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Treasury Committee

Defeating Putin: the development, implementation and impact of economic sanctions on Russia

Twelfth Report of Session 2021–22

Report, together with formal minutes relating to the report

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The Russian economy, and its citizens, have already been substantially hit by the significant sanctions imposed by the UK and its international partners, and Russia faces both a significant hit to the size of its economy and significant inflation. One of the boldest moves in the financial sanctions package has been the sanctions levelled at the Russian Central Bank, which appear to have denied access by Russia to half of its reserves. The energy sanctions already imposed are likely to inflict significant damage on the Russian economy. If energy sanctions and reductions in demand are introduced in line with the statements made by the United States, EU, the UK and others then the impact on Russia's economy could be catastrophic and long lasting (paragraph 40).

Where there remain elements of the sanctions net around Russia not yet closed, including to allow energy payments and supplies, the Government should consider how to ensure there is minimal leakage (paragraph 41).

The sanctions against Russia are without precedent given the size of its economy and its integration with the West. The implementation of sanctions requires compliance action by the private sector. We are therefore concerned that guidance for those who have to implement sanctions has, at least in the initial stages, appeared to have lagged behind that available in the United States. ***The Government must, as a priority, ensure that its guidance is clear, precise and readily available, to allow the effective implementation of sanctions across the private sector (paragraph 49).***

The Government is right to see economic sanctions as a critical weapon in resisting Putin's war. As such the Government needs to consider increasing the Office of Financial Sanctions Implementation's resources without delay and to provide surge capacity in the form of staff with appropriate expertise (paragraph 50).

We welcome the reminder from the regulatory authorities to cryptoasset firms that cryptoassets are within the scope of the sanctions regime. ***We recommend that the Government take a watchful approach to how cryptocurrencies are used to potentially evade sanctions, and ensure it has the knowledge and expertise to effectively monitor developments in this area (paragraph 53).***

We note the caution expressed by witnesses about the impact of possible secondary sanctions. This is largely a matter for the Foreign, Commonwealth and Development Office, which will need to take into account the economic cost to the UK, but also the extent to which Russia circumvents Western sanctions through non-sanctioned Russian reserves and her trade with other countries (paragraph 56).

Despite producing significant amounts of oil and gas, the UK is not protected from the economic consequences of sanctioning Russian oil and gas production. The price paid for gas in the UK is dependent on the level of demand for gas in Europe. The

price paid for oil in the UK is dependent on the global price of oil. Further sanctions on Russian oil or gas will lead to higher prices which in turn will feed through to UK households and businesses (paragraph 64).

There will be a cost to the UK economy of the economic sanctions imposed on Russia. It is not possible yet to quantify that cost. But we believe that, on the information currently available, it is most definitely a cost worth bearing in order to aid Ukraine in opposing Russian aggression. However, that cost, combined with the already present pressures in the UK on the cost of living, will impact the whole country, and will be felt particularly by low income households (paragraph 76).

As the Government moves forward with its sanctions strategy, it must take further action to support UK households, in particular those on lower incomes, to manage the subsequent rise in energy and other costs (paragraph 77).

Business confidence has wavered in response to Russia's invasion of Ukraine. The Government should consider what steps can be taken to boost business investment and growth and specifically how it can help firms which have been directly affected by the economic sanctions against Russia. The Government should also look to accelerate the UK's transition to a more secure energy supply whilst also reaffirming their commitment to net zero and a just transition (paragraph 78).

1 Introduction

The invasion of Ukraine by Russia

1. On 24 February 2022, Russia began an invasion of Ukraine. In a statement to the House that same day, the Prime Minister made the following commitment in the face of Russia's aggression:

> Now we have a clear mission: diplomatically, politically, economically and eventually militarily, this hideous and barbaric venture of Vladimir Putin must end in failure. At the G7 meeting this afternoon, we agreed to work in unity to maximise the economic price that Putin will pay for his aggression. This must include ending Europe's collective dependence on Russian oil and gas that has served to empower Putin for too long, so I welcome again Chancellor Scholz's excellent decision to halt the certification of Nord Stream 2.
>
> Countries that together comprise about half the world economy are now engaged in maximising economic pressure on one that makes up a mere 2%. For our part, today the UK is announcing the largest and most severe package of economic sanctions that Russia has ever seen. With new financial measures we are taking new powers to target Russian finance. In addition to the banks we have already sanctioned this week, today, in concert with the United States, we are imposing a full asset freeze on VTB [a Russian bank].[1]

2. **We deplore the illegal and unprovoked invasion of Ukraine by Russia. The Prime Minister was right to insist that the UK, alongside its international partners, implement stringent economic sanctions against Russia.**

3. This Report considers the impact and effectiveness of sanctions currently imposed by the UK, and the scope for applying further sanctions.

HM Treasury, its associated public bodies and sanctions

4. The application of sanctions is co-ordinated across Government by various departments and units, each of which hold responsibility for discrete functions.[2] The Foreign, Commonwealth and Development Office (FCDO) is responsible for the UK's international sanctions policy, including all international sanctions regimes and designations, and it negotiates all international sanctions.[3] The Office of Financial Sanctions Implementation (OFSI), which sits within HM Treasury, is the authority responsible for the implementation of the UK's financial sanctions.[4] HMRC is responsible for enforcement against breaches of

1 HC Deb, 24 February 2022, cols 564-565

2 A previous Director of the OFSI, giving evidence to our predecessor Treasury Committee, described the Office of Financial Sanctions Implementation (OFSI) as "part of a single operation that needs to work together". See evidence from Rena Lalgie, Economic Crime, 10 October 2018, Q376

3 Office of Financial Sanctions Implementation, UK FINANCIAL SANCTIONS General guidance for financial sanctions under the Sanctions and Anti-Money Laundering Act 2018, December 2020, p9

4 Office of Financial Sanctions Implementation, UK FINANCIAL SANCTIONS General guidance for financial sanctions under the Sanctions and Anti-Money Laundering Act 2018, December 2020, p9

trade sanctions.[5] Other departments also have responsibilities in this area. HM Treasury is also the economics ministry of the UK, which includes the responsibility of "ensuring the economy is growing sustainably".[6]

5. While the Financial Conduct Authority is not responsible for enforcing asset freezes or sanctions, it expects financial firms to put in place systems and controls to mitigate the risk of financial crime, which includes ensuring that they meet their financial sanctions obligations.[7]

Our inquiry

6. On 3 March 2022, we announced that we would begin an inquiry into *Russia: effective economic sanctions.* We have taken as our terms of reference:

- The effectiveness of the current economic sanctions that have been imposed in relation to the invasion of Ukraine by Russia
- Scope for further possible economic sanctions in relation to the invasion of Ukraine by Russia
- Compliance with the sanctions and the scope for evasion
- The ability to take enforcement action against breaches, and the effectiveness of the enforcement regime
- The impact of sanctions on the UK, Russian and world economy
- The role of financial services in implementing sanctions, the impact of those sanctions on financial services, and the role of regulators.

7. So far we have held two oral evidence sessions:

- Monday 7 March 2022: Dr Justine Walker, Head of Global Sanctions and Risk at the Association of Certified Anti-Money Laundering Specialists; Natasha de Terán, payments policy expert; Tom Keatinge, Director at The Centre for Financial Crime and Security Studies (CFCS), Royal United Services Institute (RUSI); and Neil Shearing, Group Chief Economist at Capital Economics; and
- Monday 14 March 2022: Professor Jagjit Chadha, Director at National Institute of Economic and Social Research (NIESR); Tony Danker, Director-General at the Confederation of British Industry (CBI); Nathan Piper, Head of Oil and Gas Research at Investec (speaking in a personal capacity); and Dr Amrita Sen, Director of Research at Energy Aspects.

We would like to thank all those who have so far given evidence to us, especially given the speed at which they were called upon to do so.

8. In a fast-moving and constantly evolving situation, this Report reflects our views on 21 March 2022, when it was agreed.

5 Office of Financial Sanctions Implementation, UK FINANCIAL SANCTIONS General guidance for financial sanctions under the Sanctions and Anti-Money Laundering Act 2018, December 2020, p9
6 GOV.UK, About us [HM Treasury], accessed 14 March 2022
7 Financial Conduct Authority, Financial sanctions, Last updated: 24/02/2022, accessed 15 March 2022

2 Implementing sanctions

9. The nature of the economic sanctions being implemented against Russia is quite unprecedented. Tom Keatinge, Director at the Centre for Financial Crime and Security Studies (CFCS), Royal United Services Institute (RUSI), told us that "[…] we're in uncharted territory: using sanctions against a country that is so integrated with the west is unprecedented".[8] Dr Justine Walker, Head of Global Sanctions and Risk at the Association of Certified Anti-Money Laundering Specialists, said that "I would also really emphasise the point that we have never used sanctions in this way against another G20 country".[9]

Areas of sanctions

10. The inquiry has considered the effectiveness of economic sanctions in six key areas:

- Energy
- Central banking
- International financial messaging (SWIFT)
- Other financial services sanctions
- Self-sanctioning
- Kleptocrats and oligarchs

Energy

11. On 8 March 2022 the UK Government announced that it would phase out Russian oil imports, but not gas imports:

> The UK will phase out imports of Russian oil in response to Vladimir Putin's illegal invasion of Ukraine by the end of the year. The phasing out of imports will not be immediate, but instead allows the UK more than enough time to adjust supply chains, supporting industry and consumers. The government will work with companies through a new Taskforce on Oil to support them to make use of this period in finding alternative supplies. […] The UK is not dependent on Russian natural gas, making up less than 4 per cent of our supply. Ministers are also exploring options to reduce this further.[10]

According to a UK Government press release, Russian oil makes up 44 per cent of Russian exports and 17 per cent of Russian federal government revenue through taxation.[11]

12. Speaking before the Government's announcement on 8 March, Neil Shearing, Group Chief Economist at Capital Economics, told us:

8 Q2
9 Q2
10 GOV.UK, Press release: UK to phase out Russian oil imports, 8 March 2022, accessed 15 March 2022
11 GOV.UK, Press release: UK to phase out Russian oil imports, 8 March 2022, accessed 15 March 2022

> […] From an economic standpoint, if the objective is to hit Russia's economy, it is the energy sector that you need to touch. Clearly, there is a cost for the rest of the world that that entails. When news broke overnight of oil sanctions potentially being imposed, the price of oil spiked to just over $140 a barrel, so there would be a cost to the rest of the world were we to go down that route. […] but, as a rough rule of thumb, energy is about half of Russia's exports and about 15% of its economy—more if you include all the associated services.[12]

We consider later in this report the impact of energy sanctions, both upon Russia (in this chapter) and upon the UK (in paragraphs 57 to 64 in Chapter 3).

Central banking

13. On 28 February 2022, the UK Government, alongside similar moves by the United States, the European Union and Canada, announced restrictions on the ability of UK nationals and companies to undertake financial transactions involving the Central Bank of the Russian Federation (CBR), the National Wealth Fund, and the Ministry of Finance of the Russian Federation.[13] According to one estimate, the UK holds 4.5% of the CBR's reserves.[14]

14. Mr Shearing described the scale and effect of these sanctions:

> […] we have seen Russia's foreign exchange reserves and the foreign assets held at the central bank increased to just over $600 billion. They are parked in different currencies—dollars, euros, yen, sterling and so on. As a result of these sanctions, we have frozen just over half of those reserves, so those can't be used.
>
> The central bank cannot process any foreign exchange transactions, defend the rouble when the rouble collapses, sell its foreign exchange reserves and buy the rouble to prevent it falling further, or help domestic companies access foreign currency for transactions. So it has completely frozen the financial system in Russia, with respect to external transactions. As part of the modern global economy—what was the 11th-largest economy in the global economy—that has a huge effect.[15]

International financial messaging (SWIFT)

15. SWIFT, an acronym for The Society for Worldwide Interbank Financial Telecommunication, is a messaging system which allows banks around the globe to communicate quickly and securely about cross-border payments. It is a member-owned co-operative based in Belgium, made up of global banks.[16] On 2 March SWIFT announced that it would cut off seven Russian and three Belarusian banks from its system with effect from 12 March 2022:

12 Q3. See also Q66.
13 GOV.UK, News Story: UK Statement on Further Economic Sanctions Targeted at the Central Bank of the Russian Federation, 28 January 2022, accessed 15 March 2022
14 Statista, Who holds Russia's Central Bank reserves? 28 February 2022, accessed 15 March 2022
15 Q32
16 SWIFT, Organisation and Governance, accessed 15 March 2022

> Diplomatic decisions taken by the European Union, in consultation with the United Kingdom, Canada and the United States, bring SWIFT into efforts to end this crisis by requiring us to disconnect selected banks from our financial messaging services. As previously stated, [SWIFT] will fully comply with applicable sanctions laws.[17]

16. Pressure from the UK was influential in building international consensus to support this action. On 25 February 2022, the Prime Minister, on a phone call with other NATO leaders, urged leaders to take immediate action regarding SWIFT to inflict "maximum pain" on President Putin and his regime.[18] On the same day the Defence Secretary, Rt Hon. Ben Wallace MP, said:

> We would like to go further. We'd like to do the Swift system–that is the financial system that allows the Russians to move money around the world to receive payments for its gas–but […] these are international organisations and if not every country wants them to be thrown out of the Swift system, it becomes difficult.[19]

17. Natasha de Terán, a payments policy expert who gave evidence to us, described four elements necessary for international transfers to take place: the communications layer, an underlying economic incentive, willing counterparties, and an exchangeable currency or mutually acceptable assets. She described how removing the communications layer from Russian entities could complicate but not necessarily stop all international payments:

> The communications layer [such as SWIFT] is just one of those factors, but so long as there is the economic incentive and there are counterparts, you will sort out the other two things. That said, there is a question of scale. If I am a bank and I need to do a billion dollar oil transaction, I can make that possible by setting up a leased line and by sending a fax. It is problematic. It is risky, because clearly if I tell another bank to act on the receipt of a fax I am opening myself up to fraud and other risks. It is cumbersome. You cannot do an awful lot of low-value transactions that way, so it messes things up, but it only messes things up and complicates things in a terminal sort of way—if that is the aim—if that bank is subject to really multilateral sanctions. That takes us into the application of US secondary sanctions, which are probably the most exhaustive sanctions that there could be. We have not seen those exercised yet.[20]

Other financial services sanctions

18. Alongside the sanctions imposed by the UK's international partners on SWIFT, there have also been sanctions imposed by different jurisdictions on individual Russian financial institutions. A complex and sometimes unclear regime has resulted.[21] Not all Russian banks were subject to sanctions from the outset. Tom Keatinge, Director at the

17 SWIFT, An update to our message for the SWIFT community, 2 March 2022, accessed 15 March 2022

18 Prime Minister's Office, Press release: PM call with NATO leaders: 25 February 2022, 25 February 2022, accessed on 16 March 2022

19

20 Q5

21 Dr Walker Q11. See also infographic prepared by ACAMS setting out comparative measures as at 4 March 2022.

Centre for Financial Crime and Security Studies (CFCS), Royal United Services Institute (RUSI), told us that certain banks were still "untouched" because of the requirement for energy payments to continue to flow."[22]

Self-sanctioning

19. Since the start of the invasion, UK-based companies have announced an intention to divest from Russian investments[23], close their Russian operations[24] or cease to trade with Russian firms.[25] Tony Danker, Director-General at the Confederation of British Industry (CBI), describing the scale of this exodus, told us that "Everybody has been digesting this incredibly quickly, but on the whole, I think people universally have been saying that it is time to find ways to get out of Russia".[26]

20. Mr Keatinge noted this short-term response of firms to sanctions but suggested that this could change for some firms as uncertainty reduces:

> I think that we all agree that there is quite a lot of self-sanctioning […] People are deciding not to trade with Russia, not because they are not allowed to, but because they are just not quite sure what on Earth to do right now. There will come a point where that stasis in the system will begin to melt, and we must ensure that people understand what is and is not allowed, very clearly, at that point.[27]

21. However, Mr Danker, when asked whether this self-sanctioning was a longer-term process of divestment and distancing of business in Russia, told us:

> […] I do not think companies are trying to make long-term calculations about when this war might end or otherwise. I think they have made that calculation; they have made that judgment; and now they are seeking to exit the market.[28]

Measures against Russian kleptocrats and oligarchs

22. The UK Government has implemented sanctions against individuals associated with the Russian government.[29] Such sanctions have included asset freezes, prohibitions on transactions with UK individuals and businesses, travel bans and transport sanctions.[30] A recent example of this was the designation on 10 March of Roman Abramovich, where the Government noted that "He is one of the few oligarchs from the 1990s to maintain prominence under Putin".[31] Over 370 further individuals were sanctioned on 15 March

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22 Q3
23 BP, BP to exit Rosneft shareholding, 27 February 2022, accessed 15 March 2022
24 Linklaters, Update on Linklaters' Russia-related work, 4 March 2022, accessed 15 March 2022
25 BBC, Supermarkets remove Russian vodka from shelves, 4 March 2022, accessed 15 March 2022
26 Q119
27 Q42
28 Q117
29 Office of Financial Sanctions Implementation, Consolidated list of financial sanctions targets in the UK, last updated 15 March 2022, accessed 15 March 2022
30 FCDO, Press release: Abramovich and Deripaska among 7 oligarchs targeted in estimated £15 billion sanction hit, 10 March 2022, accessed 15 March 2022
31 FCDO, Press release: Abramovich and Deripaska among 7 oligarchs targeted in estimated £15 billion sanction hit, 10 March 2022, accessed 15 March 2022

2022, and the Government stated that it would "have designated over 1,000 individuals and entities since invasion under the Russia sanctions regime" by the end of 15 March 2022.[32]

23. Prior to those designations, concern had been expressed at the speed of the imposition of sanctions against individuals, and Mr Keatinge told us that, in this area, "the UK is not progressing well in contrast to our peers".[33] However, he also cautioned that "We should be going after these individuals, but I repeat: it has become a very unhelpful metric by which to judge how the UK is progressing."[34] He argued that "It is unfortunate that we have got so hung up on whether Mr X or Mr Y is subject to sanctions. In reality, as I think we all agree on this panel, what is going to crush—I use that word advisedly—the Russian economy, is not sanctioning Mr X and Mr Y".[35]

Illicit finance

24. The need for effective economic sanctions has also raised, again, concerns about the flow of illicit finance into the UK from Russia. The Government has recently, if belatedly, taken steps in this area through the Economic Crime (Transparency and Enforcement) Act 2022, which:

- introduces an overseas entities register for UK property, to give more clarity in future to where beneficial ownership of property lies;
- strengthens the ability to use Unexplained Wealth Orders for seizing assets;
- assists OFSI in imposing monetary penalties; and
- streamlines the process for applying economic sanctions, and reduces the areas in which damages can be paid.[36]

We also note that the Government has announced a new "'kleptocracy' cell" based in the National Crime Agency.[37]

25. We also note, however, that combatting illicit finance is essentially an objective of anti-money laundering tools rather than sanctions tools. Dr Justine Walker, Head of Global Sanctions and Risk at the Association of Certified Anti-Money Laundering Specialists, drew to our attention this distinction and its consequences:

> In my mind, those are two very different conversations, because the legal framework is very different. If you are trying to prove illicit wealth, and to seize assets on the basis of illicit wealth, you have to have grounds to prove that. However, if this is a sanction to do with proximity to Putin and closeness, it is a different type of conversation.[38]

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32 FCDO, Press release: Foreign Secretary announces historic round of sanctions on Russia, 15 March 2022, accessed 16 March 2022
33 Q46
34 Q46
35 Q46
36 Economic Crime (Transparency and Enforcement) Act 2022; and ECONOMIC CRIME (TRANSPARENCY AND ENFORCEMENT) BILL EXPLANATORY NOTES, prepared by the Home Office, March 2022
37 Gov.uk, Government takes landmark steps to further clamp down on dirty money, 28 February 2022
38 Q51

26. Our most recent Report on Economic Crime, published in February 2022, included recommendations on the introduction of an overseas entities register[39] and a series of recommendations to tackle money-laundering. A Government response to that Report is due in April 2022.

Sanctions: the impact on Russia

27. We invited witnesses to set out their assessment of the economic impact upon Russia of sanctions already imposed. Prior to our hearing, on 2 March 2022, the National Institute for Economic and Social Research (NIESR) had suggested that sanctions would lead to a 2.6% fall in Russian GDP next year in comparison to its previous forecast.[40] However, in evidence to us on 14 March 2022, Professor Jagjit Chadha, Director at NIESR, spoke of "a very large hit to activity in the Russian economy" and noted that, if further sanctions were to be imposed to shut off Russian energy exports:

> […] you could imagine those numbers at least doubling or even tripling from where we posited them last week, so to 5% or more in terms of the contraction in the Russian economy. Once we are into those sorts of numbers, we need to go from a quantitative statement to a qualitative statement, which is to say that that will be a very large hit on the Russian economy, which will be terribly problematic and will have a distributional consequence: it will be particularly damaging for those on fixed incomes or low wages.[41]

28. Neil Shearing, Group Chief Economist at Capital Economics, held a similar view, telling us that "you will get a fall in GDP of more than 5%, I'm sure, and probably closer to 10%. There is going to be an acute period of pain over the next 18 months to two years in Russia."[42] He believed that if energy was included in the sanctions package, the negative impact on growth "[…] becomes substantially larger—maybe [shrinking] 15% or 20%, so substantial hits to the real economy. That spreads through the economy but obviously hits Russian consumers particularly".[43] But he also noted that "I think that, unless something changes, Russia is now set on a path towards long-term economic isolation; and in those circumstances, there is going to be a period of less acute but persistent economic weakness—stagnation, if you like—for a long period".[44]

29. Alongside this hit to economic growth, Professor Chadha noted that "We currently expect [Russian] inflation to go into the region of 20% to 30%".[45] The Russian rouble has also devalued, and its exchange rate remains volatile. At the time of writing, it is around 25% lower against the US dollar than it was immediately prior to the invasion.[46] However,

39 Treasury Committee, Eleventh Report of Session 2021—22, Economic Crime, HC 145, para 247
40 National Institute of Economic and Social Research, The Economic Costs of the Russia-Ukraine Conflict, 2 March 2022, accessed 16 March 2022
41 Q129
42 Q65
43 Q35
44 Q65
45 Q130
46 Data taken from www.xe.com

given the lack of complete sanctions on Russian energy, Professor Chadha also noted that high oil and gas prices "[…] in foreign exchange terms has provided the Russian economy with a large hedge".[47]

30. Mr Shearing described the sanctions on the Russian Central Bank as "unprecedented for a G20 economy" and said that "they are principally what is causing the economic pain right now".[48]

31. Dr Amrita Sen, Director of Research at Energy Aspects, described the effect of denial of Russian access to SWIFT on firms' behaviour:

> Pretty much overnight, even if you take self-sanctioning out of the picture, companies really struggled, because SWIFT is the easiest way for payment. You immediately saw companies backing out and saying, "We are no longer going to deal with Russia".[49]

32. The Government observes that Russian oil exports are being harmed by self-sanctions that are not specific to oil and gas production:

> Russian oil is already being ostracised by the market, with nearly 70% of Russian oil currently struggling to find a buyer, and in a competitive global market demand will quickly be met by alternative suppliers.[50]

33. Dr Sen agreed that Russia's ability to export oil and gas is already being harmed by existing technology sanctions and self-sanctions by companies leaving the Russian market. She told us that even though Western technology could be replaced by China or India, "the technology is just not the same [and would mean Russia] will only be able to get maybe 60% to 70%"[51] of the full yield from its oil compared to using Western technology. Dr Sen also explained that Russian production is likely to be hampered by the economic sanctions imposed. She said:

> Russian production depends heavily on tax breaks given by the Government. These sanctions are crippling for the economy. Our economists think you could get Russian GDP going down by 20%, potentially. I know their official forecast is for 8%. There is no way that the Government will have money for tax breaks, which is what is required to produce in some of these more difficult areas.
>
> We absolutely think that, in the longer term, Russian production is crippled. Oil production is about 11 million barrels per day. Maybe it will struggle to get above 8 million or 9 million, even with Chinese and Indian help.[52]

34. Russia may also be impacted by the EU's announcement on the 8 March 2022 of its *REPowerEU: Joint European action for more affordable, secure and sustainable energy* plan outline, which aims to "reduce EU demand for Russian gas by two thirds before the end of the year." The plan also suggests that "phasing out our [the EU's] dependence on fossil

47 Q120
48 Q3
49 Q106
50 HM Government: UK to phase out Russian oil imports, 8 March 2022
51 Q107
52 Q107

fuels from Russia can be done well before 2030”.[53] On the same day that the EU announced its REPowerEU plan, the US announced bans on the importation of Russian crude oil, LNG and coal. It also banned new investment in Russia’s energy sector and prohibitions on Americans financing or enabling foreign companies that are making investment to produce energy in Russia.[54]

35. As for the potential impact on the Russian consumer, Mr Shearing told us that:

> We have seen some evidence of what I would call mini bank runs. I think that happened last week, and we are seeing less evidence of that this week, so that seems to have been snuffed out quite quickly. In terms of how this will be felt by ordinary Russians, there will be a variety of ways but principally there is going to much higher inflation and a squeeze on real incomes as a result. It is going to be much more difficult to get access to credit because of what is happening in the financial system.[55]

36. Dr Walker emphasised the impact for Russian citizens:

> We are just seeing people—as in, ordinary citizens—desperately trying to move money. We are hearing from colleagues in Russia about the challenges that they are facing now to access money: the interest rates [which have gone from 9.5% to 20%][56] and the impact. So I think the short-term impact that is having is very clear.[57]

37. Another potential consequence of sanctions could be Russia defaulting on its debts, and the impact of that. Mr Shearing provided the following description of the seeming resiliency of the Russian Government’s finances and the risk of a default:

> Russia’s Government balance sheet is, in order of magnitude, much stronger now. There is much less debt in the system. It is running budget surpluses—partly because of the fortress Russia point that we talked about.[58] The risk of an enforced default because they simply cannot afford to pay is much lower. There is a question of whether there is a selective default out of choice. Indeed, we have started to see some signs that that might emerge—among local currency bonds to foreign investors I suspect we will see non-payment, certainly of coupons in that area. It is a relatively small part of global financial systems. I do not think it would have major financial contagion. Obviously, in 1998, there was contagion. LTCM, a big hedge fund in the US, collapsed partly as a result of taking big bets on Russian debt. There is less of a big contagion risk this time around, but there is also potential for unanticipated consequences.[59]

53 European Commission, Press release: REPowerEU: Joint European action for more affordable, secure and sustainable energy, 8 March 2022
54 White House, FACT SHEET: United States Bans Imports of Russian Oil, Liquefied Natural Gas, and Coal 8 March 2022
55 Q35
56 The Economist, The Rouble’s collapse compounds Russia’s isolation, 28 February 2022, accessed 16 March 2022
57 Q65
58 Mr Shearing had said in answer to Q32: “’Since the Crimea annexation in 2014, Russia has been running a programme that people have called “fortress Russia” in terms of the economy—running large external surpluses, building up large stocks of foreign assets and cutting external liabilities, therefore diminishing vulnerability to measures like this.”
59 Q45

38. There have been suggestions from Russia that it could pay in roubles, even where US dollars are required. Fitch has said that such an action would constitute a default.[60] Were Russia to do so, it would represent its first external debt default since 1917. As reported in Reuters, "Russia's last major external debt default was over a century ago, when Bolsheviks failed to recognise Tsarist debt after the 1917 revolution". Russia did previously default on its internal debts in 1998.[61]

39. Following the invasion of Ukraine by Russia, each of the three major credit rating agencies has downgraded Russia's long term foreign currency debt, which is now all at "junk" rating level: Fitch's rating has fallen from 'BBB'[62] to 'C'[63]; S&P Global's has fallen from 'BBB-'[64] to 'CC'[65]; and Moody's rating has fallen from 'B3' to 'Ca'.[66]

40. **The Russian economy, and its citizens, have already been substantially hit by the significant sanctions imposed by the UK and its international partners, and Russia faces both a significant hit to the size of its economy and significant inflation. One of the boldest moves in the financial sanctions package has been the sanctions levelled at the Russian Central Bank, which appear to have denied access by Russia to half of its reserves. The energy sanctions already imposed are likely to inflict significant damage on the Russian economy. If energy sanctions and reductions in demand are introduced in line with the statements made by the United States, EU, the UK and others then the impact on Russia's economy could be catastrophic and long lasting.**

41. **Where there remain elements of the sanctions net around Russia not yet closed, including to allow energy payments and supplies, the Government should consider how to ensure there is minimal leakage.**

Guidance, compliance and enforcement

42. Witnesses commented on the importance of compliance and the provision of guidance to private sector firms, on which the burden of implementation largely falls.[67] Dr Justine Walker, Head of Global Sanctions and Risk at the Association of Certified Anti-Money Laundering Specialists, told us that she did "not think our compliance is probably very good, because the level we ask people to comply to is so complex". She did, however, point to investment by banks and global corporates in sanctions training and compliance, noting that "At the board level, in many ways, sanctions compliance is seen as a more critical issue than some of the other wider financial crime elements, because if you get it wrong from the US side in particular, it is very significant."[68]

60 Financial Times, Russia edges closer to averting default as JPMorgan processes bond payment, 17 March 2022, accessed 21 March 2022

61 Reuters, History of sovereign debt defaults, 15 March 2022, accessed 21 March 2022.

62 Fitch, Ration action commentary: Fitch Affirms Russia at 'BBB'; Outlook Stable, 3 December 2021, accessed 17 March 2022

63 Fitch, Rating action commentary: Fitch Downgrades Russia to 'C', 8 March 2022, accessed on 17 March 2022

64 S&P Global Ratings, Research Update: Russia Foreign Currency Rating Lowered to 'BB+' And Put on CreditWatch Negative On Risks Related To Invasion of Ukraine, 26 February 2022, accessed on 2022 and Financial Times, S&P cuts Russia to 'junk' as sanctions increase financial risks, 26 February 2022, accessed 17 March 2022

65 S&P Global Ratings, Research Update: Russia Foreign and Local Currency Ratings Lowered To 'CC' On High Vulnerability to Debt Nonpayment, Still on Watch Neg, 17 March 2022 and Financial Times, Russian bond interest payments flow through western financial system, 18 March 2022, accessed on 21 March 2022

66 Moody's, Rating Action: Moody's downgrades Russia's ratings to Ca from B3; the outlook is negative, 6 March 2022, accessed on 21 March 2022

67 See for instance Mr Keatinge Q9

68 Q92

43. Tom Keatinge, Director at the Centre for Financial Crime and Security Studies (CFCS), Royal United Services Institute (RUSI), called for "clear communication when the sanctions are issued, details that allow [firms] to understand precisely who or what is being sanctioned, and for them to be able to process that. At the moment, we do not have that to the level we need to have it."[69] He saw the US as the "gold standard" for issuing sanctions guidance.[70]

44. OFSI imposes monetary fines for breaches of sanctions and can pass suspected breaches of sanctions to the National Crime Agency (NCA) for further criminal investigation. The NCA provides support, including developing intelligence and providing specialist operational capability.[71] OFSI has imposed only six fines since it was set up in March 2016.[72] During this same period, the equivalent United States Office of Foreign Asset Control imposed 92 civil penalties (Penalties/Settlements) totalling $1,547,911,400.51.[73] However, Dr Walker cautioned that a "true picture" of OFSI's work should also look at the number of cases "opened and the number of nonenforcement-type actions that it has issued."[74] As we have noted above, the recent Economic Crime (Transparency and Enforcement) Act enables the Government to impose sanctions more quickly[75] and makes it easier to impose monetary penalties for breaches of sanctions.[76]

The role of OFSI

45. The Office of Financial Sanctions Implementation (OFSI), which is a part of HM Treasury, states that it "ensures financial sanctions are properly understood, enforced and implemented in the UK".[77] OFSI produces guidance for individuals and legal entities setting out its approach to licensing and compliance issues.[78] The latest published figures for the Office indicate that it has 37.8 full time equivalent staff.[79]

46. Witnesses questioned whether OFSI currently had the resources to undertake the twin tasks of compliance and enforcement, given the unprecedented scale of the task which it faced.[80] Mr Keatinge said that:

> If we had had this conversation two weeks ago, I would have said that is absolutely fine, but they are facing a mountain now. There is an important point on this. I have not seen any statements on OFSI, but I have heard the Foreign Secretary say there has been a tripling of capacity in the sanctions

69 Q93
70 Q9
71 NCA, Bribery, corruption and sanctions evasion, last accessed 16 March 2022
72 GOV.UK, Enforcement of financial sanctions, last updated 21 February 2022, accessed 16 March 2022
73 US Department of the Treasury, Enforcement Information 2022, 2021, 2020, 2019, 2018, 2017, 2016 . Note that the number and total value of fines are calculated from 31 March 2016 onwards. Excludes 'Additional Select Settlement Agreements'.
74 Q90
75 Economic Crime (Transparency and Enforcement) Act 2022 Part 3 Chapter 2 and Economic Crime (Transparency and Enforcement) Bill HL Bill 126 of 2021–22, Library Briefing, House of Lords Library, March 2022
76 Economic Crime (Transparency and Enforcement) Act 2022, Part 3 Chapter 1 and Economic Crime (Transparency and Enforcement) Bill 2021–22, Research Briefing Number 9486, House of Commons Library, March 2022
77 Office of Financial Sanctions Implementation, Bank of England, FCA, Joint Statement from UK Financial Regulatory Authorities on Sanctions and the Cryptoassets Sector, 11 March 2022, accessed 15 March 2022
78 OFSI, UK Financial Sanctions: General guidance for financial sanctions under the Sanctions and Anti-Money Laundering Act 2018, December 2020, accessed 16 March 20202
79 HM Treasury, HM Treasury Outcome Delivery Plan 2021 to 2022, 15 July 2021, accessed 16 March 2022
80 For instance Mr Keatinge Q85

> unit in FCDO. The question I have is: does that tripling of capacity have the expertise to deal with the challenge that is ahead? I think we need to make sure that whatever OFSI does to expand […] in order to meet the current challenge, we need to make sure that that expansion is not just people, but people with the necessary expertise.[81]

47. He added that:

> Obviously, the UK is faced with an unprecedented workload, and as I think we can all agree, OFSI was not set up to deal with what it is facing at the moment. We have to be realistic and, if you like, fair to it. The question is: how do we, as quickly as possible, ramp up capacity and ramp up guidance and everything that is needed? [82]

On expertise, and as way of example, he noted in relation to previous sanctions regarding the annexation of Crimea, that he had been told that no one involved with sanctions enforcement at that time could speak Russian.[83]

48. Dr Justine Walker, Head of Global Sanctions and Risk at the Association of Certified Anti-Money Laundering Specialists, provided the following comparison of the scale of the UK enforcement operation to other countries:

> […] It is very clear that there has been a long-standing conversation and question around UK enforcement action. In comparison with the US, we see a lot less enforcement action. We are obviously a smaller country. I would also say that if you are comparing numbers, as people are looking at numbers here, the Treasury—the [United States Office of Foreign Assets Control] OFAC side—has hundreds upon hundreds of staff, and it is only covering the OFAC element, not the wider Treasury aspect. We do not have the comparable resources, so it does really depend on who you are comparing us against.
>
> If you compare us against somewhere like the US, we do not meet that. If you compare us against many of our European partners, we look quite good, so it depends on what you are looking at. Yes, I would accept that there is maybe a reason to look at the enforcement numbers. Enforcement does focus compliance thinking.[84]

The US OFAC was reported to have had 204 staff in 2020, against authorisation for 259 full time equivalents.[85]

49. **The sanctions against Russia are without precedent given the size of its economy and its integration with the West. The implementation of sanctions requires compliance action by the private sector. We are therefore concerned that guidance for those who have to implement sanctions has, at least in the initial stages, appeared to have**

81 Qq86—87
82 Q9
83 Q91
84 Q90
85 US Government Accountability Office, Economic Sanctions: Treasury and State Have Received Increased Resources for Sanctions Implementation but Face Hiring Challenges, March 2020

lagged behind that available in the United States. ***The Government must, as a priority, ensure that its guidance is clear, precise and readily available, to allow the effective implementation of sanctions across the private sector.***

50. ***The Government is right to see economic sanctions as a critical weapon in resisting Putin's war. As such the Government needs to consider increasing the Office of Financial Sanctions Implementation's resources without delay and to provide surge capacity in the form of staff with appropriate expertise.***

Sanctions evasion: Cryptocurrencies

51. Following the imposition of financial sanctions on Russia, there was a concern that cryptocurrencies might be used to evade those sanctions. However, Mr Keatinge, while accepting that "we need to keep an eye on the crypto ball", noted that "the volume of financial access that the Russian Government will need to evade sanctions is not something that the crypto sector could support."[86] He went to add: "I am not convinced that, right now, [focusing on cryptocurrency] is a major determinant of our objective—which is to crush the Russian economy and make Vladimir Putin think again or make him unable to fund his military—or that it will change that calculation".[87]

52. On 11 March 2022, OFSI, the FCA and the Bank of England issued a joint statement on sanctions and the cryptoasset sector, which included a reminder to firms that:

> Financial sanctions regulations do not differentiate between cryptoassets and other forms of assets. The use of cryptoassets to circumvent economic sanctions is a criminal offence under the Money Laundering Regulations 2017 and regulations made under the Sanctions and Anti-Money Laundering Act 2018.[88]

53. **We welcome the reminder from the regulatory authorities to cryptoasset firms that cryptoassets are within the scope of the sanctions regime.** ***We recommend that the Government take a watchful approach to how cryptocurrencies are used to potentially evade sanctions, and ensure it has the knowledge and expertise to effectively monitor developments in this area.***

Secondary sanctions

54. Secondary sanctions are intended to put pressure on third parties to stop them carrying out business with a sanctioned entity. If the third party fails to stop dealing with the sanctioned entity, it will also be cut off from the sanctioning country.[89]

55. Witnesses noted the additional foreign policy concerns and economic costs that secondary sanctions might entail. Mr Keatinge explained that imposing secondary sanctions on third party countries who are "sitting on the fence at the moment" could "antagonise them" when "they clearly might play a role in resolving this conflict."[90] When

86 Q53
87 Q58
88 Office of Financial Sanctions Implementation, Bank of England, FCA, Joint Statement from UK Financial Regulatory Authorities on Sanctions and the Cryptoassets Sector, 11 March 2022, accessed 15 March 2022
89 Atlantic Council, Secondary sanctions: A first glance, 6 February 2018, accessed 16 March 2022
90 Q16

asked about imposing economic sanctions on Chinese companies if they help Russia to evade the worst of the sanctions, Tony Danker, Director-General at the Confederation of British Industry replied: “I think that is a political judgment, but I think the one thing that we have learned from this discussion is that there is no such thing as cost-free economic warfare. I would ask the policy makers to think thoughtfully about some of these responses.”[91]

56. **We note the caution expressed by witnesses about the impact of possible secondary sanctions. This is largely a matter for the Foreign, Commonwealth and Development Office, which will need to take into account the economic cost to the UK, but also the extent to which Russia circumvents Western sanctions through non-sanctioned Russian reserves and her trade with other countries.**

91 Q148

3 Economic impact upon the UK

Impact of sanctions on Russian oil and gas

57. The UK is a significant producer of both crude oil and petroleum products, and oil imports from Russia account for eight per cent of total UK oil demand. In addition, the UK imports oil from various countries including the Netherlands, Saudi Arabia, and USA.[92] However, while none of the UK's petrol is derived from Russian oil imports, 18 per cent of the UK's diesel demand is sourced from Russia.[93]

58. While the UK does not use significant quantities of Russian oil and gas in aggregate, we were told that increases in global energy prices as a result of sanctions on Russian production would still be passed on to the prices the UK pays. Dr Amrita Sen, Director of Research at Energy Aspects, told us that this was because the global oil price "is set by the marginal buyer, […] whoever is the last buyer is the price of oil."[94] She went on to explain that due to pre-existing supply constraints, combined with new concerns in the market about whether Russian oil would be sanctioned and therefore unable to reach the market, prices for oil were rising substantially:

> The fundamental point is that we were already headed to $100 oil, even prior to the Russian crisis. What [potential sanctions] have done is to bring more fear into the market about potentially losing Russia, which is one of the biggest producers of oil and gas in the world. Even if China and India continue to buy that oil—there will be some production losses. […] We just do not have the spare capacity anywhere else—OPEC in particular—to compensate for that Russian loss. That is why we saw oil prices, obviously volatile, go up to almost $140, although they have come back down to $110.[95]

Nathan Piper, Head of Oil and Gas Research at Investec, but speaking in a personal capacity, told us that:

> If more stringent sanctions are imposed on Russia and 5 million barrels a day is truly taken out of the market, the oil price really has—not quite no ceiling, but it will rise up a lot before the demand destruction kicks in to maybe bring it back down again. For a consumer through 2022, they need to get ready for what could be continued increases in fuel prices.[96]

59. When we asked our witnesses how much petrol and diesel might cost on station forecourts, they said petrol could rise to £2.40 per litre,[97] and diesel could reach £3 per litre.[98] We heard that the price for diesel fuel would rise higher than petrol because, unlike petrol, the UK was not self-sufficient in diesel.[99] Mr Piper told us that:

92 HM Government: UK to phase out Russian oil imports, 8 March 2022
93 HM Government: UK to phase out Russian oil imports, 8 March 2022
94 Q95
95 Q95
96 Q104
97 Q102
98 Q104
99 Q103

> Europe imports 50% of its diesel from Russia. We are seeing how interconnected we actually are. Diesel prices have spiked, just as oil prices have, because diesel runs the world. Diesel runs the shipping lanes, the trains, the cars—everything. Diesel is probably the one we have the most exposure to, in terms of sharp price movements.[100]

Dr Sen agreed and told us that diesel use "tends to be more inelastic, because there is a lot of trucking".[101]

Would the UK be affected by gas sanctions?

60. We queried whether sanctions on Russian gas would affect the UK. Dr Sen told us that even though the UK produces significant amounts of domestic gas, it was "not isolated" and that "you are ultimately linked to what's going on in Europe".[102] Mr Piper told us that "while oil is a global market, gas is a regional market"[103] and that "the import price sets the gas price in Europe and in Asia".[104]

61. If the UK or the EU were to look to reduce their dependency on Russian gas, it is not clear where the replacement supply would be sourced from. Dr Sen told us that "Asia was not going to give its gas contracts away".[105] Stored gas would also not be able to offer an alternative supply to Russian gas in winter because storage levels were currently very low.[106] Logistically, gas is harder to transport around the world than oil. Mr Piper said that the infrastructure to replace Russian gas in the European region did not yet exist:

> Europe does not have the LNG [Liquefied Natural Gas] import infrastructure—the terminals where you can land LNG vessels and offload the gas to fill those storage facilities. It does not have the capacity of those terminals to replace the Russian volumes.[107]

62. Mr Piper explained that even before the Russian invasion of Ukraine gas prices were already at a historically high level:

> Fundamentally, Europe and Asia are short of gas. We do not produce enough of our own gas. Europe is 70% dependent, and the UK is 50% dependent on imports. There was less wind than expected [in 2021]. […] Coal-fired power is being closed down and because nuclear has been closed down, gas is the only back-up, so gas demand was increased as well.[108]

Impact on households

63. Mr Piper told us that as a result of the tight supply in the European gas market, the impact on UK household gas and electricity bills would be significant:

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100 Q104
101 Q104
102 Q97
103 Q158
104 Q98
105 Q97
106 Q97
107 Q98
108 Q98

> … in June last year … the UK gas price was 70p a therm, which seems like nothing now, but that is 50% above the 10-year average. To give you just a few points of reference, the 10-year average is 50p a therm. It was trading at 70p a therm in the summer of last year. That is really when storage should have been filled, but it was not. […] What you saw was a build in the price, all the way up to 450p a therm, before Christmas. […] From a consumer point of view, we already know the average energy bill will move up to £2000 a year from April. The key thing is that the input price is 126p a therm. The year-to-date average gas price is about 225p, so bills in October are going to go up again, and by quite a margin. What you are going to see is a doubling in people's energy bills year on year, because the gas price sets the electricity price in the UK.[109]

64. **Despite producing significant amounts of oil and gas, the UK is not protected from the economic consequences of sanctioning Russian oil and gas production. The price paid for gas in the UK is dependent on the level of demand for gas in Europe. The price paid for oil in the UK is dependent on the global price of oil. Further sanctions on Russian oil or gas will lead to higher prices which in turn will feed through to UK households and businesses.**

Macroeconomy and the cost of living

UK macroeconomic outlook

65. We heard from our witnesses that the economic sanctions imposed on Russia to date will have an impact on the UK economy. Tom Keatinge, Director at the Centre for Financial Crime and Security Studies, Royal United Services Institute, said that he wrote in December "that we are not going to be able to put the sanctions on Russia that we are promising without creating self-harm".[110]

66. Neil Shearing, Group Chief Economist at Capital Economics, outlined what that cost might be, telling us that it would run through three channels: the impacts on trade, financial linkages, and commodity prices and inflation.[111] On trade he explained that:

> Our trade linkages with Russia, in a direct sense, are not particularly large—our exports of goods and services to Russia make up about 0.2% of GDP. I think you can expect those to pretty much dry up all together, at least for the foreseeable future—for the next quarter or two. That is an economic hit. Those costs might be concentrated in one or two sectors, or on one or two firms, so there might be some pain there.

On commodity prices he noted that:

> […] far and away the most significant hit to the UK economy at the moment will come through the effect on energy prices and the cost of our imports. That is not because we import a lot from Russia, but because global prices have gone up. As a result of everything that has happened so far,

109 Q98
110 Q15
111 Q70

> since the start of the conflict, I would estimate that it has added about 1% to inflation versus our pre-conflict baseline. All other things being equal, that will mean another 1% hit to real incomes. Then, the pass-through to the size of the economy depends on what the Government do to take steps to mitigate that effect. If they don't do anything, it could shave about 0.25% to 0.5% off GDP, compared with where we were before. That is not to say that the economy is going to shrink; it just won't grow by as much as we had anticipated.
>
> Clearly, if it escalates to the extent that we include energy within sanctions, those effects will get much bigger. As a broad rule of thumb, I would perhaps double the size of the hit to the economy and the increase in inflation.[112]

67. We asked Professor Jagjit Chadha, Director at the National Institute of Economic and Social Research, about the scale of the impact on the UK economy and the likelihood of an oil price shock similar to 1973, which saw the UK face high inflation and interest rates. He replied that while inflation was likely to peak at 7 to 8 per cent or higher this year, it was too early to tell whether it will reach the levels of the 1970s. He explained that there were a number of shocks in the 1970s, including oil and commodity prices as well as "the loss of the monetary anchor". However, he noted there is now "an inflation target pursued by the independent Bank of England, which is one thing we didn't have in the 1970s."[113] On the outlook for growth of the UK economy, Professor Chadha added that "growth will be slower—somewhere in the region of 1% down this year and 0.5% lower next year on current forecasts."[114]

68. Regarding the long-term impact for UK businesses operating in Russia, given the threat by the Russian President to seize the assets of international companies exiting Russia, Mr Tony Danker, Director-General at the Confederation of British Industry, said:

> Obviously, I think that closes Russia as a market to us for a considerably longer time than anyone would have imagined. That is the implication. For Britain, which does not export or import in massive amounts to Russia, it is not a devastating hit, but it is a closed market for the medium to long term. That is the implication. [115]

UK cost of living and impact on business

69. The potential impact of sanctions has added to concerns about the cost of living. In a recent report on living standards, the Resolution Foundation concluded that "High inflation will make falling real household incomes the defining economic feature of 2022." The report identified "the wholesale prices of gas and oil, which increased rapidly following the re-opening of the global economy, and have increased sharply again since Russia invaded Ukraine" as the main drivers of high and rising inflation.[116] Tony Danker,

112 Q70
113 Q131
114 Q132
115 Q118
116 A Corlett & L Try, The Living Standards Outlook 2022, Resolution Foundation, March 2022, p. 5 (Accessed 15 March 2022)

Director-General at the Confederation of British Industry, provided the following description of the impact of Russia's invasion of Ukraine and subsequent economic sanctions on the cost of living in the UK:

> On consumer confidence and cost of living, right now it is particularly acute for those people on low incomes. There are still some household savings elsewhere in the economy, but people on low incomes are already suffering, and they are about to suffer more on fuel bills, food costs and so on. I think we will probably have later in the year an impact on aggregate consumption, and therefore growth. I think one would have to say, given the inflationary pressures from the energy impact, you are going to see aggregate consumption hit later in the year. That is growth challenge No. 1.[117]

Mr Danker also added that business confidence was starting to waver. He said that on the whole there had been "high levels of optimism" from businesses about three months ago and that had been still the case until very recently, but things had changed since the start of the Russian invasion of Ukraine.[118]

70. The cost of living impact on low income households described by Mr Danker needs to be set alongside impacts from other sources, including Government policy measures. On 31 January, prior to the Russian invasion of Ukraine we took evidence from several witnesses on the cost of living. Robert Joyce, Deputy Director, Institute for Fiscal Studies, told us then that initial 'overnight' effects from April 2022 of rises in energy prices and the increase in national insurance would hit all households.[119] He described the combined effects of all the measures across the year:

> Taking the year as a whole, comparing next year with last year, which is also important because there are a lot of other things going on, it is clearer that the bottom overall will be having a worse year. That is mostly because, if you compare where they are now with where they were a year ago, they have lost about £1,000 a year in Universal Credit, if they were on that.
>
> In combination with a slightly higher rate of inflation over the year as a whole faced by the poor, and the loss of that—albeit always temporary—increase in Universal Credit, over the year as a whole they will have seen more of a deterioration. It is less so for some of them: those who are both in work and on Universal Credit benefited from increases in Universal Credit in December.[120]

71. During the same evidence session, Torsten Bell, Chief Executive of the Resolution Foundation, agreed with this general outline, noting that:

> The whole country is going to feel squeezed through 2022, and lower-income households are going to struggle most to deal with that. As Robert said, the

117 Q133
118 Q133
119 Oral evidence taken on 31 January 2022, HC (2021–2022) 1094, Q7 [Robert Joyce]
120 Oral evidence taken on 31 January 2022, HC (2021–2022) 1094, Q7 [Robert Joyce]

> key issue is less on the cost size and more on the income side, where you see really hard questions for the lowest-income households, because of the £20 a week removal from Universal Credit.[121]

In a follow-up analysis on this point, the Resolution Foundation noted that:

> We have calculated that around 1.6 million families (all of which are claiming Universal Credit and in-work) will have a higher net household income (after housing costs and in real-terms) from before the pandemic to 2022–23, after taking into account: the increase in earnings; the increase in worker National Insurance contributions with the Health and Social Care levy; the increasing cost of living (including the energy price rise); the reduction in the UC taper rate from 63% to 55%; the £200 energy rebate to all households; and the £150 Council Tax rebate to all Households in bands A to D.
>
> To be clear, the rising cost of energy bills are included in the results, but are a part of the broader increase in prices in line with the Bank of England's inflation forecast. We have assumed inflation effects all households equally.
>
> On average we expect these 1.6 million [Universal Credit] families who will be better-off to have £880 more in household income (4.9%) in 2022–23 compared to 2019–20 (after housing costs and in real-terms). However, we also calculate that around 630,000 low-earning [Universal Credit] families in-work will be worse-off by an average of £830 per year (- 4.2%), and 2.4 million out-of-work [Universal Credit] families to be worse-off by an average £560 per year (-3.3%).[122]

Recommendations to the Government

72. Given these pressures on the cost of living, both pre-existing and stemming from the invasion and resulting sanctions, our witnesses provided the following potential recommendations to the Government. Professor Chadha recommended the following:

- rethinking the tapering of the universal credit and considering whether the scheme ought to be extended;
- introducing a winter grant scheme at local authority level to help households with rising energy bills;
- providing more Government support for food banks;
- considering delaying the National Insurance tax hike and considering an alternative such as a temporary income tax rise on higher earners; and
- providing study grants and support for higher and further education colleges.[123]

121 Oral evidence taken on 31 January 2022, HC (2021–2022) 1094, Q7 [Torsten Bell]
122 Correspondence from the Resolution Foundation relating to 'The cost of living' session, dated 8 March 2022
123 Q136

73. However, Dr Sen told us that "On subsidising households […] The cost is anywhere between £25 billion and £50 billion to £60 billion. If we are talking about the poorer households, those kinds of subsidies will have to be given and announced".[124]

74. Given his concerns about business confidence described earlier, Mr Danker recommended the following:

- The Chancellor should consider extending the tools used during the onset of the Covid-19 crisis e.g. the business interruption loan schemes, to support UK businesses in the current climate;
- The Government should institute measures to unlock more business investment, including building skills incentives and improving business confidence;[125] and
- In relation to energy, the Government should "double down on renewable and clean energy solutions"[126], take advantage of the UK's success in offshore wind and unlock private sector investment in renewable energy.[127]

75. On the cost of these proposals, Dr Sen told us that "On Tony [Danker's] point about renewables, we think we need at least $20 billion a year in investment in renewables. Again, that can lift business confidence, and at least helps mitigate the impact on the economy".[128]

76. **There will be a cost to the UK economy of the economic sanctions imposed on Russia. It is not possible yet to quantify that cost. But we believe that, on the information currently available, it is most definitely a cost worth bearing in order to aid Ukraine in opposing Russian aggression. However, that cost, combined with the already present pressures in the UK on the cost of living, will impact the whole country, and will be felt particularly by low income households.**

77. ***As the Government moves forward with its sanctions strategy, it must take further action to support UK households, in particular those on lower incomes, to manage the subsequent rise in energy and other costs.***

78. ***Business confidence has wavered in response to Russia's invasion of Ukraine. The Government should consider what steps can be taken to boost business investment and growth and specifically how it can help firms which have been directly affected by the economic sanctions against Russia. The Government should also look to accelerate the UK's transition to a more secure energy supply whilst also reaffirming their commitment to net zero and a just transition.***

124 Q140
125 Q134
126 Q134
127 Q139
128 Q140

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Monday 7 March 2022

Dr Justine Walker, Head of Global Sanctions and Risk, Association of Certified Anti-Money Laundering Specialists, **Natasha de Terán**, Payments policy expert, **Tom Keatinge**, Director, The Centre for Financial Crime and Security Studies, RUSI, and **Neil Shearing**, Group Chief Economist, Capital Economics Q1–93

Monday 14 March 2022

Professor Jagjit Chadha, Director, National Institute of Economic and Social Research, **Tony Danker**, Director-General, the Confederation of British Industry, **Nathan Piper**, Head of Oil and Gas Research, Investec (in a personal capacity), and **Dr Amrita Sen**, Director of Research, Energy Aspects Q94–162

Formal minutes

Monday 21 March 2022

Members present:

Mel Stride, in the Chair

Rushanara Ali

Anthony Browne

Gareth Davies

Dame Angela Eagle

Emma Hardy

Julie Marson

Siobhain McDonagh

Alison Thewliss

Draft Report (*Defeating Putin: the development, implementation and impact of economic sanctions on Russia*) proposed by the Chair, brought up and read.

Ordered, That the Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 78 read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Twelfth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Adjournment

[Adjourned until Monday 28 March 2022 at 11.30 am

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2021–22

Number	Title	Reference
1st	Tax after coronavirus: the Government's response	HC 144
2nd	The appointment of Tanya Castell to the Prudential Regulation Committee	HC 308
3rd	The appointment of Carolyn Wilkins to the Financial Policy Committee	HC 307
4th	The Financial Conduct Authority's Regulation of London Capital & Finance plc	HC 149
5th	The Future Framework for Regulation of Financial Services	HC 147
6th	Lessons from Greensill Capital	HC 151
7th	Appointment of Sarah Breeden to the Financial Policy Committee	HC 571
8th	The appointment of Dr Catherine L. Mann to the Monetary Policy Committee	HC 572
9th	The appointment of Professor David Miles to the Budget Responsibility Committee of the Office for Budget Responsibility	HC 966
10th	Autumn Budget and Spending Review 2021	HC 825
11th	Economic crime	HC 145
1st Special	Net Zero and the Future of Green Finance: Responses to the Committee's Thirteenth Report of Session 2019–21	HC 576
2nd Special	The Financial Conduct Authority's Regulation of London Capital & Finance plc: responses to the Committee's Fourth Report of Session 2021–22	HC 700
3rd Special	Tax after coronavirus: response to the Committee's First Report of Session 2021–22	HC 701
4th Special	The Future Framework for Regulation of Financial Services: Responses to the Committee's Fifth Report	HC 709
5th Special	Lessons from Greensill Capital: Responses to the Committee's Sixth Report of Session 2021–22	HC 723
6th Special	The appointment of Professor David Miles to the Budget Responsibility Committee of the Office for Budget Responsibility: Government response to the Committee's Ninth Report	HC 1184
7th Special	Autumn Budget and Spending Review 2021: Government Response to the Committee's Tenth Report	HC 1175