



HM Revenue
& Customs

Jim Harra
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Secretary

Room 2/75
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By email

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Dear Mr Stride,

Re: Response to the Committee's questions as part of the 'Russia: effective economic sanctions' inquiry

Thank you for your letter date 20 June 2022. I am happy to assist the committee in its inquiry; in particular its understanding of HMRC's responsibilities regarding trade sanctions.

HMRC is responsible for enforcement of UK Trade Sanctions and Strategic Export controls. We work closely with Border Force to conduct customs checks and, where necessary, seize goods. We also work with other government departments and international partners to assist in identifying those imports and exports which are at higher risk of noncompliance.

Please find appended HMRC's responses to the Committee's questions. I hope they are helpful to your inquiry. Please note we provided evidence to the Committee on Arms Export Controls (CAEC) in relation to similar matters in January. Subject to the Committee Chair's agreement, HMRC would be happy to share that letter with you.

Yours sincerely

JIM HARRA
CHIEF EXECUTIVE AND FIRST PERMANENT SECRETARY

Appendix: Responses to the Committee's questions

1. Please provide an overview of HMRC's responsibilities regarding trade sanctions enforcement.

HMRC is responsible for enforcement of UK Trade Sanctions and Strategic Export controls. We work closely with Border Force to conduct customs checks and, where necessary, seize goods. We also work with other government departments and international partners to assist in identifying those imports and exports which are at high risk of non-compliance.

HMRC's approach involves promoting compliance through a range of activities including outreach (including education and communication) with traders as well as responding to non-compliance using civil and criminal enforcement interventions such as warning letters, seizures and compound settlements¹. In the most serious of cases, HMRC refers cases to the Crown Prosecution Service, Crown Office and Procurator Fiscal Service or Police Service Northern Ireland to consider prosecution.

2. Please provide an overview of HMRC's recent work regarding trade sanctions enforcement, including:

(a) A breakdown of annual public and non-public outcomes achieved from 2016 onwards; and

(b) A summary account of criminal proceedings initiated.

HMRC has been enforcing sanctions against Russia since 2014. Since increased sanctions were announced on 24 February 2022, HMRC has implemented a number of measures which aim to prevent the exportation and importation of restricted goods.

In addition to trade sanctions, the Department for International Trade has introduced additional 35% tariffs on the import of certain goods from Russia or Belarus. To date, as per the DIT legislative delivery, HMRC has implemented these in two tranches, on 25 March and 1 June. Both of these affected goods of Russian and Belarusian origin, with the second expanding the types of goods affected. A third tranche, which will add the 35% tariffs to a further additional set of commodities, was announced on 9 May for future implementation. In addition to trade sanctions, the Department for International Trade has introduced additional 35% tariffs on the import of certain goods from both Russia and Belarus. Following the first Statutory Instrument (SI), HMRC implemented these tariffs against the initial group of commodities to be affected on the 25 March. This application was then expanded on 1 June, to those goods brought into scope by an amending SI laid on the 31 May. As per the Department of International Trade's announcement on 9 May, a further amendment is due to be laid shortly and HMRC will again add the 35% tariffs to an additional set of commodities.

The table below provides a breakdown of outcomes from 2016 onwards. Please note that:

- The table covers all Strategic Exports and Trade Sanctions breaches. For the purpose of collecting statistics, HMRC does not make a distinction between Strategic Exports and Trade Sanctions. This is because, from an enforcement perspective, the techniques and processes applicable to Strategic Exports and Trade Sanctions are the same (they are both movements of goods subject to licence from DIT). Details of

HMRC outcomes are published in the [Annual Report on Arms Export Controls](#). The most recent annual report on arms export controls was published on 27 July 2021 and covers the calendar year 2020. Figures for 2021 will be released to Parliament before summer recess.

- HMRC achieves a range of compliance outcomes, of which prosecutions are just one element. HMRC uses a spectrum of civil and criminal interventions to tackle non-compliance and drive compliant behaviours in accordance with our Promote, Prevent, Respond compliance strategy. We promote voluntary compliance by working with business and trade associations, providing education and guidance, and helping businesses and individuals to comply with customs controls and avoid errors. We prevent non-compliance from occurring by using risk analysis and intelligence to target suspect imports and exports and by conducting customs checks at ports and airports while the goods are under customs control. Finally, where non-compliance occurs, we respond by taking appropriate enforcement action, which can include warnings, seizure of goods, and criminal investigations, leading to financial penalties or prosecutions.

Strategic Exports and Sanctions Enforcement Outcomes Table									
Calendar Year	Detentions (number of)	Seizures (number of)	Voluntary disclosures (number of)	Potential breaches assessed	Criminal Investigations (number of)	Warning Letters	Compound settlements (number of)	Compound settlements amount (£ total)	Prosecutions (number of)
2016	253	183	147	652	6	4	3	£34,576.00	0
2017	198	118	201	487	3	1	1	£5,360.00	0
2018	70	160	157	480	5	2	3	£111,312.50	3
2019	66	196	199	791	1	89	12	£408,216.39	0
2020	103	160	136	817	1	64	19	£700,368.01	0

3. How many reports of trade sanctions breaches has HMRC received each year from 2016 onwards?

(a) What proportion of investigations are initiated by voluntary disclosures from entities in breach of sanctions compared with other sources of intelligence?

The number of voluntary disclosures and total breaches assessed from 2016-2020 are shown in the table in response to question 2.

4. What steps are taken by HMRC and other government departments and international partners to share information and co-operate in other ways in order to facilitate effective enforcement action?

(a) Is there scope to increase information sharing and co-operation with partners on enforcement? Are there any legislative or practical barriers?

HMRC works closely with other government departments both at the operational level and at the strategic policy level. We work with intelligence analysts, criminal investigators and relevant policy leads across government to share information, identify risks and maximise the impact of our measures. We can (and do) share information with other UK enforcement bodies.

We also work with international partners to share data and intelligence wherever possible. HMRC has extensive international contacts with overseas counterparts who hold their country's strategic export and sanctions portfolio. This can be with a customs administration, a police organisation, or a judicial investigation unit, depending on the arrangements in that country.

The process varies from county to country but is underpinned by UK legal information sharing gateways, and in some cases, international agreements and memoranda of understanding. All engagement is subject to risk assessment in respect of Human Rights and Data Protection. Such considerations could restrict cooperation with some jurisdictions where there are concerns about states respecting fundamental rights and freedoms. However, this concern has not presented itself to HMRC in the context of recent Russia Sanctions enforcement.

5. Do you work with the other organisations (such as the NCA and OFSI) with responsibility for economic sanctions enforcement to develop and share best practice?

HMRC works closely with a range of other organisations and are part of a number of cross-government groups (including with National Crime Agency and Office for Financial Sanctions Implementation) working on the enforcement of financial sanctions. HMRC has seconded a number of officers to the NCA and OFSI.

6. What is your assessment of the current level of compliance with trade sanctions in the UK?

(a) Does this vary by industry sector or firm size?

(b) Are there areas of particular concern?

Based on analysis of export data and operational data from compliance activity audits, Border Force checks, post-seizure analysis, and voluntary disclosures, HMRC assesses UK exporters to be largely compliant with trade sanctions. Issues identified are primarily due to lack of knowledge or proper implementation of internal controls. However, there remains a risk that a small number of UK exporters will deliberately seek to circumvent sanctions, or that entities in sanctioned states will use intermediaries or diversionary tactics in order to disguise their acquisition of goods despite sanctions.

Following the implementation of sanctions, we have seen a large reduction in exports to Russia, either due to sanctions, withdrawal from Russian markets, freight disruption, or financial and logistical challenges in dealing with Russian companies. In the weeks following the implementation of sanctions, most UK companies ceased or significantly reduced exports to Russia, with limited continuing trade mainly in clothing and medical equipment.

With a reduction in trade direct to Russia, there is a risk that UK and overseas entities looking to circumvent sanctions will export goods via intermediate countries. While we have seen a small rise in potentially sanctioned commodities being exported to countries geographically or politically close to Russia, this has been limited in scale.

HMRC works closely with analysts across government to identify risks and maximise the impact of our measures. The details of compliance targeting are sensitive, as putting them in the public domain would assist criminals to evade our controls.

7. Does HMRC feed into non-enforcement aspects of trade sanctions, such as design and implementation?

Yes. HMRC works closely with other government departments and bodies on the design and implementation of sanctions measures. For instance, HMRC has fed into (and continues to feed into) the development of sanctions on Russia and its allies, bringing in our experience of enforcement.

Response to Ukraine

8. Please provide an overview of HMRC's response to the recent expansion of trade sanctions against Russia.

As noted in our response to questions 1 and 2, HMRC is responsible for enforcement of UK Trade Sanctions and Strategic Export controls. We work closely with Border Force to conduct customs checks and, where necessary, seize goods. We also work with other government departments and international partners to assist in identifying those imports and exports which are at higher risk of noncompliance.

HMRC's approach involves promoting compliance through a range of activities including outreach (including education and communication) with traders as well as responding to non-compliance using civil and criminal enforcement interventions such as warning letters, seizures and compound settlements. In the most serious of cases, HMRC refers cases to the relevant authority to consider prosecution.

9. Has HMRC been involved in, or provided support to, the Government in designing the recent trade sanctions?

Yes. As noted in question 7, HMRC works closely with other government departments and bodies on the design and implementation of sanctions measures. For instance, HMRC has fed into (and continues to feed into) the development of sanctions on Russia and its allies, bringing in our experience of enforcement.

10. Has the number of reports of potential sanctions breaches increased since Russia's invasion?

(a) If so, what have been the primary causes?

We are unable to comment on ongoing cases, including the number of reports HMRC has received since March. Statistics will be published once all investigatory work has concluded as part of the annual report on arms export controls. Please see the response to question 3 for more information.

11. Has there been, or do you anticipate, an increase in enforcement workload in this area?

We are unable to comment on ongoing cases, including the number of reports HMRC has received since March. HMRC's work on the design of recent sanctions and implementation of measures at the border has seen a significant increase in workload. This work has been prioritised across a number of teams and HMRC will continue to pivot resources to meet this challenge.

12. How many full-time equivalent staff does HMRC have working on trade sanctions enforcement?

(a) Has this changed in response to Russia's invasion?

HMRC has 78 FTE staff working in roles dedicated to Strategic Exports and Trade Sanctions enforcement. Furthermore, multiple teams in HMRC and Border Force have been involved in the introduction of recent trade sanctions, although staff in these teams work on a number of areas and not just trade sanctions.

Information about the increase in staff investigating Strategic Exports and Trade Sanctions was disclosed to the CAEC in January 2022. With the CAEC Chair's permission, we would be happy for this letter to be shared with you as well.

13. To what extent can you draw on resources and expertise from other HMRC enforcement teams to assist with sanctions work?

The introduction and enforcement of recent sanctions has involved a concerted effort by a range of teams across HMRC. This includes resource and expertise from compliance teams.

ⁱ A compound settlement offer is the means whereby we can offer to settle out of court, through payment of a sum of money any alleged offence committed under the Customs and Excise Management Act 1979, Export Control Order 2008 and Sanction Orders.