

UK Government response to the European Affairs Committee report

[Report from the European Affairs Committee on the impact of Russia's invasion of Ukraine on UK-EU relationship](#)

27 March 2024

1. The Government welcomes the Committee's report of 31 January on the impact of Russia's invasion of Ukraine on the UK-EU relationship and is grateful to the Committee and to those who have provided evidence.
2. The Government has considered the evidence, findings and recommendations carefully and its responses to the issues raised in the report are set out below. Responses have been provided to the Committee's conclusions and recommendations, grouping them as appropriate.

Cooperation on sanctions

Arrangements for cooperation between the UK, the EU and other partners on the imposition of sanctions since the Russian invasion of Ukraine have been effective overall.

Recommendation 1: These should be considered as a model for pragmatic cooperation between the UK and the EU that could be replicated in other areas of the UK-EU relationship. (Para 31)

3. The Government agrees that our cooperation with the EU and other partners on the imposition of sanctions against Russia has been effective. UK-EU coordination includes regular engagement at all levels with EU Institutions and Member States, including a regular Sanctions Coordinators Forum which brings together senior officials from the EU and the G7.
4. The link between this close working on sanctions and the rest of our cooperation on Ukraine has been essential in ensuring a coherent overall policy. We can reassure the Committee that this approach is already being applied in other areas, be they geographic (such as the Middle East and China) or thematic (including cyber and crisis response).

We recognise that the UK's independent sanctions regime is still a work in progress, but it appears, on balance, to have been effective overall in the context of the sanctions introduced following the Russian invasion of Ukraine. Without the need for agreement on unanimity, the UK can be nimbler and swifter in imposing sanctions. (Para 41)

Nevertheless, some witnesses expressed doubts about aspects of the UK's post-Brexit sanctions regime including a lack of detail in listing individuals but not the companies they control and questions about the efficacy of enforcement through the work conducted by the National Crime Agency and the Office of Financial Sanctions Implementation. (Para 42)

Recommendation 2: We ask the Government to respond to these specific concerns in its response to this report, addressing in particular the robustness with which breaches of UK sanctions are investigated and enforced. (Para 42)

Recommendation 8: We therefore ask the Government to address this concern in its response and to set out specific examples of robust action taken by the Government and its agencies to enforce UK sanctions regimes. (Para 79)

5. The UK is committed to ensuring that our sanctions are robustly enforced, potential breaches are investigated, and appropriate action taken. In recent years, the UK has reinforced its sanctions capabilities to reflect the autonomous sanctions powers conferred on the Government by the Sanctions and Anti-Money Laundering Act 2018 ('SAMLA'). The UK Sanctions Strategy, published on 22 February, explains the Government's approach to sanctions as a foreign and security policy tool, and sets out the cross-government architecture to implement and enforce UK sanctions.
6. Non-compliance with UK sanctions is a serious offence and punishable through large financial penalties or criminal prosecution. Departments from across Government including the Foreign, Commonwealth and Development Office (FCDO), HM Treasury (HMT), Office of Financial Sanctions Implementation (OFSI), HM Revenue & Customs (HMRC), the Home Office (HO), the Department for Transport (DfT) and the National Crime Agency (NCA), are working together, and with UK companies, to ensure that sanctions are enforced.
7. Firstly, the OFSI will take action in all cases, proportionate to the severity, where a breach of financial sanctions has occurred. OFSI has increased the size of its enforcement team and is consequently investigating a higher number of complex cases. Where relevant, OFSI refers sanctions breaches to the relevant law enforcement body to consider whether the breach reaches the threshold for a criminal justice system intervention. In the case of financial sanctions potentially meeting the criminal threshold, OFSI would refer to the NCA to determine if the matter is appropriate for the Agency to investigate. Charging decisions remain a matter for the Crown Prosecution Service and their devolved equivalents.
8. OFSI has issued £20 million in fines so far. In August 2023, OFSI also published an enforcement disclosure notice against Wise Payments Limited (Wise), a Financial Conduct Authority regulated company, for breaching Russia sanctions by making funds available to a company owned or controlled by a designated person. In August 2023, HMRC fined a UK company £1 million in relation to the unlicensed trade of goods in breach of Russia sanctions.

9. Secondly, in December 2023, the Government announced further details on the creation of the Office of Trade Sanctions Implementation (OTSI) to strengthen the implementation and enforcement of trade sanctions. OTSI will be fully operational later this year. When operational, OTSI will have a range of civil enforcement tools including the ability to levy monetary penalties. The Government will make regulations to provide the framework for these monetary penalties. Where OTSI investigates and potentially finds more serious breaches, it will refer these to HMRC or other agencies for criminal enforcement.

We note that the current sanctions mechanism in the UK does not include a sanctions review mechanism akin to the EU's sanctions review system.

Recommendation 3: We ask the Government to explain in its response to this report why that is the case and whether it is considering further changes to the current regime as it reviews how it functions in response to Russia's invasion of Ukraine. (Para 43)

Recommendation 10: In our view, the Government should consider introducing a process for periodic review of sanctions in force, which could provide a mechanism for the eventual removal of sanctions, in coordination with EU and other partners. (Para 92)

10. The Economic Crime (Transparency and Enforcement) Act 2022 contained a number of amendments to SAML A to streamline some of the processes SAML A originally established, including some processes for review. The primary objective of these changes was to allow the Government to act more swiftly and flexibly in concert with allies. This has enabled the Government to focus its sanctions efforts on responding in an agile way to Russia's full-scale invasion of Ukraine, and it continues to enable the Government to use sanctions swiftly and flexibly in a more contested and volatile world.
11. SAML A provides a number of routes for a review of a designation (or specification) to be initiated. A designated person can request a reassessment of their designation at any time, and a further reassessment at any time if there is a significant matter that has not been previously considered. If the designated person does not accept the outcome of that reassessment, they can bring a court review in order to challenge their designation in court. A requirement to apply for reassessment through mechanisms for administrative review, before applying for a Court Review, helps to ensure that redress is available as soon as reasonably practicable and to minimise unnecessary litigation. In addition, a Minister may instigate a reassessment of a designation at any time – for example, if new information becomes available, or if one of our international partners delists an individual or organisation who was also designated under UK sanctions.
12. These mechanisms are underpinned by the fundamental statutory safeguard in SAML A, which requires Ministers to use the power provided by SAML A to revoke a designation, where the Minister considers that the required conditions of the relevant designation power are no longer met in respect of the designation.

13. UK sanctions regimes are established through secondary legislation, and are subject to parliamentary oversight via the scrutiny processes set out in SAMLA. They are also regularly subject to parliamentary scrutiny through select committees and Parliamentary Questions. On 4 March, the Government published a Post-Legislative Scrutiny Memorandum for SAMLA, providing Parliament with an assessment of its first five years of operation. This followed the publication of the UK's first sanctions strategy in February.
14. The Government keeps all aspects of the legislative framework established by SAMLA under review to ensure it remains fit for purpose and will continue to do so.

We have received evidence indicating that some minor differences between UK and EU sanctions regimes have been justified in the context of the sanctions introduced since the Russian invasion of Ukraine. We note that, as a country outside the EU, the UK has the freedom to align its sanctions policy with the US, which can sometimes be more hawkish on sanctions than the EU. (Para 54)

Nevertheless, we received persuasive evidence that sanctions are most effective when imposed and enforced by as wide a coalition of countries as possible. Divergence between sanctions regimes results in gaps and loopholes, which weakens their overall effectiveness. This, in turn, reduces the impact that the imposition of sanctions seeks to achieve.

Recommendation 4: We therefore call on the Government to work with its international partners to ensure that divergence on the imposition and enforcement of sanctions regimes is as limited as possible.

Recommendation 5: We ask the Government to set out what steps it is taking to avoid the negative impact of divergence in its response to this report. (Para 55)

15. Sanctions work best when multiple parties act together to avoid loopholes. We work with our closest allies and partners to build strong sanctions coalitions, including across the G7 nations and with our Five Eyes and EU partners. This has been particularly important when agreement at the UN Security Council has not been possible, and enables us to agree shared objectives and to minimise divergence.
16. The Government is therefore committed to working with international partners to mitigate against the risks of divergence on sanctions – and our assessment is that we have been successful in so doing on Ukraine. Of course, as the Committee notes, there have been a limited number of occasions where some partners have moved faster in some areas, reflecting different interests and/or ease of acting, but we note that in some areas that has also served to motivate other partners to make progress and close the gap.
17. That does not mean that we should not work to minimise such instances with key partners. UK-EU coordination includes regular engagement at all levels with EU Institutions and Member States, including, as previously highlighted, a regular Sanctions Coordinators Forum bringing together senior officials from the EU and the G7. Working from UK embassies and posts, UK officials facilitate further coordination and information sharing in Brussels and individual EU Member States.

18. The same is true with the US. The 2023 Atlantic Declaration highlights the strength and depth of the US-UK collaboration on sanctions and sets out joint priorities. 2023 saw the inaugural UK-US strategic sanctions dialogue, with the US State Department hosting a cross-government UK team together with US departments and agencies for in-depth sessions. This complements routine collaboration and specific initiatives such as staff secondments.
19. As the Committee states in their report, effective coordination is about enforcement and implementation, as well as announcements. The OFSI has an ongoing Enhanced Partnership with the Office of Foreign Assets Control (OFAC) in the US to improve cohesion, cooperation, and implementation. This partnership is anchored by a shared vision for the effective implementation of sanctions through the active use of robust authorities, coupled with calibrated exceptions such as general licences and clear messaging and support to the private sector. OFSI also engages frequently with counterparts in the EU to improve cooperation. The new OTSI will perform a similar role on trade sanctions, working with international partners.

The UK's expertise in developing and implementing sanctions regimes is an asset which should be used more actively to support the capabilities of other countries, both EU and non-EU. The aim of sharing the UK's experience should be to ensure more effective implementation of sanctions by a wider range of countries.

Recommendation 6: In its response to this report the Government should provide details of what support it is currently providing to other countries. (Para 77)

20. We work with partners across the world on shared sanctions priorities. We are supporting others to develop their sanctions capabilities and routinely share expertise and best practice, including on implementation and enforcement. We also engage with questions and concerns globally about how sanctions operate – including addressing misinformation and pushing back on active disinformation about the intent and impact of sanctions.
21. In March 2023, the Prime Minister announced a new Economic Deterrence Initiative (EDI), with up to £50 million of funding to help strengthen our diplomatic and economic tools to respond to and deter hostile acts, including to strengthen sanctions implementation and enforcement. This has enabled us to expand our network of sanctions specialists overseas in order to build our collaboration with third countries, provide technical support and intensify our efforts to tackle circumvention.
22. We are delivering a programme of technical assistance with key partners. This includes a new unit within the OFSI to licence and enforce the Oil Price Cap (OPC). The unit will monitor the Cap's impact and will engage internationally to ensure successful implementation and effective tracking; as well as launching a sanctions curriculum and wider training capability, including for representatives of Overseas Territories administrations.
23. Technical assistance includes sessions in January and February in Kyrgyzstan, Georgia, Armenia, Kazakhstan and Uzbekistan as part of the continued efforts to ensure more effective enforcement of sanctions. The increased engagement and offer of UK assistance is resulting in the increased ability to identify emerging risks, gather intelligence and more effective implementation of sanctions.

We are concerned about growing evidence that Russia has been able to circumvent sanctions through third states and uninsured shadow tanker fleets. We welcome the Government's efforts to address this, in cooperation with our partners and allies, and in the current format of cooperation between envoys. Since the lifting of sanctions on Russia appears to be a distant prospect, circumvention will remain a challenge requiring ongoing cooperation.

Recommendation 7: We urge the Government, when replying to this report, to list the measures already taken in response to circumvention; and to set out their plans for more effective enforcement, including through closer and more effective cooperation with the EU and its Member States. (Para 78)

24. We will continue to work with the EU and US, and other allies to bear down on the supply of goods that feed Russia's military industrial sectors. We will do this by tightened sanctions, robust engagement with third countries and businesses, and strengthened implementation and enforcement.
25. In coordination with the EU and the US, we are targeting a Common High Priority (CHP) list of 50 items composed of Western items critical to Russian weapons systems and its military development. The CHP list will help businesses identify the most critical items with a view to focusing their efforts to prevent these items getting to Russia. We have published guidance to UK businesses on how to identify methods of circumvention and on mitigating the risk through due diligence and internal governance. We are also bolstering capability in key jurisdictions and providing technical support to countries to support them to tackle circumvention.
26. To ensure the OPC remains effective we have acted with the G7+ Price Cap Coalition to improve OPC compliance and enforcement. We have tightened the policy's compliance rules via a strengthened attestation model, which underpins compliance by requiring actors to retain and share pricing information for trades. This will increase transparency and further limit Russia's ability to circumvent the measure.
27. We also continue to narrow routes for circumvention and to disrupt malign actors in the maritime trade in Russian oil with targeted interventions. On 22 February, we sanctioned further third country entities and oil traders which operate and enable Russian 'shadow fleet' vessels.
28. We are also working with industry stakeholders to support them to comply with the OPC, including (via OFSI) publishing an alert for industry participants advising of risks and recommendations in identifying evasion methods. EDI funding has enabled OFSI to build expertise in implementation and work with industry and international partners to monitor the Price Cap's impact. OFSI is currently undertaking a number of investigations into suspected breaches of the OPC, using powers under SAML A to request information, working closely with G7+ Coalition partners.

The Government should work closely with the EU and other partners to explore possible options to make use of sanctioned assets (or their proceeds) to support the reconstruction of Ukraine. However, any mechanism to make use of Russian assets must be consistent with international law and must not damage the international financial system. We noted that the Foreign Secretary suggested to us that there is a legal route to achieve that.

Recommendation 9: The Government should outline what action it is taking on finding a legal route, including any discussions that it has had with the EU and other partners in its response to this report. (Para 92)

29. The Government reaffirms our commitment to coordinate with G7 allies to provide aid to Ukraine, including in obtaining compensation from Russia consistent with international law.
30. As we and G7 partners have stated over the past year, Russia's obligations under international law are clear: Russia must pay for the damage it has caused to Ukraine. How we ensure Russia does so is the subject of active G7 discussions.
31. The UK remains committed to working with allies to explore all lawful avenues through which immobilised Russian sovereign assets can be used to support Ukraine. In February, G7 Leaders tasked relevant government ministries to continue their work on this and to report back by the June Summit. It would not be appropriate to speculate on how the G7 discussions may conclude or offer a running commentary on this. We will keep the House updated on significant developments as appropriate.

Recommendation 11: We recommend that the Government should in the meantime consult with the EU on the design of any "off-ramp" arrangement through which sanctioned entities could be removed from the sanctions list if certain conditions are met, such as providing support for reconstruction of Ukraine. (Para 93)

32. Sanctions remain a key area of cooperation between the UK, US, EU and the rest of the G7, as outlined above. That dialogue includes discussions relating to reviews of designations in place.
33. Any consideration of whether sanctions designations should be maintained would be made on a case-by-case basis, taking into account individual circumstances. The determination of whether the UK will decide to delist or maintain an individual designation will not necessarily be consistent with other jurisdictions as a result of the differing legal bases under which sanctions have been imposed. There is also some variation between the individuals and entities which have been designated by the UK and other international partners.
34. As the Committee noted in their report, in June 2023 the Government announced a potential new route to enable sanctioned individuals who want to do the right thing to donate frozen funds for Ukrainian reconstruction. Should such a scheme be launched, any donation would be entirely voluntary and without encouragement or inducement, including in the form of sanctions relief.

We find it incomprehensible that the Government have not yet resolved the problems around the promised use of frozen assets from Chelsea FC's sale to support Ukraine. The unfulfilled promise made by Mr Abramovich at the time of the sale of Chelsea FC reflects poorly on him and the Government for not pushing for a more binding commitment.

Recommendation 12: We urge the Government to use all available legal levers to solve this impasse rapidly so that Ukraine can receive much needed, promised, and long overdue relief. All of the funds should be spent in territories controlled by the Ukrainian government. (Para 94)

35. We are working hard to reach an arrangement that delivers this money to humanitarian causes in Ukraine as quickly as possible.

36. Across Ukraine, the UN have estimated that over 14.6 million people (about 40% of the Ukrainian population living in Ukraine) will need humanitarian assistance in 2024. Upon transfer to the independent charitable foundation, the foundation's trustees will be responsible for ensuring all spending and activities comply with the law and the foundation's governing documents.

The evidence that we have considered, including from the Foreign Secretary, suggests that the arrangements for cooperation between the UK, the EU and other allies on sanctions that have been established over the past two years have been effective in responding to the crisis in Ukraine. (Para 104)

Looking beyond the current crisis to the longer-term, we consider that the objective should be to ensure that lessons learned from this intensive phase of international cooperation on sanctions are retained and applied in other contexts, including where there may not be the same level of unity among Western countries. To achieve that, we see value in a regular working arrangement between the UK and the EU on sanctions policy, covering other regimes as well as Russia and Belarus. There are different ways in which this could be achieved. It need not be an elaborate mechanism and could build on the working practices established over the past two years.

Recommendation 13: One option, which we have recommended previously, would be for the Government to seek to agree a memorandum of understanding with the EU on sanctions cooperation. (Para 105)

37. The UK enjoys a close relationship with the EU on sanctions. While we are open to different models in principle, the test is whether they deliver better outcomes. The Government has not seen evidence that a memorandum of understanding would make a significant difference. We would like to reassure the Committee that our work with the EU on sanctions is not just about Russia but covers both overall sanctions policy and frameworks, as well as the full range of our respective sanctions regimes, including human rights, Iran, Myanmar and the Middle East.

Although the Cold War-era Coordinating Committee for Multilateral Export Controls cannot simply be replicated in current circumstances, it established a precedent for an efficient and effective cooperation mechanism that operated successfully for almost 45 years.

Recommendation 14: We ask the Government to set out its view in response to this report on how best to achieve the objective of sustaining cooperation between the UK, EU, US and other like-minded democracies in implementation and enforcement of sanctions regimes in future. (Para 106)

38. The Government agrees on the importance of working with the EU, US and other close allies on the effective implementation and enforcement of our respective sanctions' regimes. We are committed to maintaining the informal and formal forums we have established to facilitate this.
39. The Government will continue to crack down on efforts to bypass our sanctions, including through closer cooperation with business and third countries.
40. We intend to continue to deliver joint diplomatic outreach alongside EU and US sanctions envoys. This activity has already yielded tangible results, with several countries introducing concrete measures to reduce the risk of sanctioned goods reaching Russia.
41. As a party to several multilateral export control regimes, including the Wassenaar Arrangement (a successor to the Coordinating Committee for Multilateral Export Controls), the UK is maintaining close cooperation with its partners in the G7, including the EU, to tackle circumvention. We have expanded our list of Common High Priority items – a list of Western goods critical to Russian weapons systems and its military development – from 45 to 50 and issued guidance on enforcement to businesses in our respective jurisdictions.

The UK-EU defence relationship

We welcome the leadership shown by the United Kingdom as the second largest supplier of military support for Ukraine, after the United States, and the encouragement this has provided to other European countries to supply.

Recommendation 15: The Government should continue to work with its European partners and allies in providing military aid to Ukraine for as long as it takes to reverse Russian aggression. (Para 125)

42. We agree – there can be no wavering in our support to Ukraine. In January, the Prime Minister announced £2.5 billion of new military assistance in 2024-25, including £200 million for drone procurement and production, designed to scale up numbers available to Ukraine while enhancing UK capabilities. He also signed an agreement on long-term security support for Ukraine, following our commitment in the Vilnius Declaration.

43. In February, the Foreign Secretary travelled to Poland, Bulgaria and then Germany for the Munich Security Conference, to co-ordinate with our partners on support for Ukraine, and to make the case for a major uplift in defence industrial production.

Recommendation 16: It is of utmost importance that the Government works with its allies to ensure continued supply of sufficient military support for Ukraine. Close UK-EU cooperation would be of particular importance in the case of a change of policy by a future US administration. (Para 126)

44. We agree that a robust pipeline of military aid is necessary to provide Ukraine with the support it needs to win the war. We are in constant contact with Ukraine and our partners over short and medium-term requirements.

45. The Foreign Secretary travelled to Washington in December 2023 to encourage early adoption of the Supplemental in order to secure US military and non-military funding for 2024. He has also been in touch with leaders in Congress and has set out his views in an article for The Hill.

46. We are in equally frequent contact with European partners. The Foreign Secretary discussed future military aid with his G7 counterparts at the Munich Security Conference and attended a meeting of Leaders hosted by President Macron in Paris on 26 February.

We are concerned at the delay of over a year to the UK's proposed participation in the PESCO Military Mobility project, which we previously identified as representative of a more pragmatic approach towards defence cooperation with the EU.

Recommendation 17: We ask the Government, in its response to this report, to provide an explanation for the delay and the steps being taken to overcome it. (Para 140)

47. The UK's application to join the PESCO Military Mobility project was approved by the Council of the EU on 15 November 2022. We then accepted a formal invitation from the Netherlands - serving as project coordinators – to join the project and started negotiations on an Administrative Arrangement (AA) to establish the terms of our participation. The AA is a Memorandum of Understanding (MOU) between the UK and the EU countries participating in the project, as opposed to with the EU itself, and is not a legally-binding agreement.

48. The former Minister for Europe noted in his evidence to the European Affairs Committee on 12 December 2023 that discussions are on-going, and so it would be inappropriate to provide details at this stage. Officials are currently engaging with project members, including the Netherlands, to advance the discussions.

Recommendation 18: In line with previous conclusions by this Committee, we recommend that the UK should consider seeking third-country participation in additional PESCO projects, including capability development projects, where this would be in the UK's interests.

Russia's invasion of Ukraine has inevitably increased the EU's ambitions for PESCO which, in turn, will have had an impact on the factors that the Government weighs when considering UK participation.

Recommendation 19: We therefore ask the Government to provide us with its latest evaluation of the many PESCO projects currently envisaged by the EU and whether it considers participation in any of them to be in the UK's interests. (Para 141)

49. The 2023 Integrated Review Refresh (IRR) states that the UK would seek to develop new forms of cooperation on issues of shared interest with the EU through direct cooperation, and mentions that this includes defence through PESCO.

50. At this time, the UK is prioritising efforts to join the Military Mobility project. Russia's invasion of Ukraine has underlined the importance of addressing any impediments to moving military personnel and assets across Europe at pace. This project presents an opportunity for the UK to contribute towards, and learn from, key Allies' efforts to enable military mobility in the Euro-Atlantic theatre of operations.

51. That said, our approach is driven by what would contribute to both our own and our allies' security and capability. While we do not currently have plans to join other projects, we remain open to considering those that present a strong rationale for UK-EU cooperation and that would be mutually reinforcing.

52. One of the constraints on that cooperation so far are the EU's standard 'third country' terms for PESCO projects involving procurement or capability development. We remain concerned that certain conditions for non-EU countries, particularly those governing export control and intellectual property rights, are likely to create obstacles to third country participation in the majority of PESCO projects. We therefore continue to advocate for improved 'third country' terms of participation for EU defence industrial initiatives, as well as for coherence with NATO.

Given that the EU's intention seems to be to expand the use of the European Defence Fund for defence procurement, it is a matter of regret that the current rules are a major obstacle to third-country participation, even when UK-EU strategic objectives are so closely aligned. Protectionism is not the way to build an efficient defence industry. (Para 159)

While we welcome bilateral and mini-lateral defence initiatives involving the UK and European partners, such as the Global Combat Air Programme, in our view the Government should also reinforce its efforts to engage with procurement projects linked to the European Defence Fund.

Recommendation 20: We urge the Government to press the case with the EU for changes to third-party rules that would facilitate greater UK engagement.

Recommendation 21: We ask the Government to provide us with an update on the steps that it has taken to address this issue in its response to this report. (Para 160)

53. As set out in our response to recommendations 18 and 19 above, UK Ministers and senior officials continue to raise concerns with EU interlocutors around the terms for participation by non-EU third countries in EU defence initiatives, which are typically more restrictive than rules for comparable collaborative projects through NATO and other multinational bodies. This is particularly the case for industrial and capability projects involving PESCO, and the European Defence Fund (EDF), as terms state that EU Member States (or EU owned companies) must be able to fully exploit and export the resulting capability without the approval of any third country partner or industry invested in the collaborative programme.

54. Although primarily intended to stop a third country blocking the further development and export of EU sponsored capabilities, these terms make it unattractive for third countries and their industry to be involved, even on a self-funded basis. While the current sums involved are limited in general defence procurement terms, these rules inevitably curtail the opportunity for the UK to work with European partners on some European collaborative programmes to our greater general benefit.

55. The Political Declaration published alongside the Withdrawal Agreement in 2019 stated that the UK and the EU would "consider" participation of UK entities in collaborative projects supported by the EDF, to "the extent possible under the conditions of Union law". We do not currently participate in the EDF and our initial assessment is that the provisions in the EDF for third countries would not deliver what we, or our industry, would need.

56. Full third-party involvement in the EDF is only open to members of the European Economic Area (EEA) and while entities in other third countries can participate in collaborative projects, they cannot be funded through the scheme. There are not currently any examples of this sort of arrangement.
57. This Government's policy is to promote greater NATO-EU cooperation around defence industry to help ensure the fewest possible barriers within the transatlantic industrial base. While it is the EU's choice to spend its central budget in a way that protects its members' interests, the war in Europe, increasing global instability and interlinked supply chains, mean we need to work together to achieve our shared goals.
58. We will continue to encourage the EU to consider fairer terms to permit third country participation in its' defence initiatives particularly in the coming months as the Commission begins to implement its new European Defence Industrial Strategy (EDIS). This includes dialogue on how we can work together to better align EU industrial initiatives with NATO activity, place NATO standards at the centre, and lift barriers to non-EU 'third country' participation that otherwise hampers our shared objective of supporting Ukraine.

Recommendation 22: Based on the evidence that we have considered we believe that, on balance, there would be benefits to the UK seeking to complement existing collaboration through an administrative arrangement with the European Defence Agency, similar to those reached between the EDA and other third countries such as Norway and the United State of America. Such an agreement would not impede existing cooperation, and would impose few obligations on the UK. But it could be a useful step towards wider cooperation with the EU on defence, based on the principle of reciprocity. (Para 172)

59. The UK has steadily increased defence engagement with the EU over the past year, working together to provide training and military equipment to Ukraine, maintain stability in the Western Balkans and pursuing deeper discussions on strengthening Europe's defence industrial capacity. We will continue to look for areas to strengthen UK-EU security and defence cooperation where it aligns with our interests to do so, including on countering disinformation, counter-terrorism, cyber, crisis management, state threats and organised crime. This will include engagement with partners regarding the implementation of the EDIS.
60. Specifically on the European Defence Agency (EDA), we acknowledge the benefits of EU/EDA initiatives, including the provision of munitions and equipment to Ukraine, efforts to replenish the stockpiles of partners and allies, and proposals to boost European industrial capacity and resilience for the longer term. Underpinning this, we also welcome the EU's stated commitment to cooperate closely with NATO and we continue to call for EU defence capability and industrial initiatives to deliver NATO capability requirements and to be open to all NATO Allies.
61. The Government may consider an Administrative Arrangement as an option in the future, but currently assesses that UK interests are sufficiently managed through NATO, bilateral engagement with Member States and an informal relationship with the EDA.

NATO remains the leading organisation for defending Europe and setting standards to facilitate military interoperability between European allies.

Recommendation 23: The UK should take advantage of its prominent role in NATO to take the lead on a plan to give operational effect to the call in the EU-NATO Joint Declaration for the “fullest involvement of non-EU NATO allies in the strategic partnership between the EU and NATO”. This plan could potentially include proposing revisions to the terms on which NATO members participate in EU-based defence initiatives. (Para 181)

62. While NATO is the bedrock of Europe's collective defence, coherence between NATO and the EU is essential. A strong NATO-EU partnership ensures that Europe has the tools it needs to respond to emerging threats and challenges. We welcome both institutions' commitment to work closely together, and will continue to push both institutions to deliver the NATO-EU Joint Declaration roadmap.
63. Collaboration between EU and non-EU partners, including in developing and procuring defence technologies, is vital for protecting long-term European security. The UK frequently raises concerns with EU counterparts on the issues around EU defence capability development and joint procurement initiatives, which we assess do not allow for meaningful participation by non-EU NATO Allies.
64. We also encourage the EU to review its defence initiatives' third country participation terms, for example as part of its European Defence Industrial Strategy (EDIS), noting the EU-NATO Joint Declaration's commitment towards “the fullest possible involvement of NATO Allies that are not members of the EU in its initiatives” and vice versa. Ministers and senior officials frequently engage in discussions with key EU counterparts on defence industrial matters and advocate for practical NATO-EU cooperation.

Reconstruction of Ukraine

The reconstruction of Ukraine will be a colossal undertaking, regardless of the ultimate outcome of the conflict. Although Ukraine's economy has underlying strengths and considerable future potential, the extent of the damage Russia's full-scale invasion has inflicted on Ukraine means that a huge programme of international assistance will be required over an extended period of time. (Para 191)

Reconstruction cannot wait until the war has finished. Much of Ukraine is in urgent need of international support for rebuilding. There is also potential to promote investment into parts of Ukraine that have been less impacted by the conflict. (Para 192)

Recommendation 24: It is imperative that governments and international organisations, including the UK and the EU, cooperate closely throughout the reconstruction process. This will prevent duplication and ensure that all international partners are working on the basis of a coherent programme that best meets Ukraine's needs. (Para 193)

We welcome the establishment of the Multi-agency Donor Coordination Platform for Ukraine, and that the UK has seconded an official to this body. The MDCP can be expected to perform a pivotal role as a forum for cooperation among supporters of reconstruction in Ukraine, including the UK and the EU.

Recommendation 27: We urge the Government to remain closely involved in its work over the coming years. We ask the Government to commit to updating the Committee periodically on the work of the MDCP. (Para 206)

65. Coordination with the UK's international partners on Ukraine's recovery and reconstruction is vital and remains a top priority for the Government.
66. The primary mechanism for international coordination is through the Multi-agency Donor Coordination Platform for Ukraine (MDCP), established by the G7 in January 2023. We are a member of the MDCP and have seconded a UK National Expert to help run its secretariat. The MDCP has been set up to mobilise donor funding, ensure support meets urgent needs and facilitate coordination across recovery and reconstruction activities and reform implementation. The MDCP comprises of the G7, the EU and Ukraine. We welcome the recent expansion of the Platform to other key donors: Norway, Sweden, South Korea and the Netherlands.
67. The Government will update the Committee periodically on the work of the MDCP.
68. We are also working closely with a range of international partners bilaterally to deliver reforms and economic support for Ukraine's recovery and reconstruction, including the EU and EU member states such as Germany, France, Italy and Poland.

We welcome the UK's close involvement in planning for reconstruction up to this point, including hosting the successful Ukraine Recovery Conference in London in June 2023.

Recommendation 25: The URC should continue to be an annual international event and we note that the next meeting will be in Berlin later this year. We therefore look forward to considering, in its response to this report, the Government's ambitions and priorities for this event, including any additional spending commitments in relation to reconstruction of Ukraine and/or specific projects to which the UK is committed. (204)

69. At the Ukraine Recovery Conference (URC) held in London in June 2023, partners committed over \$60 billion towards meeting the recovery and reconstruction needs of Ukraine, including a €50 billion EU facility, and a further \$3 billion in UK loan guarantees for World Bank lending to support Ukraine's economic stability. This is one of the highest funding totals raised during a reconstruction conference since the Second World War.

70. We are working closely with Germany and the Government of Ukraine, as co-hosts of URC 2024, and other international partners, to ensure we can build on the success of URC 2023. UK priorities for URC 2024 will be to continue enabling private sector investment in Ukraine and supporting the reform agenda. We welcome Italy's decision to host URC in 2025.

The London-based European Bank for Reconstruction and Development was set up to help Central and Eastern European countries from the former Soviet bloc to restructure and reform. It has the required expertise and experience necessary to support the reconstruction of Ukraine. (Para 205)

Recommendation 26: It should be given a prominent role.

71. The European Bank for Reconstruction and Development's (EBRD) strong, long-standing presence in the region, coupled with its private-sector focus, make it well-positioned to support Ukraine's economic recovery.

72. Since February 2022, EBRD has invested over €3bn into projects in Ukraine, in critical infrastructure, banking, tech and agribusiness sectors, complementing the fiscal support provided by other Multilateral Development Banks. It also has experience in implementing reforms that can unlock further inward investment into Ukraine.

73. As a shareholder and a development partner, the UK welcomes the progress and prominent role EBRD is playing in Ukraine's recovery. The Chancellor has confirmed UK support and participation in the €4 billion paid-in capital increase that the EBRD announced last year, which will enable the EBRD to scale its lending activities in Ukraine.

The UK has a strong reputation in Ukraine with expertise to offer in several sectors that will have an important role in reconstruction.

Recommendation 28: The Government should take full advantage of this and aim to perform a leading role, working closely with the EU and other partners, in areas such as encouraging private sector investment and engaging with the insurance industry. (Para 213)

74. The UK is offering support to Ukraine's recovery and reconstruction across many different sectors where we have expertise.

75. We recognise that the private sector will play an important role in reconstruction; this was a focus of the London URC in 2023. The UK is encouraging businesses to contribute their expertise and investment to help accelerate Ukraine's economic trajectory and harness its incredible potential. We host several sector-specific engagements with private businesses as forums to coordinate and co-develop solutions that can support recovery and reconstruction. This includes:

- The UK-Ukraine Private Finance Partnership, which works with private finance institutions to explore how leading UK-based firms can support the development of Ukraine's capital markets.
- The UK-Ukraine Infrastructure Taskforce, which works to highlight business opportunities and investment environments in Ukraine for UK businesses.
- The UK Strategic Trade and Industry Group, which supports the UK's engagement with senior business representatives on doing business with Ukraine.
- The UK supported TheCityUK to establish a "City-Ukraine Hub", a platform to harness expertise and offers of technical support from the UK's world-leading financial and related professional services.
- The UK-Ukraine TechBridge, launched in January, to support the rollout of industry-led initiatives around capacity building, facilitating R&D, and accelerating investment.

The UK has been a strong and reliable supporter of Ukraine throughout the conflict.

Recommendation 29: It is essential that the Government continues to prioritise support for Ukraine in the future, including after the fighting has ended.

76. In his visit to Ukraine in January, the Prime Minister signed a UK-Ukraine Agreement on Security Cooperation. The UK was the first of the 32 countries who endorsed the Vilnius Declaration to conclude such an agreement with Ukraine. The agreement formalises a range of support that the UK is providing for Ukraine's security, including intelligence sharing, cyber security, medical and military training, and defence industrial cooperation. The Agreement makes clear that we would provide additional support to Ukraine in the event of a future armed attack by Russia.

77. As the Prime Minister made clear, we will also develop an enhanced long-term partnership with Ukraine, building on the 2020 UK-Ukraine Strategic Partnership Agreement and the deep links and mutual affection forged between the people of the UK and Ukraine.

Recommendation 30: The Government should also continue to use all mechanisms available to it to encourage allies, including the EU and EU Member States, to remain focused on support for Ukraine. (Para 214)

78. We are in constant contact with our European, NATO and G7 partners to ensure that Ukraine receives the diplomatic, military and humanitarian support it needs.

79. The EU has been a steadfast support to Ukraine, committing over €88 billion to date. The European Council's agreement to a €50 billion multi-year (2024-2027) funding package for Ukraine is an important step for Ukraine, as was the European Council's decision in December 2023 to open accession negotiations with Ukraine.

80. During his visit to Washington in December last year, the World Economic Forum meeting in Davos in January, and at the Munich Security Conference in February, the Foreign Secretary set out our determination to support Ukraine for as long as it takes, and to maximise the collective strength of allied resources available to Ukraine in support of its goals. Together with our European partners, this is a shared priority.

Reconstruction will be closely linked to Ukraine's candidacy for EU membership. The drive to meet the criteria for EU membership is likely to serve as a lever for reforms to Ukraine's economy and public institutions. (Para 221)

Recommendation 31: The Government should therefore work closely with the EU and Ukraine to ensure that assistance provided to Kyiv serves the shared objective of bringing Ukraine into western institutions. This should include providing support for Ukraine in implementation of the reforms needed to meet EU accession criteria. (Para 222)

The UK is no longer a member of the EU and will have no direct influence on the next round of EU enlargement. But the EU's overall objective in pursuing enlargement (greater stability and security in Europe) is clearly in the UK's national interest as well.

Recommendation 40: There is therefore a strong case for using the UK's experience and expertise in reform and capacity building to support candidate countries during the enlargement process. In Ukraine, that would fit naturally with the UK's contribution to reconstruction and tackling corruption. (Para 291)

81. As a sovereign and independent country, Ukraine has the right to determine its own future, and the people and Government of Ukraine have made clear their ambition to join the EU and NATO. Decisions on EU enlargement are a matter for the EU and accession states. However, the UK is clear about our support for the Euro-Atlantic integration pathways of Ukraine and other candidate countries. We are actively supporting political, economic and governance reform in candidate countries, consistent with their aspirations.

82. The new UK-Ukraine Agreement on Security Cooperation sets out our reform expectations for the Government of Ukraine, in areas such as governance, anti-corruption, defence and security sector and economic and business environment. These are aligned with priority reforms areas set by the EU, NATO, International Monetary Fund (IMF) Benchmarks, and our G7 Partners.

83. Through our membership of the MDCP and the G7 Ambassadors' Group in Kyiv, the UK is driving a focus on essential reforms as part of Ukraine's recovery and reconstruction, including work on anti-corruption, judicial reform, and broader governance reforms.

Effective action in supporting Ukraine in its efforts to tackle corruption and strengthen its public institutions will be vital to creating an environment in which both public and private sector donors have confidence to invest in Ukraine and provide support for reconstruction. (Para 231)

Close coordination between the UK, EU and other allies on reconstruction, as we have recommended elsewhere in this Chapter, will contribute to minimising the risk that reconstruction funds are lost to corruption.

Recommendation 32: The Government should take a leading role with the EU and other international partners to support Ukraine in its efforts to tackle corruption and strengthen its public institutions. (Para 231)

84. Ukraine has made significant progress on strengthening public institutions and tackling corruption reform since 2014. At the same time, as the Government of Ukraine recognises, there remains more to do. We agree continued progress on reform is critical to support both private and public sector investment in Ukraine's recovery and reconstruction.

85. Strengthening public institutions and tackling corruption is a key priority in Ukraine's reconstruction efforts. The new UK-Ukraine Agreement on Security Cooperation sets out our reform expectations for the Government of Ukraine, aligning with priority reforms areas set by NATO, the EU, IMF, and our G7 partners.

86. The UK is driving a focus on anti-corruption and wider reforms through our membership of the MDCP, through convening international partners around this agenda and through providing technical assistance to the Government of Ukraine. For example, UK support has helped strengthen Ukraine's anti-corruption institutions. UK-funded expertise has also contributed to two landmark pieces of legislation on judicial reform. UK assistance on security sector reform has supported the introduction of transparent procurement systems.

Recent post-war reconstruction efforts in Europe, notably in the Western Balkans, have a mixed record in terms of achieving their longer-term objectives. The UK, the EU and other participants in the reconstruction of Ukraine should reflect on what lessons can be learned from this experience, including the effectiveness of mechanisms intended to incentivise reforms.

Recommendation 33: We ask the Government to provide us with its assessment of lessons that can be learned from previous experience in supporting post-war reconstruction and how these can be applied to Ukraine in response to this report. (Para 238)

87. The UK has significant expertise on early recovery and reconstruction. While Russia's invasion of Ukraine presents a different set of challenges to those of intra-state or civil wars (including Iraq, Afghanistan, Syria and Libya), two key overarching lessons can be drawn from the UK's experience in supporting post-war reconstruction.
88. First, we must be clear, measured and responsive in setting recovery and reconstruction objectives. Early recovery and reconstruction need to be part of a clear, phased, overarching strategy to supporting Ukraine - delivering that strategy requires civilian led leadership, and there is a need for international leadership and coordination to support this.
89. Secondly, recovery and reconstruction efforts need to align with Ukrainian-owned plans, and we need to move quickly to support early recovery. We must ensure all work is underpinned by political and conflict analysis in order to adapt to rapidly changing conditions on the ground.

The UK has an important role to play in providing the naval support to Ukraine necessary to facilitate trade through the Black Sea corridor.

Recommendation 34: The Government should continue to prioritise this as it will be essential to facilitating Ukraine's economic recovery in the short-to-medium term. (Para 247)

90. The UK has played an important role in supporting Ukrainian trade through the Black Sea and will continue to do so. Thanks to its recent military success, Ukrainian maritime export volumes are now at a higher level than at any time since the full-scale invasion, and this is increasing revenue and overall economic growth.
91. UK assistance includes the provision of military equipment needed to secure the corridor against Russian attacks, building international support for the corridor, helping ensure industry and shipping have commercial confidence in the corridor and encouraging similar support from international partners. In November 2023, an insurance facility developed by a UK based insurer with Ukraine led to a significant reduction in premiums for commercial shipping using the corridor.

Reconstruction cannot be successful in the long-term unless investors feel confident about Ukraine's long-term security. We therefore welcome the UK-Ukraine Agreement on Security Co-operation that was concluded in January 2024. Security guarantees will be most credible if they are provided by NATO.

Recommendation 35: The Government should set out in its response to this Report its policy on providing interim security guarantees for Ukraine. (Para 248)

92. As noted above, the Prime Minister and President Zelenskyy signed an Agreement on Security Cooperation on 12 January. This reflects our commitment to support Ukraine both now and for the long term.
93. 32 nations and the EU endorsed the Joint Declaration on Support for Ukraine, concluded at the NATO Summit in Vilnius last year. Among other things, this included an undertaking to make long-term commitments of support to Ukraine. The UK was the first country to deliver a final agreement; France, Germany, Italy, Canada, Denmark and the Netherlands have all now followed suit.
94. The Agreement makes clear that the UK will continue to provide security assistance, including intelligence sharing, cyber security, medical and military training, and defence industrial cooperation, as well as non-military assistance. It also commits the UK to consult with Ukraine in the event it is ever attacked by Russia again, and to provide "swift and sustained" assistance for Ukraine's defence.

Long-term implications for UK-EU foreign policy and security relationship

In response to the immediate threat to its security posed by the Russian invasion of Ukraine, the EU has made a concerted effort to take on a more “geopolitical” role, as envisaged in the Strategic Compass published in 2022. (Para 263)

It remains to be seen whether these developments represent a durable change in the EU’s geopolitical role. For example, the EU has not achieved a clear and united response to the conflict in Israel, Gaza and the wider Middle East, reflecting greater divisions between EU Member States than was the case in response to the Russian invasion of Ukraine. (Para 264)

Given the EU’s size and its geographical proximity to the UK, any change in the EU’s approach to foreign and security policy will be bound to have implications for UK national security.

Recommendation 36: The Government should therefore continue to monitor closely the evolution of the EU’s external policies when considering British foreign and security policy. (Para 265)

95. The Government agrees that the evolution of the EU’s external policies is important for the UK. From Eastern Europe to the Middle East, there is scope for us to work with the EU as a close and likeminded partner in an increasingly volatile international space.

96. The IRR made clear that as a sovereign and independent actor, the UK would work in coordination with allies and partners, such as the EU, as and where it is within our national interest to do so. A natural tenet of this work will be to discuss, monitor, and evolve our respective approaches as contexts change.

The EU’s strategic autonomy agenda is focused increasingly on economic security and resilience since the Russian invasion of Ukraine.

Recommendation 38: The Government should monitor developments in EU policy in these areas closely and consider what contribution the UK might be able to make to strengthening the resilience of Europe as a whole. (Para 276)

97. The Government sees that the UK and EU are broadly aligned in how we conceptualise and approach economic security issues. The European Commission’s Security Strategy stands as an example to this, demonstrated by its aims to strengthen resilience, to more effectively deploy tools already in place, and to partner with likeminded partners.

98. The IRR makes similar provisions and sets out the UK’s commitment to work with allies and partners, including the EU, to build and maintain robust, reliable international relationships to uphold global norms, defend global rules, and build global economic resilience in Europe and further afield.

99. Commitments in the IRR are underpinned by the National Security Council Economic Security sub-committee, which was established in January 2023 to oversee the delivery of the Government's economic security objectives. It is chaired by the Deputy Prime Minister and acts as a forum for coordination on areas that cut across departmental responsibilities, overall strategy setting, and collective agreement on economic security issues.

The respective approaches of the UK and EU to long-term strategic challenges such as relations with China and developing the European pillar of NATO are broadly similar.

Recommendation 37: We consider that there would be considerable mutual benefits to enhancing cooperation between the UK and EU on such issues. (Para 266)

100. The Government agrees that there are mutual benefits to enhanced cooperation with the EU on strategic challenges and enjoys a good level of cooperation here.
101. To use China policy as an example, aligning with partners is a central element of our 'protect, align, engage' strategy, and the EU is central to that. Their approach is well aligned with our own and that has been underlined over the past year with the statement of strategic approach from President von der Leyen and the then Foreign Secretary. At a more tactical level, we have held in-depth discussions with EU counterparts about China and have delivered well aligned messages to China on, for example, the Russian invasion of Ukraine.

Any future reduction in US support for Ukraine, and for wider European security, has the potential to leave Europe badly exposed.

Recommendation 39: The EU, EU Member States and other European partners, including the UK, should ensure that they are prepared for a scenario in which they may need to take on a greater share of the burden, despite all the difficulties. (Para 277)

102. We are clear that all partners need to continue to support Ukraine. The Foreign Secretary has, and continues to, make this point to his counterparts directly. The UK affirms that it will, together with Ukraine's partners, support Ukraine for as long as it takes to win the war and beyond.
103. Our long-term commitment is demonstrated through the historic UK-Ukraine Agreement on Security Partnership. It is welcome news that the EU finalised a long-term financial package worth €50 billion on 1 February, whilst European partners including France, Germany, Denmark, Italy and the Netherlands, as well as Canada, have since signed complementary long term bilateral agreements with Ukraine.

Potential enlargement has prompted a renewed debate about institutional reform within the EU. Should such reform happen, it could present both opportunities and risks for UK-EU cooperation.

Recommendation 41: The Government should monitor any developments closely and report to Parliament on their implications for UK-EU relations. (Para 292)

104. Matters of EU enlargement and institutional reform are for the EU and EU Member States. However, we are monitoring developments, particularly where there may be implications for UK interests and the UK-EU relationship. The Government will keep the Committee informed on its approach.

We welcome the Foreign Secretary's confirmation to us that the current ad hoc arrangements for cooperation with the EU on Ukraine have worked well. This reinforces the evidence we heard that the Russian invasion of Ukraine has created a new context for UK-EU engagement on foreign and security policy that was absent when the Trade and Cooperation Agreement was negotiated. (Para 301)

The nature and scope of the five-year review of the TCA remains unclear.

Recommendation 42: Nevertheless, given the change in context, the Government and the EU should consider which of the informal arrangements (operating outside the structures of the TCA) established to facilitate the UK and EU's response to the Russian invasion of Ukraine have been of particular benefit to both parties and merit being made permanent. (Para 302)

While acknowledging the Foreign Secretary's point that flexibility can sometimes be an advantage in responding to specific situations, we continue to believe that there would be considerable value in more structured arrangements for forward-looking cooperation between the UK and the EU in relation to longer-term challenges such as policy towards China. This would build on the successful experience of reactive cooperation with the EU since the Russian invasion of Ukraine, and it would complement relations with individual Member States and groups of them. (Para 303)

Recommendation 43: To facilitate this, the Government should approach the EU with a view to establishing more regular, forward-looking formats for cooperation on major foreign and security policy issues. (Para 303)

105. As noted earlier in the response, the UK has maintained constructive, regular and meaningful contact with the EU on issues related to Ukraine and wider foreign policy. Several formats and arrangements have been valuable, including the MDCP on financial support, UK-EU quarterly sanctions consultations, and the embedding of EU personnel in the UK's military training mission for Ukraine. Discussions and coordination within the G7 format (including EU representatives) have also been central to our joined-up response on Ukraine. The Government will continue working with the EU in all areas to support Ukraine to win the war, as well as to support Ukraine's recovery.

106. The Government's assessment is that our informal but regularised cooperation with the EU on foreign and security policy delivers on areas of mutual interest and benefit. As we have made clear throughout the inquiry, we are open to different options and will be guided by the outcomes cooperation will deliver, but we do not currently consider that bringing these within a formalised structure would lead to more effective coordination.
107. Our priority is the substance of our cooperation, less the structures through which it takes place. However, we are always evaluating how we can better deliver our international objectives with international partners, including the EU, and remain open to further discussions as and when they arise.