant capital outflow from impoverished and indebted countries. Is there now a risk that the regime that we are putting in place will fracture the financial system in ways that are particularly unhelpful, and will multiply some of the risks that are already obvious?

**Timothy Ash:** That is probably my question. This seems to be a globally systemic event. On the threat from Russia to our way of life, this is a game changer in terms of security in Europe and the threat perception around Russia. We are going to have to increase defence spending massively because of this. The sanctions that have been rolled out because of that perceived threat are incredibly significant, and they are already having a big impact. Oil price is at \$130 from whatever it was—\$75—possibly going to \$200. On other commodity prices, nickel was up an extraordinary amount this morning.

Russia is a big supplier to global markets. It feels like it will have a dual impact of higher inflation, obviously, and higher food prices, and probably it will impact on growth. It is probably a stagflationary impact, making it more difficult for central bankers, so I am worried about this as a globally systemic event, coming out of covid, but if we value our system of democracy, and our way of life, I do not see any other options but to impose very significant sanctions that hopefully will change Putin's behaviour in Ukraine. That is the way that I view it.

Q131 **Liam Byrne:** There are, therefore, consequential for economic policy makers.

**Timothy Ash:** Absolutely.

Q132 **Liam Byrne:** And what do you think those consequences are?



**Timothy Ash:** It makes monetary policy much more difficult. You mentioned policy tightening. Given the growth impact, central bankers may decide not to follow through with that monetary policy tightening as rapidly as perhaps they were. On fiscal policy, obviously higher energy prices may mean that Governments in the UK and elsewhere will want to spend more on subsidising food and energy for poorer sections of the population. It has already been mentioned that sanctions will have a disproportionate impact on poorer countries around the world, so I think the developed world should perhaps step up and provide more development assistance to help those countries. Egypt was mentioned, and obviously Africa, et cetera.

Q133 **Liam Byrne:** There are tools in the locker. We have just issued \$650 billion of special drawing rights, but overwhelmingly to richer countries. We have rechannelled almost a negligible fraction of those. Do we just need to start thinking about some of the tools that we already have, and start using them a bit more aggressively?

**Timothy Ash:** Absolutely. The IMF and the World Bank have already come out with statements suggesting that they are going to be looking at lots of different ways they can help developing countries around the world. I think that the UK should absolutely support that process.

**Dr Walker:** The only thing I would add is that we are talking about that in the current context of what happens in Ukraine. If Ukraine essentially falls to Russia, for want of a better description, then you have a whole wider element of commodities at play, which will also broaden out what Timothy has just spoken about. We are looking at this within the current context of the sanctions on Russia. We all desperately hope that we won't end up in that situation. However, the scenario planning around what happens in Ukraine should the western sanctions not be effective also needs to be put into the picture here, around future fiscal policy.

Q134 **Liam Byrne:** We have begun to shut Russia out from SWIFT. Do we now need to start planning pretty swiftly for what is, in effect, a much more decoupled financial system?

**Dr Walker:** I think people are already doing that. The mood music is that we have seven banks that, on 12 March, will be disconnected from SWIFT. Interestingly, there is still a wind-down period for banks that goes on beyond that date, so how they transact is a wider conversation.

Q135 **Chris Bryant (in the Chair):** Was that necessary or not?

**Dr Walker:** I think it was, actually, and very much for the reasons that we've talked about—just good governance of sanctions, managing financial stability and ensuring that you don't just leave billions sitting in Russian banks. There are a number of reasons you have wind downs, so you do need that wind-down period. However, people are now looking at how to decouple. That is clearly happening already.

**Chris Bryant (in the Chair):** Talking of winding down, apart from anything else, we have to get to the Chamber at some point—early—for



Zelensky.

Q136 **Liam Byrne:** I was just going to ask whether people thought that cryptocurrency would be one of the ways in which people subverted some of those procedures.

**Tom Keatinge:** There has been a lot written about crypto recently. We need to keep an eye on it, but I don't think we should be focusing on that to the extent that the media is, perhaps, focusing on it.

I would like to make one important point. The integrated review talks a lot about economic statecraft; it did not necessarily foresee what is happening right now, but it posed some questions about the UK's geo-economic or economic statecraft strategy. I don't think we have a strategy yet. As we have seen in the last couple of weeks, one of the few levers that we have when it comes to international power is a financial lever. For me, there is an open question here: what is being done with that element of the integrated review? I was delighted that if you Ctrl-F "illicit finance", it appears 13 times in the integrated review; it appears as it relates not only to criminal activity, but also to subversive state activity. What are we doing, in Government, to take that up and to produce the strategy that I assume would flow from a document such as the integrated review?

**Liam Byrne:** It is a lacuna at the moment.

**Tom Keatinge:** It is a lacuna.

**Chris Bryant (in the Chair):** Just one final question from Alicia.

Q137 **Alicia Kearns:** You touched on private schools earlier, Tom. I'm very aware that, technically, if you're sanctioned, you shouldn't be able to pay future school term fees. However, in the history of this country, people have paid private school fees in cash and through shell companies—they have paid through all sorts of other things. We know that it matters to the oligarchs that their kids can come to our schools and then go to our great universities. Frankly, if they are willing to see Ukrainian children hiding in bunkers and being bombed, then I am willing to kick their kids out of our schools. What does the education system need to do to build up greater resilience? It doesn't feel like it has much in terms of money laundering, checks or things like that.

**Tom Keatinge:** Thank you for your question. I am a member of JMLIT's anti-bribery and corruption working group. I will not bother explaining what that is, but it is a public-private partnership group. Quite some time ago, I said that we need to be looking at private schools. An alert went out from the National Crime Agency a couple of years ago now—maybe 18 months ago—about private schools. I certainly think that it should be made clear to that sector what the Government's expectations are.

Now, should you literally be kicking kids out of schools? I do not know. However, it is very likely that those fees will not get paid. It is very likely that there will be a grace period and that, at the end of that period, if you have not paid the fees, regardless of who you are—whether you're



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Russian, British or anyone else—then, sorry, the school closes to you. Across the UK, Russian money—good money and bad money—has very successfully integrated, and that is something that we have made ourselves vulnerable to. That chicken has come home to roost, frankly, in a big way in recent years.

Q138 **Alicia Kearns:** If you have any specific recommendations on how we can get schools to be more money-savvy and transparency-aware, it would be really helpful if you could share them with us.

**Tom Keatinge:** I can send you that alert that should have gone to them all, and then I am happy to follow up.

Q139 **Chris Bryant (in the Chair):** You have suddenly prompted a thought in me. Would a member of the Russian Duma who voted for the invasion be allowed to come to the UK this week? Is there anything to ban them from doing so?

**Tom Keatinge:** The Government have the right to ban people from coming into the country. You do not need sanctions to do that.

Q140 **Chris Bryant (in the Chair):** Because you need a visa?

**Tom Keatinge:** Because you need a visa.

Q141 **Chris Bryant (in the Chair):** But the EU has done a travel ban, I think. We have not, as far as I am aware.

**Tom Keatinge:** But you do not require sanctions to ban people from coming into the country.

Q142 **Chris Bryant (in the Chair):** They never say whether they are doing it, but sometimes they do. The Home Secretary sometimes suddenly says to such and such a rapper, "You are not coming in." But there is nothing you are aware of that would prevent any of those people coming in?

**Tom Keatinge:** No.

**Dr Walker:** My experience is that it would be fairly unlikely that they would be issued with a visa at this point in time.

**Chris Bryant (in the Chair):** As long as we have spotted them. Sometimes we are not very good at spotting things.

**Alicia Kearns:** They are good at spotting you and I, so I hope that we are as good at spotting them.

**Chris Bryant (in the Chair):** I think we are done. May I say an enormous thank you? Maria, thank you very much. Tom, Justine and Timothy, we are very grateful. This has been an enormously useful session. It has given us lots of ammunition and lots of food for thought, and it has answered some of the questions that we had been wanting to ask in a devil's advocate way, so that we have clear answers to give others. This is obviously an ongoing inquiry and process, so you never know, you might be back—whether you like it or not. Thank you very much.