EUROPEAN UNION SUB-COMMITTEE ON EXTERNAL AFFAIRS
The EU and Russia: before and beyond the crisis in Ukraine
Oral and written evidence

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Russian policy in the context of the Ukraine crisis

The crisis in Ukraine has shown that the EU’s relationship with Russia is no longer based on common values. Nevertheless, Russia remains a central part of our European neighborhood. In order to secure peace in Europe, to enable a self-determined development in freedom for Ukraine and to keep up the dialogue with Russia, we need a sober analysis of Russian policy and a policy formulation free from illusions and on the basis of liberal values and European interests.

Since President Putin’s third term in office Russia has been developing towards an increasingly authoritarian presidential system in which constitutional democratic procedures and mechanisms are gradually undermined. After the mass protests following the Duma elections in 2011/12 and again after the annexation of Crimea repression against critical civil society organizations has been constantly tightened. New laws restrict the freedom of demonstration and the freedom of press and constrain and criminalize the work of NGOs critical of the regime.

Concerning foreign policy, the main focus in Putin’s third term in office has been on the economic, military and political integration of the CIS countries which the Kremlin considers to be its legitimate sphere of influence. That has included political and economic instruments for preventing these states from further approximation with the EU via Association Agreements and Free Trade Agreements. The Maidan protests, ignited in this context at the end of 2013, and the following change of power in Kiev were answered by the Russian leadership with the annexation of Crimea and political and military destabilization in East Ukraine.

These activities in Ukraine are accompanied by an unprecedented Russian media campaign. Its success is being reflected in approval ratings of more than 80% for Putin’s policy in Ukraine.

At the same time, the Russian leadership strives to internally legitimize its increasingly authoritarian course by ideological means. The ideological tool kit includes great power nationalism that sees Russia as protector state for Russians worldwide, a manipulated history policy that ignores the crimes of the Soviet era, and “traditional values”. An important role in this respect is played by Russian orthodoxy and a traditional image of the family as opposed to the Western liberal model.

Putin’s policy is probably not following a coherent long-term strategy. But it consequently builds on a mindset that sees politics as a zero sum game and is aimed at keeping the ruling elite in power. A successful EU-oriented development of Ukraine (and other neighboring countries) is perceived as the main threat to the Kremlin.

In Germany, policy towards Russia is discussed controversially. Parts of the public opinion are rather sympathetically towards the Kremlin. Their argumentation often ignores the
security needs of the Central European States and shows a lack of awareness for Ukraine as a sovereign state.

Others (including the German Chancellor, many experts, including Friedrich Naumann Foundation) follow a twofold approach: a strong position against aggression and breach of international law (but below the level of military engagement) and at the same time intensive and continuing efforts to keep up the dialogue with Russia on all levels. A common European position is of particular importance for securing the peace in Europe and stopping the ongoing war in East Ukraine.

Opinion surveys in November show that 39% of the Germans support the recognition of Crimea as part of Russia, 48% refuse the annexation.

*December 2014*
ION Bond CVO and Alexander Kliment—Oral evidence (QQ 9-28)

**Evidence Session No. 2**  **Heard in Public**  **Questions 9 - 28**

**THURSDAY 17 JULY 2014**

Members present

Lord Tugendhat (Chairman)
Baroness Billingham
Baroness Bonham-Carter of Yarnbury
Baroness Coussins
Lord Foulkes of Cumnock
Baroness Henig
Lord Jopling
Lord Lamont of Lerwick
Lord Radice
Earl of Sandwich
Lord Trimble
Baroness Young of Hornsey

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**Examination of Witness**

**Mr Ian Bond CVO**, Director of Foreign Policy, Centre for European Reform

**Q9 The Chairman:** Thank you, Mr Bond. As you know, we are taking evidence for our inquiry on the EU and Russia. This session is part of the formal evidence proceedings, so it is on the record. We have a number of questions to ask you, and I would like to kick off with them. Before I do so, is there any particular point that you would like to make at the outset, or are you willing for your views to emerge in the course of your answers to our questions?

**Mr Ian Bond:** Thank you very much, Lord Chairman. I will just say briefly that I very much welcome this inquiry because I think it is timely, particularly against the background of current events. It is very important that at the end of it we should have a realistic appreciation of the nature of our current relationship with Russia. It is an unfortunate fact that the EU-Russia relationship for the past few years has relied largely on self-deception rather than seeing the facts as they are. This is therefore an excellent opportunity to set the
record straight, to look at things as they are in reality, and to consider how we should respond to them.

**The Chairman:** I hope we can do that. I should have said at the beginning that we have another evidence session that is to begin at 11 o’clock. I do not want to cut you short in any way, but perhaps you and indeed my colleagues will be kind enough to remember that. Let me jump straight in and ask you an all-embracing question. Do you think that the EU itself is capable of constructing a meaningful common policy towards Russia, given the differences between, say, Poland and Italy as well as the attitudes of France, Germany and this country? Is there a lowest common multiple that is worth anything at all, or are the interests of the member states so discordant that it is going to be very difficult to make anything meaningful emerge?

**Mr Ian Bond:** I think it is possible, but it is certainly not going to be easy. You are right to say that the differences between some of the countries of southern Europe and those that are closest to Russia are considerable. The first thing to do is to start with a common analysis, because that is what we have not had for a while. From that you can then start to draw some conclusions about policy. Again, I think that it is possible, but it will not be straightforward.

**The Chairman:** What would you see as the bare bones of that analysis?

**Mr Ian Bond:** The most important thing is that the EU, as a rules-based organisation, should follow a rules-based approach to Russia. Whether that is in the bilateral relationship on issues like the enforcement of the EU Third Energy Package or whether it is in multilateral fora such as in the context of the WTO, it is very important that the EU is seen to stand up for a rules-based system.

**Q10 Lord Lamont of Lerwick:** What would you say has caused the gradual decline in EU-Russia relations? Do you think that all the fault lies on the side of the Russians? Have we made any mistakes? Have we ever, God forbid, done anything wrong or made a mistake? Finally, how do you assess the EU models for co-operation with Russia?

**Mr Ian Bond:** I would never say that we have never made mistakes; we are human, after all. But I would say that the majority of the decline in the relationship over the last years reflects developments within Russia itself, even if one looks at something as simple as the level of corruption in Russia. When President Putin came to power, Russia was by no means a paragon. It then held something like 82nd place on the Transparency International table, but in the 14 years that he has been in power it has fallen to the 127th place. I am afraid that reflects a general decline in Russia’s progress towards standards of the rule of law. A big issue has been the way in which the domestic situation has evolved, and then more recently we have the way in which Russia’s external policy has evolved, in particular the gross breaches of international law involved in annexing Crimea and interfering in eastern Ukraine. Those, it seems to me, have been the big drivers.

In terms of the mistakes that the EU has made, in an odd sort of way I think the relationship would have declined more quickly if the EU, when Russia invaded Georgia in 2008, had taken a more realistic and robust line. In fact, we got back to business very quickly. We thereby improved the relationship in the short term, but in the long term I am afraid we created a sense in the Kremlin that they could get away with that sort of thing in their near abroad. That is very unfortunate.
Lord Lamont of Lerwick: Could I ask you about the treatment of Russian nationals in the Baltic states? Do you think the EU has failed to live up to its own standards in any way in the treatment of ethnic Russians, who are sometimes denied full citizenship?

Mr Ian Bond: It is a complicated story. First of all, I would not use the term “Russian nationals” because actually very few of them are; they are ethnic Russians. They can achieve citizenship, and many of them have done so. However, Estonia and Latvia—it is less of an issue in Lithuania—could probably have found certain small ways of making the process easier, particularly for the younger generation. There is still an issue with people being, as it were, born as “non citizens”. What is quite interesting to note is how reluctant those people have been to take Russian citizenship. When the Russian embassy mounted a project some eight or nine years ago to try to encourage them to take Russian citizenship, only a tiny number actually did so. They preferred to be residents without citizenship in an EU member state rather than be Russian citizens. That speaks for where they thought they would be better off.

Lord Lamont of Lerwick: We have heard informally that President Putin did not have full control of the people who were causing trouble in eastern Ukraine, or was worried that he did not have control of them. Do you agree with that?

Mr Ian Bond: We will only know in a sense when President Putin starts to show signs that he is trying to get control of them. As long as weapons and other supplies are crossing the Russian border, it is hard to say that he is actually trying to exert control over them any way. To the extent that there are now a number of people in senior positions in the separatist groups who are in fact Russian citizens, one would expect him to be able to have a little more control over them than over the local hotheads.

Q11 Lord Foulkes of Cumnock: In your responses to the questions put by the Lord Chairman and Lord Lamont you talked about EU approaches. I am not clear who, within the EU institutions, are the main drivers in determining EU policy towards Russia.

Mr Ian Bond: The member states have a big say.

Lord Foulkes of Cumnock: Do they all have the same influence?

Mr Ian Bond: Not all of them have the same influence on all subjects, but a wide range of member states have some influence and say in what is happening. Clearly Germany always has a great deal of weight; it has a strong economic relationship with Russia and traditionally it had a strong political relationship as well. The group that went to Ukraine in February to try to resolve the crisis—the so-called Weimar Triangle comprised of the French, German and Polish Foreign Ministers—has been quite influential. I would say that Carl Bildt, the Swedish foreign Minister, has also been very influential. On the other side, it is no secret— we saw it yesterday in the debates over whether the Italian Foreign Minister should become the next High Representative—that Italy has taken a rather soft position towards Russia, and that has been true of Greece and Cyprus as well.

Lord Foulkes of Cumnock: It has not been one of Britain’s main interests within the EU, with the whole range of other foreign policy, defence and other issues. It has not been one of our highest concerns until now, has it?

Mr Ian Bond: I have to say honestly that I do not think we have been as active or as visible on this as I would have expected and as we might have been a few years ago.
**Lord Foulkes of Cumnock:** Do you think we should be active now and try to have a bigger influence? Would that be a useful thing for us to do?

**Mr Ian Bond:** It would be a useful thing for us to do if we have ideas to contribute to the debate. I am not in favour of being present for its own sake, but if we have some constructive ideas on ways in which we can move forward or things that we could do better, I think we should be speaking up in the councils of the EU.

**Q12 Baroness Henig:** Can I say first of all how interesting I found your article, particularly the idea that the EU should be leveraging its influence more effectively, which I think is one of your major arguments. Going forward, how do you think the EU could exert more leverage over Russia in the short term? In the medium to long term, how should we recalibrate our relationship with Russia? How can we balance the vulnerabilities in energy and leverage the strengths? What incentives are available to the EU that we could offer to the Russians?

**Mr Ian Bond:** On the short-term issues, the announcement yesterday of a new round of American sanctions should be mirrored on the EU side. The EU has been very gentle so far in its approach. Although it has a long list of individuals it has sanctioned—something like 72 so far—the majority are utterly unknown figures in local politics in Crimea or relatively middle-ranking military officers. We have not done what the Americans have done, which is to target those who are closest to Putin, which is likely to be more effective as a short-term measure. As I said in the paper that you kindly referred to, sanctions are not a strategy. We do need to look at the longer term. As I said to the Lord Chairman, the most important thing there is the enforcement of our own rules. That is what gives us leverage, because Russia relies on international capital markets; it relies on us as a market for its hydrocarbons in particular. That gives us leverage if we choose to use it.

**Baroness Henig:** Going back to the point that we were just talking about—Britain’s particular role—presumably we have some leverage via the City of London and some of the economic issues that we perhaps have not been very active in pursuing. Do you have a view on that?

**Mr Ian Bond:** Yes. My view is that it is in our long-term interest to make sure that the anti-money laundering and other provisions of that sort are being effectively implemented, both in the City of London and across the whole of the European Union. We are not the worst offenders, by any means. From a purely formal point of view, British financial institutions filed something close to 250,000 suspicious activity reports a year—globally, not just about Russia. Cyprus, in the last year for which figures were available, filed 510—not 510,000—when a very sizeable part of the Cyprus banking industry depended on deposits from Russia. That suggests to me that there is very uneven enforcement of the regulations. But I notice that the latest anti-money laundering report from the Financial Conduct Authority, which has come out in the past few days, once again says that it is disappointed by the level of compliance with anti-money laundering regulations that it has found in British financial institutions. It made a similar observation when it did a sampling of financial institutions in 2011. Clearly there is still quite a lot of work to be done on that, which is not Russia-specific but is about cleaning up the way in which we deal with financial transactions from suspect areas such as Russia. That is so important because we are facilitating the theft of large amounts of money from the Russian people, which are then laundered through London, Cyprus, Latvia or the British Virgin Islands, and that perpetuates a system that is actually inimical to our long-term interests in Europe.
The Chairman: That is very interesting. Perhaps I might ask a supplementary on that. Given the dependence of Cyprus on the EU institutions and the other member states, whose responsibility would it be—the Commission’s, the European Central Bank’s or the member states’—to press Cyprus to adopt a more rigorous approach to these matters?

Mr Ian Bond: In the first instance, it has to be for the national authorities in Cyprus. If that means that other member states have to lean on Cyprus a little more, that is probably not a bad thing. If there is a persistent problem, at some point the Commission probably has to take infraction proceedings against Cyprus if it is clear that it is deliberately thwarting the intentions of the EU anti-money laundering regulations.

Q13 Lord Radice: Returning to your paper, you argue that President Putin sees the relationship with the EU as “a struggle to control the post-Soviet space, not a partnership”. That makes things very difficult for the EU. How should we respond to the President’s views?

Mr Ian Bond: If somebody thinks he is in a zero-sum game, it is very important that you are the winner. We think that you can have a win-win relationship. Fundamentally, President Putin does not. He sees that there are always winners and losers. I do not subscribe to his point of view, but in a sense it does not really matter whether I do or not. I think he is trying to shut us out of an area that is just as much our backyard as his backyard. In those circumstances, it is very important for us to work on the basis that we have an interest in the countries to our east becoming democratic, prosperous and more stable, and we should pursue that. He has decided that his interest is in keeping them weak, unstable and dependent on Russia. That is not in our interest and we should do what we can to prevent it.

Lord Radice: So that should be our policy: in a sense, do the opposite to what he wants?

Mr Ian Bond: He sees this as a competitive relationship. As I say, I do not think that one necessarily has to see it in that light, but if somebody is competing with you, if they are thwarting things that you think are in your interest, you have to do more to try to protect your interests as you see them.

Lord Lamont of Lerwick: Can I ask you a factual question about the near abroad? How militarily important do you think the Crimea and the naval bases there really are to Russia for the fleet? Are they vital, just quite important, or what?

Mr Ian Bond: It depends what you think you are going to do with your fleet. It is important in the sense that it is a warm-water port. It is important in the sense that if Russia did not have a port at Sevastopol, it would have to duplicate those facilities at considerable cost somewhere else on its coast, presumably on the Sea of Azov or the Black Sea. From that point of view, it is quite important. The Black Sea Fleet was pretty much a rusting asset since the early 1990s until relatively recently, but it depends on what you think you are going to do with it.

Lord Lamont of Lerwick: How many ships?

Mr Ian Bond: I honestly could not say.

Lord Lamont of Lerwick: Fifty, 100?
Mr Ian Bond: From a very distant memory, I think at one point there were about 100 ships of various sizes. How many of those are serviceable, I could not say.

The Chairman: Lord Sandwich, Lord Jopling and Lady Bonham-Carter all have supplementary on this.

Earl of Sandwich: Staying with your phrase, which Lord Radice used—“the post-Soviet space”—we are not dealing with NATO in this Committee, but given that the EU has had a peacekeeping role, in Georgia and elsewhere, do you think Putin sees the EU as a sort of subtle form of NATO?

Mr Ian Bond: He seems to have made that connection, but it is not a necessary connection. Finland, Sweden, Austria and Ireland have all managed to exist within the EU without joining NATO. Ironically, Finland and Sweden are probably closer to joining NATO as a result of President Putin’s actions than they have ever been, but it is not a necessary connection. Indeed, Moldova explicitly said some time ago that it wished to remain neutral but that it still aspires to eventual EU membership.

Lord Jopling: I want to follow what Lord Sandwich started by coming back to this phrase of “the post-Soviet space”, particularly Georgia. Putin already has toeholds in South Ossetia and Abkhazia, with the narrow bit of Georgia dividing them. He is trying to persuade the Armenians—we had a group from Armenia in here last week and they are clearly being sorely tempted to join the Eurasian Economic Union. To what extent do you think Putin would like to be able to foment trouble in Georgia in the same way that he has in eastern Ukraine, and in so doing be able to block the hydrocarbon channels, which are the only ones really that the Russians do not have their sticky fingers on? To what extent do you think he will be tempted to foment trouble there, particularly with regard to NATO, since the NATO summit in September will almost certainly reject a suggestion that Georgia be given a membership action plan, a MAP, and some sort of other package? There is a dilemma here, because if we do nothing with regard to NATO accession for Georgia, he will take heart from that and think, “Oh, they’re weak and therefore won’t do anything if I start causing immense trouble”. Yet if we were to give them a package—not necessarily as big a thing as a MAP but a package, which is what they are now talking about—he will say, “This is provocative”, and that will encourage him. More or less whatever we do there with regard to NATO seems to give him an opportunity to make trouble. I wonder what you think about that and the importance to him of being able to control the rest of Georgia again.

Mr Ian Bond: You have put your finger on an important point about what NATO decides to do at the summit in relation to Georgia. Putin’s options in Georgia are more limited because there is no ethnic minority on which he can play, and there is an astonishing cross-party consensus in Georgia on getting closer to NATO and the EU, which has never existed in Ukraine. He would like to keep Georgia out of NATO’s orbit and he will probably succeed, because I do not see a great deal of enthusiasm on the part of NATO, as you rightly say, to offer a Membership Action Plan to Georgia. At the same time, he is not in a good position to be able to destabilise the rest of Georgia, but he probably thinks he has done enough in carving out Abkhazia and South Ossetia, because the question of what you do about Article 5

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1 The International Institute for Strategic Studies gives the current figure as 25 ships, not including some 30 which were seized from Ukraine when Crimea was annexed.
and how you might apply or disapply it to those two regions is one that many NATO countries are very uncomfortable with.

**Q14 Lord Trimble:** My question is about civil society in Russia, but if you do not mind I would like to backtrack to some things you said earlier. I very much liked what you said about sticking to our own rules, particularly with regard to money-laundering and the products of corruption in Russia. I would be delighted to see the City being stronger on this. I have seen in a number of reports that in Ukraine corruption is as high if not higher than in Russia. Presumably we would have to apply the same restrictions or vigilance with regard to money coming from Ukraine to make sure that we are not laundering the proceeds of corruption. I see you nodding your head at that. That is important as a general issue in our approach to all the countries in Eastern Europe, where there are large problems with corruption. We are not going to have a good relationship with these countries by treating them as if they were equivalent to our own societies when they have this huge problem with corruption.

**Mr Ian Bond:** You are absolutely right. That is a very important issue for most of the countries in the former Soviet Union. Georgia has actually made more progress than any other. Again, I would have to check the figures, but it has got itself, as it were, mid-table respectability in the Transparency International Corruption Perceptions Index. Ukraine is very low down on that index. It is—or was under former President Yanukovych—significantly worse than Russia, and that really takes some doing. The new authorities have indicated that they want to do something about that. We should be helping them to set up effective anti-corruption bodies and regulations, and trying to instil the best practices that we are aware of. But yes, that is a very important issue across the former Soviet Union.

**Lord Trimble:** Thank you. Civil society in Russia is quite heavily circumscribed and Putin is quick to see threats in activity there. What can we do to help existing civil society structures in Russia, and to encourage the development of such bodies?

**Mr Ian Bond:** We need to make sure that we raise their problems on a regular basis with the Russian authorities. It is awful to have to go back to the old Soviet days, but when we were dealing with the Soviet Union we always had lists of prominent human rights cases. We need to get back to the situation where, when individual society activists or organisations are under particular pressure, their cases are raised so that the Russian Government know that we are aware of these things and they are not doing them in secret.

With regard to the support that we can provide to the organisations themselves, first we can do things outside the country. In the parallel case of Belarus, the EU and individual member states and donors have been able to do quite a lot through funding programmes in Lithuania and Poland to enable civil society organisations to get together, to learn new skills and to be able to operate more effectively within their countries. We should work on the European Endowment for Democracy. At the moment its sphere of activity does not include Russia, only the countries of the Eastern Partnership and the Mediterranean partners of the EU. We should urgently extend it to cover Russia, and the British Government should make a contribution to it. The British Government have not contributed so far to the European Endowment for Democracy, unless that has changed very recently. They had promised, I think, some in-kind support in the form of a staff member, but even that had not materialised the last time I asked. We should do better on that.
The last thing I would say is that we should be guided by the civil society activists themselves. There is a tendency among western Governments to say, “Now that Russia has said that any civil society organisation that takes foreign money will be branded as a foreign agent, we have to back away from them”, but that is a decision that the organisations themselves have to make. They might feel that it is safer for them not to engage with foreign support, but equally they may say, “We have the right to do that. We have the right to decide what level of risk we are prepared to accept”.

**Lord Foulkes of Cumnock:** I have a small technical question. When we go to Moscow, should we meet representatives of civil society? Which ones should we meet? Are there any dangers? Should we be cautious about meeting certain of them?

**Mr Ian Bond:** We should certainly meet them. We should meet as wide a range as possible. No doubt my former colleagues in the embassy in Moscow and civil society organisations in the UK that have partners in Russia will know which ones are, as it were, reputable. It is true that, just as in the UK, not everyone who calls themselves a non-governmental organisation is actually promoting the public good. I am not going to pick and choose from a list, but there are ways of finding out which ones are reputable and worth talking to.

**Lord Foulkes of Cumnock:** You have pointed us in the right direction, thank you.

**The Chairman:** Going back to your response to Lord Trimble, you talked about going back to the way in which we used to keep an eye on human rights issues in the Soviet days. I remember visiting Sakharov in the early 1970s. Do you think the Helsinki Basket III provides a precedent on which we might build?

**Mr Ian Bond:** Yes, I do. It remains very important. I notice that almost every week in Vienna the American delegation to the Organization for Security and Co-operation in Europe raises cases in the OSCE’s Permanent Council. In the past, the European Union and its member states have been more reticent about this. It would be a good thing if we became more forward and more assertive in challenging Russia on its compliance with those commitments. Russia accepted not only the old commitments from the Helsinki Final Act but a whole lot of later commitments. In particular, it accepted that the situation of human rights and freedoms in participating states of the OSCE was a matter of direct concern to everyone, not just the internal affairs of a state that could not be challenged. It is very important that we continue to make use of the commitments that Russia itself has accepted.

**Q15 Baroness Young of Hornsey:** How would you assess the expertise on Russia in the EEAS and the Commission? You mentioned earlier that there was a need for a stronger, more effective common analysis of the issues, problems and challenges. Is that something that the EEAS could or should lead on or be a part of? Also, how do you think the decision-making processes and the institutional structures of the EU could be made more effective and coherent? Finally, what role can British diplomacy play? I note you said earlier that we had not been as active on this front as we might have been in the past. Is there potentially a role for British diplomacy to take a more high-profile part?

**Mr Ian Bond:** There is quite a lot of expertise in the External Action Service and in the Commission. There are some very experienced people who have been dealing with Russia for a long time. Energy Commissioner Oettinger and Trade Commissioner De Gucht have done a pretty good job on their two portfolios. In one sense, the problem is not institutional.
There are many areas of EU policy where there are problems between the Commission and the External Action Service, but I do not think that this is one of them.

Going back to the first point, the problem is that you rely on whether or not there is a shared view among the member states because foreign policy remains an intergovernmental area. Yes, the External Action Service can provide analysis, but in the end it is up to the member states whether they like it and whether they draw the right conclusions. I do think that British diplomacy has a role to play, partly in leveraging. The UK makes up less than 4% of Russia’s foreign trade; the EU makes up more than 40% of Russia’s foreign trade. Therefore, what we can do to move European policy in the direction of doing something effective is likely to be much more important than anything we can do bilaterally with Russia. We have traditionally been one of the influential players, so I would like to see British Ministers stepping up their activity in this area.

**Lord Jopling:** We are coming towards the end of this section of questioning. I want to go back to your very first statement to us, when you said that our relationship with Russia over the years had been based on self-deception. You have given us some examples of that but would you like to enlarge on that statement and suggest to us in a wider way what you meant by that?

**Mr Ian Bond:** I want to go back to the documents that have governed the relationship. The Partnership and Co-operation Agreement, which was negotiated in 1994, came at a high point, a moment of great optimism when things seemed to be moving forward and reform was progressing very rapidly. If I may, I will just quote from the preamble, because at the time it was a realistic appraisal of what seemed to be going on. It talked about “strengthening the political and economic freedoms which constitute the very basis of the partnership”, “the paramount importance of the rule of law and respect for human rights” and “the establishment of a multi-party system with free and democratic elections and economic liberalization aimed at setting up a market economy”. At the time that is where we thought things were headed. The problem is that that is not where they have actually ended up.

By 2010, when we got the Partnership for Modernisation, we were in full self-deception mode; we were talking at that point about a partnership based on democracy and the rule of law with a country that very clearly had neither. That seems to me to be a problem. Going back to my opening pitch, if the EU is anything, it is a rules-based organisation. If you have a partner who is not playing by the rules, you have to do something because otherwise the relationship simply continues to get worse from your perspective; your interests get more and more infringed by the fact that you have somebody who is not playing by the rules. That is why it is so important to focus on issues such as the rule of law and why, through the levers that we have within the EU and within the member states of the EU, we try to make sure that Russia is playing by the same rules that we are.

**Q16 Baroness Billingham:** I want to go back to the question of British diplomacy. We live in very interesting times. How effective is our voice at present and potentially in the future? If you were President Putin, would you be shaking in your shoes at the prospect of British diplomacy striding forth very forcefully, or would you be fairly complacent?

**Mr Ian Bond:** If it were a question of British diplomacy striding forward on its own, I would be pretty complacent. If it were a question of Britain helping to forge a more effective
international policy or a set of international policies, I would be more worried. That would be the right thing to worry about. But if it is just a question of the Foreign Secretary going on his own to Moscow to try to bring home a deal, that is not going to get us anywhere. If one takes a more bilateral issue—the Litvinenko case—we missed a trick in treating that as a largely bilateral issue and not trying to rally any of our partners behind us in dealing with that. We have not in fact made any progress over the intervening years.

**Baroness Coussins:** You have already spoken in some detail about money-laundering and corruption. Indeed, you have written about how that has partly lowered standards in the EU and has not, as one might have expected, led to having a trading relationship that raised standards in Russia. Do you think there is any role or scope for the Commission to enforce EU best practice within EU companies that are doing business with Russia? Indeed, are there any other aspects of Russian business practice that are having an influence on the EU business environment?

**Mr Ian Bond:** The role of the Commission is important. From a practical point of view, I do not believe that the Commission would be able to enforce best practice on all European companies that operate in the Russian market, but it can certainly do more to ensure that national authorities are enforcing existing regulations properly. Those are largely the anti-money laundering regulations; a fourth anti-money laundering directive is on the way, although it will not enter into force for a couple of years. That is very important, as I suggested in an answer to an earlier question. If there is evidence that particular member states are deliberately thwarting the intentions of some of those regulations, the Commission should be taking infraction proceedings against them.

With regard to the effects that Russian business practices are having within the EU, we have not, thank God, reached the stage where disputes are settled on our streets in Muscovite ways with silencers and the like, although there was the banker, Mr Gorbuntsov, who was the victim of an attempted murder in London that almost certainly had to do with his business dealings in Russia. We need to watch out for that. What worries me is that you have a group of people whose interests become more aligned with their Russian contacts and clients and become a force lobbying in western capitals. That then starts to tie our hands with regard to how we can respond to outrageous Russian behaviour. You see it more in Germany because the extent of German trade with Russia is so large. Some of the major German companies will publicly lobby for a soft line in response to Russia’s annexation of Crimea, as we have seen over the past few months. I do not think we have reached that stage in this country and in many other European countries, but we should be very vigilant that we do not allow vested interests to have too much influence over our own judgment of what the national interest is.

**Q17 Lord Lamont of Lerwick:** Thank you very much for all you have said. I am very convinced by what you said about corruption and civil liberties within Russia and the self-interest of the regime. None the less, the object of diplomacy is to live with countries and sometimes you have to leave problems unresolved. I worry that sometimes we have not seen legitimate state interests of Russia but have seen things from the point of view only of our state interests, not their state interests. One thing in particular that has always puzzled me a little is the anti-missile shield being set up in eastern Europe. The justification was that it was an anti-Iranian missile system, although many people seemed to be sceptical that Iran
had any such capacity, and the Russians saw it as aimed at them while it was ostensibly aimed at another country. Do you have a view on that?

**Mr Ian Bond**: To get a really expert view you would have to ask a witness from the Ministry of Defence, but I will give you an educated lay man’s view. The capabilities of the American anti-missile systems that were planned to be put into central and eastern Europe would have had no impact on Russia’s ability to threaten the West with its strategic nuclear missiles. Geographically and numerically, the system simply would not have had any impact on the ability of the Russians to obliterate so much of the United States or western Europe as to make it utterly inconceivable that we would ever take any risks in that direction. The aim of the system was to be able to knock down one or two Iranian missiles if the Iranians ever reached the point where they could launch them. From the point of view of why we should worry about Iran if it did not have missiles, it was certainly about developing multi-stage missiles that could have had a long range, and you would not want to wait until it actually had those before you started to work on your shield.

**Q18 The Chairman**: You have been extremely helpful and we are very near the end. This might even be the last question. Going back to the beginning, do you think it would be helpful or even possible for the EU to define its eastern frontier?

**Mr Ian Bond**: That is a very hard question that I would like to write something about in the coming months. There is a very difficult set of issues as to whether Europe comes to a cliff-edge or a beach that slopes gently down to the sea. At the moment we have a bit of each and that is not very helpful because it leads to a lack of clarity. I have always been a supporter of EU enlargement. I think it has been good for the countries that have joined the EU and for the countries that were in the EU to begin with in spreading an area of democracy and free market economics. Yes, I think there are limits to Europe, so perhaps in that sense there is an eventual cliff-edge but at the same time what I see at the moment with the association agreements is that at the very least we are trying to ensure that the countries to our east can benefit as much as possible from what the EU has to offer. Certainly, the association agreements include at least three-quarters of the acquis communautaire, so we are asking those countries to do a lot of the things that they would be asked to do if they were in fact members, and hope to see them benefiting economically and politically from doing that.

**The Chairman**: Your analogy of the cliff-edge and the beach is very interesting, and I look forward to you developing it. One way of illustrating that might be that when the EU was dealing with the Czech Republic, Poland and so forth, it was quite clear that the agreements being reached were part of a process towards ultimate membership. That was openly explicit and the most important feature of them. What we have not yet devised is a formula for agreements with countries on the EU’s frontiers that involve those countries with the EU but do not carry with them the explicit or even implicit assumption of ultimate membership.

**Mr Ian Bond**: Yes, it is about avoiding the Turkey problem, in a sense, of promising something that you subsequently decide you would really rather not deliver.

**The Chairman**: The last question will come from Lord Sandwich.

**Earl of Sandwich**: Would you not say that Russia had softened its approach to Serbia in its application to join? That is an example of Russia not on the retreat but accepting the inevitable, is it not?
Mr Ian Bond: It will be interesting to see what happens as Serbia gets closer to membership. It still has quite a long way to travel. One thing that was quite noticeable about the association agreements with the Eastern Partnership countries was that Russia really started actively to work against them only in the middle of 2013. One of the myths is that the EU always refused to discuss these things with Russia. In fact, the EU always put these things on the agenda with Russia for summit meetings and the like and the Russians always said, “We are not really interested in that”—until 2013, when they suddenly decided that this was a fundamental threat to Russia’s interests. So I am not holding my breath that Russia’s more or less compliant attitude towards Serbia’s progress towards EU membership is going to last to the point where the Serbian Prime Minister of the day is ready to sign on the dotted line.

The Chairman: Mr Bond, thank you very much. This has been a very helpful evidence session. I hope we can maintain contact. If you write anything on your cliff-edge and beach, or indeed on any other aspect of this, I hope you will ensure that the Committee receives a copy of whatever it is you produce.

Mr Ian Bond: Indeed I will. Thank you very much, Lord Chairman.

Examination of Witness

Mr Alexander Kliment, Director, Emerging Markets Strategy, Eurasia Group

The Chairman: Hello Mr Kliment, I can see you—can you hear me?

Mr Alexander Kliment: I can indeed.

Q19 The Chairman: Good. It is a great pleasure to welcome you to this Committee. Years ago, in a different incarnation, I met Ian Bremmer when he was just starting out on this enterprise of which you are a part, so please remember me to him. This is part of a formal evidence session for our inquiry into the relationship between the EU and Russia. Therefore, we are recording the meeting and recording your views. We are extremely grateful to you for agreeing to appear in front of us. A number of my colleagues have questions and we will try to complete the session within the hour. Let me start by asking you about WTO obligations. How do you think Russia views them? Is it a responsible member of the WTO? How would you assess the international community’s efforts to engage Russia and hold her to her WTO obligations? Is it true, as one of our witnesses has suggested, that the Russians are not very good at observing their obligations and that not very much pressure has been put on them to do so?

Mr Alexander Kliment: First of all, Lord Tugendhat, it is a great honour and a privilege to be before the sub-committee today. I was not aware that you knew Ian, but I will certainly pass along your regards to him. I hope that my testimony today convinces you that there has been continuity in the rise of our little enterprise here at Eurasia Group.

To get directly to the question, Russia’s interest in becoming a member of the WTO was hugely symbolic, in the sense that for the Russian elite and the Russian Government, becoming a full WTO member was seen at the time as an important step in building Russia’s prestige and confirming Russia’s status as a global player. Particularly in the Russian elite’s view, because other countries such as China and countries in the Middle East and even
Ukraine were set to become members, the Russians felt quite slighted that they were not members. As far as the actual observance of WTO norms is concerned, there is evidence that Russia has not been very attentive to these norms, although, frankly, a lot of other members are equally inattentive to these norms. One has only to look at the number of cases pending against China.

The question is really about whether Russia sees its own interests as being aligned with systematic observation of WTO norms. There is an increasing sense in Russia—we can talk about this in more detail later in the hearing—that Russia’s interests in trade and economic development are actually better served by regional integration on the trade and economic front than by WTO accession or membership as such. That is evident in the much greater political capital and political will that have been put behind the Eurasian Economic Union project than behind WTO-related reforms and observing those norms.

To sum up, WTO membership for Russia carried more symbolic weight than substantive interest at the very beginning. In practice, the Russian Government have determined that while WTO membership is certainly important, the primary project for them now on the trade, economic and integration front is integration with former Soviet neighbours. That is really where the weight of political will and attention is on this issue in the Kremlin.

**Q20 Lord Jopling:** We would like to ask a number of questions about the Eurasian Economic Union—if I call it the EEU, you will know what I am talking about. What do you think President Putin is after in setting that up? Is it part of his desire to reconstruct as much of the Soviet Union as he can? What do Belarus and Kazakhstan think they are going to get out of it? To what extent do you think it is a real project? A number of people have been very critical about whether it is worth anything. What do you think about it? What do you think the EU’s policy should be with regard to the neighbourhood around the EU? For instance, we had a group here last week from Armenia and we asked them whether it was the intention of Armenia to join the EEU. It was very apparent that the Russians have been offering them immense bribes, which are all part of their policy of trying to get more and more members, whether it is Tajikistan, Kyrgyzstan or Moldova. Sorry, there are a lot of questions there, but it would be interesting to hear your views.

**Mr Alexander Kliment:** Those are all very good questions. I will try to touch on all of them. The first questions were essentially about what Putin is after with the Eurasian Economic Union. There is an economic rationale and a geopolitical rationale—although, as ever, those two things are closely related, particularly in Russia. The economic rationale is that from Putin’s perspective, given that greater economic integration with the European Union seems to be on hold—at best—the Russian view is that the former Soviet space is one of the few areas in which Russia holds comparative economic advantage. One way of thinking about this is that, for all Russia’s claims and actions and desire to be a global player, Russia has a comparative advantage as an economic and even strategic power only in the former Soviet Union. That is obviously a region that Russia regards as a privileged sphere of interest. The Eurasian Economic Union project is part of cementing the economic domination of that region with a formal institutional structure. So there is an economic logic to it.

The geopolitical logic is as important, if not more so, in that for the Kremlin, and Putin in particular, the creation of the Eurasian Union is a way of putting Russia on a more equal footing with the European Union. A key theme in Kremlin foreign policy is that desire to be treated and respected more as an equal by the European Union. I think that a lot of the
problems that have arisen in the European-Russian relationship—again, we can talk about this separately later—have to do with the failed expectation of convergent values. In fact, Russia is charting out a course as something separate from the European Union, and indeed in some ways separate from European culture, and the Eurasian Union is a way of giving political and institutional substance to that desire to be separate from, and in a way equal to, the European Union in population and economic power and so on. It is important to understand it in that respect as well.

The question about Belarus and Kazakhstan goes to the heart of how viable and substantive this union will really be. Economically speaking, the addition of the Belarusian and Kazakh economies to Russia’s economy does not add that much heft in total. If you look at the GDP of these countries, Russia still accounts for more than 80% of the combined economic output of the Eurasian Customs Union members. It does not actually add all that much. It is Russia plus a little more.

Geopolitically and politically, it is interesting to look at some of the misgivings that the Belarusian and Kazakh elites—the Presidents specifically—have shown about the notion of being swept into a structure that is politically dominated by Russia. Interestingly, President Nazarbayev of Kazakhstan was the fellow who originally developed the idea of closer economic integration among the post-Soviet states back in the early 1990s. It is interesting that some of the most direct statements of misgiving about or discomfort with the prospect of Russian domination of the structure have come from Kazakhstan. This is partly to do with how Russia framed its Ukraine policy. Certainly, the notion that Russia reserves the right to protect the interests of Russian speakers or ethnic Russians beyond Russia’s borders, which was how Putin framed the annexation of Crimea and subsequent Ukraine policy, met with great suspicion in Kazakhstan, which has a large Russian minority population, particularly in the northern provinces, but also in Belarus where the actual Russian ethnic minority is comparatively small. But a huge plurality of Belarusians identify Russian as their mother tongue or primary language, which also would qualify for protection—benevolent or otherwise—by the Russian Government under the policy that Putin has laid out. That policy by itself sparked some misgivings in Belarus and Kazakhstan.

It is also true that Kazakhstan has options now that it might not have had 15 or 20 years ago. The Kazakhs have been very astute in developing relations with China and with the EU, frankly, in a way that gives Kazakhstan options and creates a situation in which Russia is not able simply to dictate the terms of the new structure to Kazakhstan. Belarus has more limited options in that relations with the EU are really its only other option and those relations are largely frozen because of human rights and political concerns in Belarus. It is important to recognise that the larger potential member states—Kazakhstan in particular—have shown some discomfort with the idea of domination by Russia, and as the Eurasian Union takes shape and forms institutions and actually starts operating, that tension will become more apparent.

On the economic front, I am not sure that Russia gains a whole lot by integrating with Kazakhstan and Belarus, except that it secures those countries as hospitable destinations for Russian capital, but it does not actually boost economic growth all that much. On the geopolitical front, the aims will be undercut by a reluctance on the part of member states to be dominated by Russia, and that reluctance will be bolstered by the fact that some of those member states have other options.
Q21 Lord Lamont of Lerwick: Can you tell us how EU free trade agreements and the regulatory alignment that goes with them have an impact on the Russian economy, perhaps with some specific examples? What do you think about Russian fears about the negative impact on their economy?

Mr Alexander Kliment: To answer that question we can look at the Ukraine example. Obviously, that is a key example here. The Russian objection to Ukraine’s signing of the Deep and Comprehensive Free Trade Agreement with the EU—at least the stated objection—has fallen along two lines. The first is that the Russians say they are concerned that because of their own largely tariff-free free trade relationship with Ukraine, Ukraine’s signing of the DCFTA would create a situation in which Ukraine becomes a conduit for competitive European goods to flood the Russian market and to damage the interests of Russian producers, who are not able to compete with European producers. That is the first line of argument. The second line of argument is that the shift in Ukraine to European standards and regulations—technical standards, phytosanitary standards, the whole run of it—would in fact make goods produced in Ukraine incompatible with supply chains for Russian firms and Russian sectors that rely on Ukraine for key economic inputs.

My understanding is that both these objections can be met. The first one can be met by looking at the World Trade Organization provisions concerning rules of origin, which would enable Russia to regard any goods coming through Ukraine from Europe as goods from Europe, which would not be entitled to the free trade arrangements between Russia and Ukraine. On the second point about technical specifications, there is no reason why producers in Ukraine who depend on Russian markets or supply Russian markets to a large extent could not continue to produce goods that meet Russian specifications separate from those that meet EU specifications. Obviously that would impose greater costs on Ukrainian firms, but it is not a zero-sum, impossible situation to resolve.

Given that the stated economic objections to Ukraine joining the DCFTA can be met, it is logical to conclude that in fact there is something else at play here. In our view, there is. There is a geopolitical component here also. Russia views the closer alignment or integration of Ukraine with European economic and even political structures ultimately as a stalking horse for Ukraine’s eventual NATO membership. Irrespective of whether or not that is likely from the NATO perspective or the European perspective, the Russians very much view this as a threat. That has a lot to do with why the Russians have been so vociferously opposed to Ukraine joining the DCFTA and signing the political chapters of the association agreement with the EU. From Russia’s perspective, this is part of an ongoing attempt to pull Ukraine from Russia’s sphere of influence, not only economically but politically and strategically. It is impossible to overstate the extent to which not only the Russian elite but the Russian population at large view Ukraine as part of Russia’s sphere of influence—historically, economically, culturally and even religiously. The arguments about Ukraine’s free trade agreements with the EU are bound up in a much larger concern of Russia’s about the geopolitical implications that would follow Ukraine joining these political and economic structures. I am happy to talk about that in more detail, but let me leave it there and go back to your questions.

Q22 Lord Lamont of Lerwick: Perhaps I might go back to your first answer to the Chairman about WTO membership, which you said had largely been symbolic—a political trophy, so to speak. Has WTO membership, notwithstanding that not all the rules may be observed, had
an impact on the Russian economy? For example, it was meant to limit the degree of subsidisation of specific industries. Has it in any way altered the behaviour of the Russian Government towards firms and towards the economy?

Mr Alexander Kliment: The big argument about how WTO membership would help Russia in the long term was about the ways in which WTO norms would compel Russia to improve its investment climate. In pure trade terms, Russia, as a commodity exporter, did not stand to gain all that much from lowered tariff barriers and those sorts of things. In fact, from the Russian perspective, WTO membership in the short term was actually a threat to certain key industries, particularly agriculture and the automotive industry. So the argument was always whether WTO membership would provide a structure and a model for improvements to the business climate in Russia.

If we look at progress on improving the business climate in Russia in recent years, since Russia joined the WTO I am afraid there has not been a huge amount of progress on those fronts. If you look at the World Bank Doing Business reports, which provide a ranking of the business climate along various criteria, in some areas Russia has improved substantially, in other areas not. The areas in which it has improved have largely to do with specific transactional issues such as licensing for new firms, obtaining permits for construction and for hooking up to the electricity grid. Those small, microeconomic, firm-level transactional issues are certainly important, but in the larger areas of contract sanctity, the rule of law and the larger, systemic aspects of the Russian business climate, the rankings are largely stagnant. From a qualitative point of view, in a lot of respects the investment climate in Russia has got worse in recent years, for a variety of reasons, some to do with the political culture of Russia in recent years veering back towards a more conservative, statist model of economic management. Of course, now, in response to the threat of increased sanctions from the US and the EU, Russia has taken a number of steps that prepare the economy to become more autarchic rather than more open to western trade and European norms.

That was a long answer to a short question, but on the basic criteria, if we look at whether the investment climate in Russia has improved materially as a result of WTO membership, so far the answer is no. That is important.

The Chairman: We must move on, but Lord Foulkes has a brief supplementary.

Lord Foulkes of Cumnock: Very briefly, this follows on from your answer to Lord Lamont’s question. You wrote an article, “Putin’s Fairy Tale”, in Foreign Affairs magazine, which paints a very gloomy picture of the Russian economy. Your firm assesses risks. What are the main risks now in relation to investment in Russia and trade with Russia?

The Chairman: I said it was a brief point but it is quite big. If you could try to keep your response brief, that would be very kind.

Mr Alexander Kliment: Sure. The risks can be thought of in two categories. The first is the direct risks that face investors in Russia that have to do with weak rule of law, weak enforcement of contracts and corruption—the sort of problems that plague the business itself and its own transactions and operations. The second risk is that because of a failure to improve the overall investment climate, the overall economy is not growing. Russia’s current economic problems have largely to do with a lack of investment. Consumption is still growing in Russia. Natural resource exports are still growing. But the economy is stagnating and may not grow at all this year, largely because the engines of growth—a commodity
boom, a credit boom, cheap labour and a cheap rouble—that helped Russia grow so much during the 2000s have now been exhausted. Russia needs a new economic model based on fresh investment to increase productivity, broaden the sources of economic growth and diversify the economy, but all those things require investment and investment requires more confidence in the rule of law and the general investment climate. That is what we have not seen. In fact, as I mentioned earlier, I think that is getting worse. So the risks are: you might lose your investment or your investment might not be worth quite what it was because overall growth remains slow because of those larger issues.

**Q23 Baroness Henig:** How would you assess the EU’s attempts to explain, engage and reconcile the two projects with the Russians thus far? You talked earlier about a failed expectation of convergent values. On what basis do you think the EU should engage with the Eurasian Economic Union?

**Mr Alexander Kliment:** That is a very good and very difficult question. As a technical matter, my understanding is that the free trade agreements with the European Union are incompatible with membership of the Eurasian Customs Union—the Eurasian economic space—so there is built into this problem an essentially zero-sum choice for potential members of one or the other. One of the big questions before the European Union in framing or reframing its relationship with Russia is how to determine a relationship based on interests rather than values, because values are no longer necessarily shared between Russia and the European Union. For a long time there was an expectation, not without justification, that Russia viewed European norms, society, political structures and economy as a model, and indeed in the early and mid-1990s that was true. But as Russia has established itself over the past 15 years as an economic power and sees itself as independent of European tutelage, as it were, the values have diverged.

Russia increasingly sees itself as something apart from Europe, not only in economic and geopolitical interests but cultural interests. The political rhetoric in Russia about European values and norms these days is critical. The idea that Russia is a morally exceptional civilisation beset on all sides by decadent enemies is not new in Russian thought—it goes back several hundred years, actually—but you see that kind of rhetoric increasingly now, for example in the way Russians frame European policy towards gay rights, which has become a big issue in Russia. In his last state of the union address to the Russian Parliament, Putin implicitly linked decadent liberal values in Europe with the fomenting and ultimately the failure of the Arab spring. There is a connection between what Russia sees as European liberal values and the attempts to overthrow regimes that are friendly to Russia. All these things are connected in some way.

To go back to the point, Europe needs to define its interest with respect to Russia and leave aside the question of values, because values are not converging. On the question of interests, the European Union also needs to decide what is more important: a functional relationship with Russia or expansion of the Eastern Partnership initiatives. Those two things are also increasingly incompatible. Russia views the expansion of European norms and trade into the former Soviet space or former eastern bloc as a direct threat to its security. It does not view the expansion of those norms as something that everyone can gain from because better norms mean better economic outcomes and so on. So there is also increasingly a zero-sum choice to be made: is it more important for the European Union to expand its political and economic influence in the former eastern bloc countries, or is it more important
to have a functional, stable and growing relationship with Russia? Those two things are no longer compatible.

Q24 Earl of Sandwich: Mr Kliment, we have already covered the expectations that we all had 15 or 20 years ago. Perhaps I can move you back to your mention of NATO and Russia’s suspicion within the Ukrainian context, and slightly widen that and look at the institutions—not only NATO but the EU itself, and the WTO for that matter—to learn more about the present attitude, which you have so well described, in cultural as well as political terms. What would you advise this Committee, which after all is going to comment on the EU specifically? Is the EU seen as a sort of disguise of NATO?

Mr Alexander Kliment: From the Russian perspective, I think the answer is yes. Sometimes it is difficult from outside Russia to understand the tremendous objection and fear that Russia has, for example, about Ukraine joining NATO. From the West that does not seem to be such a pressing issue. NATO has no interest in accepting Ukraine as a member, just as NATO had very little interest in accepting Georgia and Moldova as members. The organisation does not want to accept members that would in effect become tripwires for conflict with Russia. From the Russian perspective, there has been an implicit link between expansion of the EU or the eurozone and the expansion of NATO.

From the Russian perspective, in some respects an implicit deal was made between the West and Russia just after the fall of the Soviet Union that NATO would not expand closer to Russian borders. This is how the Russians see it. In successive waves of expansion, NATO got closer and closer to the Russian border. So there is a real fear there. The Russians have also long had questions about what the post-Soviet purpose of NATO actually is. My understanding is that those questions have also arisen within NATO itself. Even if from the perspective of the West and NATO it does not seem likely that Ukraine will become a member, it is important to view it from the perspective of Russia, which has seen the expansion of European economic and political relations with former eastern bloc countries as ultimately a stalking horse for NATO membership, because over the past 15 years that is largely how it has played out.

Q25 Lord Trimble: Perhaps I can switch to the Obama Administration and ask you what you think the strategic aims of that Administration are with regard to Russia, and whether the EU and US are agreed on the broad framework and the details of policy towards Russia. Finally, how does the US Administration view the EU and member state policy towards Russia?

Mr Alexander Kliment: In 2008 and 2009, the Obama Administration tried to effect what they called a “reset” of relations with Russia. The idea was that with the election of Dmitri Medvedev as President of Russia, who in many respects is more cosmopolitan and outward-looking than President Putin, there was a real opportunity to build or rebuild a US-Russia relationship, which had got very bad during the Bush years but was full of promise for economic, political and diplomatic relations. Again, this was based, I think, on a failed assumption of convergent values. The Obama Administration put a lot of effort into the idea that they could lobby President Medvedev on a lot of these issues, ignoring the fact that in actuality the Prime Minister at the time, Putin, was still the most powerful person in Russia and that his views of the West in general and the US in particular were characterised by significantly more scepticism. So again there was a mismatch of expectations and a misreading of who actually was defining the agenda in Russia.
Since then the reset has totally failed. Obviously, the Ukraine issue is what really buried it, but even before that there were conflicts over human rights and political issues in Russia. The protests that preceded the re-election of Putin as President in 2012 were viewed in Moscow as having been fomented largely by the West. The rhetoric at the time was that the State Department had been fomenting those protests to destabilise, encircle and weaken Russia. However ridiculous it might sound from the outside, it was very much believed inside Russia, particularly in the Kremlin, that those protests were part of western designs to weaken Russia politically.

From then on, the relationship between the US and Russia really went south. You probably remember the debates about the so-called Magnitsky list, in which the US Congress sanctioned Russian officials connected to the death of Bill Browder’s lawyer, Sergei Magnitsky. A difference of policy on Syria further soured relations. Then, of course, the Ukraine crisis has arguably led to the worst US-Russia relations certainly since the end of the Cold War, and in many respects I think even including the Cold War.

The strategic aims of the US for Russia are now very limited. What the US wants from Russia is very limited co-operation on the Iran question and probably some co-operation on security in central Asia following the US and NATO withdrawal from Afghanistan. Outside that, the White House has been clear that as a matter of substance the US-Russia relationship is dead right now. The imposition of additional sanctions against Russia yesterday certainly will not help that, but I think the White House is comfortable with that and recognises that the relationship is for all intents and purposes dead at the moment.

On the differences between the EU and the US, did you mean specifically with respect to Ukraine or more broadly?

Lord Trimble: Whichever way you like.

Mr Alexander Kliment: With regard to the differences between the EU and the US in response to the Ukraine crisis, I think that both Washington and Brussels agree on the certain geopolitical imperatives at work and that Russia should not be allowed to flagrantly violate international norms; and, particularly from the European perspective, that Russia should not be allowed to hold a de facto veto over the decisions of European neighbouring countries on their political and economic orientation. I think the imperative to send that message has been underappreciated in a lot of the analysis of the European Union’s position on Russia. A lot of the analysis I see out there leads with “Europe is so dependent on Russia economically that it will never push Russia on these geopolitical questions”. My view is that that is incorrect, actually, and that the geopolitical imperatives for the European Union in general and Germany in particular, as far as I can tell from my conversations with people in Berlin, are significantly stronger than that. So there is a shared view that Russia’s actions in Ukraine are unacceptable in the sense of general international norms but also with respect to Europe’s interests in its own neighbourhood in particular.

The difference, of course, comes in how to shape and frame sanctions policy. The US is already willing to move ahead with wider sectoral sanctions on the Russian economy. This is partly because the US has much less economic vulnerability to Russia. Trade between the US and Russia is minimal. While there are specific companies in the US that have strong interests in Russia—ExxonMobil, John Deere and other companies in the energy and natural resources-related spaces—the US can impose sanctions on Russia without a huge amount of cost to itself directly. Obviously, the same is not true for the European Union. The
differences are that there is internal disagreement within the European Union about the wisdom, scale and scope of sanctions against Russia, the details of which you are certainly more familiar with than I am. There is also a dispute between the European Union and the US about the timing of those sanctions. The timing question can be resolved. Our view is that there is a strong likelihood that over the next several months the European Union will in fact move to greater sanctions against Russia in co-ordination with the United States. The difference has to do with timing more than intent.

The other interesting aspect of the policy towards Ukraine is that there has been a two-track approach of carrots and sticks—carrots for the Ukrainian Government and sticks for the Russian Government—in which the US has been leading on the stick side of the equation and the European Union has been leading on the carrot side of the equation, focusing more on support for the new Ukrainian Government, through the new association agreements and trade agreements, rather than focusing on punitive measures towards Russia. That sort of two-track policy seems co-ordinated, but the US has less at stake by sanctioning Russia, so it leads on sanctioning Russia. Europe has more at stake in taking ownership of Ukraine and bringing Ukraine into European norms and institutions, so it leads on that. That seems perfectly rational. The view that there is a huge rift between Europe and the United States on Ukraine policy is not correct. Certainly there are differences of opinion about the scale, scope and timing of sanctions, but as far as I can tell the overall views are aligned.

Q26 Baroness Young of Hornsey: You have indicated the economic and geopolitical reasoning for Russia’s turn towards Eurasia and away from Europe. You have also indicated some of the cultural reasons why that might be the case, but, to use a phrase you used earlier, do you think the shift in positioning is symbolic or substantive? How should the EU respond to that? What is your perception of what ordinary Russians might think of this turn away from a European identity?

Mr Alexander Kliment: That is a great question—symbolic or substantive with respect to the Eurasian Union. Again, it is largely symbolic. The real question for Russia in terms of economic growth and economic orientation has to do with Russia’s ability to integrate more with Asian markets. This has been a big issue for President Putin. Russia’s economy is not going to grow massively because it is integrated with Kazakhstan and Belarus—those economies are tiny next to Russia’s—but a major theme of Russia’s foreign economic policy in recent years has been the notion of Russia turning more towards Asia in general and China in particular. In fact, Putin himself wrote in one of his election manifestos of a Chinese wind filling Russia’s economic sails. This has become even more of an issue as the Ukraine crisis drives more of a wedge between Russia and Europe. The more substantive question is: can Russia integrate more with Asian markets, and can that be a source of economic growth? My personal view is that Russia is capable of integrating with Asian markets only if it resigns itself to being a natural resource supplier for those markets, which in the long term might not be in Russia’s interests. That will be more substantive than symbolic. The quality of that substance is open to question.

How do Russians view the turning away from Europe and European values? There is an interesting duality here. In one sense, views of Europe and of the United States in particular among Russians have deteriorated significantly over the past several years and particularly the past several months. At the same time, Russians view Europe as a place where they like to spend money, park their capital and take their vacations. The Russian middle-class is very
pleased to send its children to school in European capitals. It will become a problem for the Russian Government if those avenues to Europe become increasingly closed because of either European action or Russian action. It is a great question. In the abstract, Russians feel increasingly encircled by the decadent West, as I mentioned earlier, but as a matter of personal interest, wealthy Russians increasingly have very extensive ties to Europe. To the extent that those ties would be closed off, that would hurt their interests.

Q27 Baroness Billingham: My question follows on closely from the previous one. To what extent is Russia’s foreign policy driven by domestic political considerations, and what are the implications for the EU?

Mr Alexander Kliment: President Putin’s approval ratings, which have reached the enviable level of 84% or 85%, were enviable even when they were at 61%, which was not long ago but they have since shot up significantly, and that is almost entirely to do with Russia’s foreign policy. For many years, Putin’s popularity, which again has been the envy of just about any western leader for many years now, was based on a basic contract with the Russian population that in exchange for closure of political freedoms and accountability, their incomes would grow. It was an economic justification for the semi-authoritarian system that has taken root in Russia. With economic growth slowing, stagnating and perhaps even retracting, that rationale for—let us call it—Putinism has evaporated. Putin has been in search of a new narrative to justify his system in Russia. While I do not think that the Ukraine crisis was premeditated for that aim, it presented exactly that opportunity.

The way Putin framed the annexation of Crimea in his speech in March was largely as Russia finally springing back against years, decades, and in some sense centuries, of western encroachment and perfidy, and that Russia had basically had enough and was pushing back and asserting its interest, no longer trying to play the role of an equal partner with Europe, which was not interested in that, but directly going on the offensive to assert its interests. Russians absolutely loved that message. It was a speech that Russians in a sense had been waiting to hear for years. In one respect, an 85% or 86% approval rating is great, but in my view there has never been an 86% approval rating that was in fact such a liability. Why is it a liability? Because it is based on unrealistic expectations. I spoke earlier about unrealistic expectations of Russia from the Europeans. In a certain respect, Putin has created unrealistic expectations among his own population about what can be achieved by this new, more expansive, revanchist foreign policy.

If we look at the way in which the Ukraine crisis has been framed, Putin is riding high on the notion that Russia is defending its interests in eastern Ukraine, defending the rights and security of Russian speakers and Russian ethnicities. But this is a dangerous path for him to be on in the sense that it is hard for him to go much further than eastern Ukraine. He cannot go to the Baltics, because those are NATO countries, as I mentioned earlier. He cannot antagonise Kazakhstan and Belarus because those are his only two close allies in the region. So the room for this kind of Russian revanchism to grow and bear fruit is actually quite limited. In a situation where the economic rationale for Putin’s system has evaporated and the popularity and support around it depends on this kind of combative and pugnacious foreign policy, that creates a significantly heightened risk of conflict between the EU and Russia—not open conflict but indirect conflict of the kind that we are seeing in Ukraine.
Q28 The Chairman: Thank you very much, Mr Kliment. I will conclude with a question I was composing as you were answering a number of others. Do you agree with the statement that the present crisis between the West and Russia has arisen from differences between the EU and Russia over association agreements with Ukraine and others—I am not attempting to apportion blame, but the casus belli, as it were, has been the differences between the EU and Russia over EU relationships with these countries—yet the key dialogues now are between Washington and Moscow and Washington and Kiev, and the EU is not the main interlocutor for either Moscow or Kiev? Is that an accurate statement, or do you think that I am understating the EU’s position?

Mr Alexander Kliment: That does in some respects underestimate the EU’s position, particularly on the question of whether the key dialogue is between the US and Moscow. The absolutely crucial dialogue is between Berlin and Moscow right now, first, because the US and Russia are just not talking very much at all right now, but, secondly, because the framing of Europe’s response is very much to do with the Germany-Russia relationship. As recently as Sunday’s World Cup Final, you saw Angela Merkel and Mr Putin sitting next to each other and talking. That is not a picture you will see of President Obama and President Putin any time soon. The European Union is playing a key role, and the dialogue between the European Union in general and Russia, and between Berlin in particular and Russia, is absolutely crucial right now. With respect to dialogue with Kiev, the main and most important line of communication is also between Brussels and Kiev. That is even more true in the wake of the signing of the association agreement and the DCFTA. There is no question that Kiev’s primary relationship now, politically and economically, is with Europe, certainly not with the US. The US does not have any distinct or tangible economic interest whatever in Ukraine. The Europeans really are at the centre of this issue, both in responding to Russia and in dealing with Ukraine.

The Chairman: Thank you very much. That is a very thought-provoking response at the end of an extremely thought-provoking series of answers that you have given us. Thank you very much indeed.

Mr Alexander Kliment: Thank you very much for having me. It has been an honour.
Western assurances about NATO enlargement 1990-91

Summary

a) The September 1990 treaty on German reunification contained nothing to rule out the Eastward expansion of NATO beyond Germany.
b) Nor were any texts subsequently negotiated that gave such assurances.
c) Some of the language used by American and West German officials in the run-up to the German reunification agreement was loose.
d) Responsible Western officials speaking after the German reunification agreement did specifically say that there was no intention of enlarging NATO further.
e) The Russians still refer regularly to this record, and claim that they were treated in bad faith.

The assurances

a) Assurances given in 1990:
   1. James Baker, US Secretary of State, 9 February 1990: "We consider that the consultations and discussions in the framework of the 2+4 mechanism should give a guarantee that the reunification of Germany will not lead to the enlargement of NATO’s military organisation to the East";
   2. Helmut Kohl. German Chancellor, 10 February 1990: "We consider that NATO should not enlarge its sphere of activity".
b) Assurances given in 1991:
   1. John Major. British Prime Minister, Speaking to Defence Minister Yazov, 5 March 1881: "He did not himself foresee circumstances now or in the future where East European countries would become members of NATO";
   2. Douglas Hurd, British Foreign Secretary, speaking to Foreign Minister Bessmertnykh, 26 March 1991: "[T]here were no plans in NATO to include the countries of Eastern and Central Europe in NATO in one form or another";
   3. Francois Mitterand, speaking to Mikhail Gorbachev, 6 May 1991: "Each of the [Eastern European] countries I have mentioned will seek to ensure its security by concluding separate agreements. With whom? With NATO, of course. ... I am convinced that is not the right way forward for Europe." This was, of course, a prediction, not an assurance. ²
   4. In June 1991 the then secretary-general of NATO, Manfred Wörner, declared that enlargement would complicate the relationship with the Soviet Union and was not under consideration. ³

² Russian archives, quoted by Yevgeni Primakov, Gody v Bolshoi Politike, Moscow 1999, pages 231-246.; FCO archives for records of exchanges between John Major and Soviet Defence Minister Dmitri Yazov, and Douglas Hurd and Soviet Foreign Minister Alexander Bessmertnykh. I was present on both occasions,

³ Among scholars who have written extensively on this subject are Mary Sarotte and Mark Kramer, who is the source for the Wörner statement.
This factual record has not been successfully challenged in the West.

Discussion

Russians say they were given assurances by Western leaders in 1990-1991 that NATO would not be enlarged beyond united Germany. They regard the subsequent enlargement of NATO as a breach of faith.

Some Western officials and historians say either that that no assurances were given, or that they were without significance, or that they have to be seen in the context of a rapidly changing situation.

An important distinction needs to be drawn between Western assurances given in 1990, and those given in 1991.

Somewhat ambiguous language was used by Western negotiators in the "2+4" negotiations between the Soviet Union, the United States, Britain, France and the two Germanies about the status of united Germany and its position in NATO.

American officials later argued that James Baker's remarks in that context referred only to the possibility that NATO forces would be introduced into Eastern Germany after reunification. As they stand, however, the remarks can be interpreted as referring to a wider expansion. In the event, Baker's point was dropped from the US negotiating position in the 2+4 negotiations, because his lawyers advised that it was not sustainable. A form of words concerning the deployment, exercising or stationing of non-German as well as German NATO forces in East Germany following reunification was agreed in the last hours of the 2+4 negotiations in Moscow on 13 September 1990.

The situation had, however, changed radically by the beginning of 1991, when the Warsaw Pact was on its last legs. John Major and Douglas Hurd were replying specifically to questions from their Soviet interlocutors about a speech by the Czech President Havel arguing that Czechoslovakia, Hungary and Poland should all be brought into NATO. Other American and European spokesmen, and the NATO Secretary General, were also speaking in this changed context. None of them seem to have been speaking to a line that had been formally agreed in NATO itself. It is however unlikely that there was no consultation between governments about what to say on such a sensitive issue.

Poland, Czechoslovakia, and Hungary joined NATO in 1999; the other former members of the Warsaw Pact and the Baltic States joined in 2004.4 Thereafter the Americans under President G W Bush, supported by the British, pressed hard for the NATO to take in Ukraine and Georgia as well. At that time Ukrainian opinion was on the whole against membership, while Georgian opinion was in favour. There seems to have been no official analysis of the central issue: if NATO took in these two countries, would it be able to generate the military plans, the resources, and the will to defend them against aggression? The movement was in any case halted by the French and the Germans at the Bucharest summit in 2008.

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4 Croatia joined in 2009.
In 1990-1991 the world was in turmoil. Germany reunified much more rapidly than anyone expected, Communist governments were falling all over Eastern Europe, there was war in Iraq, and tragedy loomed in Yugoslavia. It is perhaps not surprising that Western leaders failed to consider the issue of NATO expansion more systematically. At that time the possibility seemed remote.

Nevertheless, it is also unsurprising that the Russians took seriously repeated the high-level oral assurances they were given by Western officials who, they naturally assumed, were speaking responsibly; or that, when NATO began the process of enlargement in 1994-5, they felt that they had been badly misled.

An alternative?

Although some Western commentators have argued differently, the Russians have never claimed that they were given written assurances. Indeed Yevgeni Primakov, Gorbachev’s adviser in 1991 and subsequently Prime Minister and head of the External Intelligence Service, along with other Russians, later argued that the Gorbachev government ought to have got Western assurances about NATO expansion in writing. Some Russians maintain that this was another example of Gorbachev’s failure to stand up for Soviet interests.

This is unrealistic. If the Russians had demanded written assurances, Western governments would have had to consider much more carefully whether or how they wished to bind their hands for the future. It is highly unlikely that they would have agreed. The chances of the Russians getting written assurances were close to zero.

Regardless of what assurances were or were not given, some people in the West argue that it was a major error of policy to alienate Russia by enlarging NATO into Eastern Europe without providing for a wider European security arrangement in which Russia was included.

But the uncertainty following the collapse of the Soviet Union, and the unsurprising concerns of the East European countries including the Baltic States that they would be left to deal with the consequences on their own, were powerful motives for NATO to move into a vacuum. NATO enlargement was almost inevitable in the circumstances, even though it was tainted by Western triumphalism and sloppy Western diplomacy.

How far the deterioration of relations between Russia and the West over the past twenty years would have been slowed or prevented if NATO had not expanded remains an open question. There have been plenty of other sources of friction.
THURSDAY 24 JULY 2014

Members present
Lord Tugendhat (Chairman)
Baroness Bonham-Carter of Yarnbury
Baroness Coussins
Lord Foulkes of Cumnock
Baroness Henig
Lord Jopling
Lord Lamont of Lerwick
Lord Maclennan of Rogart
Lord Radice
Lord Trimble
Baroness Young of Hornsey

Examination of Witnesses

Sir Tony Brenton KCMG, former British Ambassador to Russia, and Fellow of Wolfson College, Cambridge, and Mr John Lough, Associate Fellow, Russian and Eurasia Programme, Chatham House

Q29 The Chairman: Good morning, Sir Tony and Mr Lough. Thank you very much for coming before us. This is the first meeting that we have held since the tragedy of MH17 last week, so I thought I should start the formal proceedings of this Committee by registering on our behalf our deep regret at the terrible tragedy and expressing our sympathy and condolences to the families and friends of those who lost their lives. I would be grateful if that could be minuted.

As I say, this is a formal meeting of the Committee, so what you say will be taken down. We have a great many questions to get through and I would like, if possible, to finish this aspect of our meeting by about 11.15 am, so perhaps I could ask you to be brief with your answers. Do not feel that you are both obliged to answer everything, but by all means, if you have
Sir Tony Brenton KCMG and John Lough—Oral evidence (QQ 29-51)

differing views or want to express support, please do so. If you feel that a question we put to you is outside your area of expertise or you do not feel confident in expressing an opinion, please do not feel obliged to answer, but we should very much value your opinions on the issues that we are going to raise.

As a result of rules on declarations of interest, I am afraid that each of us has to preface our first question on this occasion by declaring our relevant interests. That is why I will do that now, otherwise you might wonder what we are doing. The relevant interests that I have declared are my chairmanship of the European Policy Forum and my membership of the advisory council of the Official Monetary and Financial Institutions Forum.

I have mentioned MH17 but I think I have to start by asking you both to what extent you think the tragedy impacts on EU-Russia relations, which obviously it does. Does it do so for good or ill? Do you feel able to make any preliminary judgments about what the result of that tragedy is, both in terms of Moscow’s reaction and what might be appropriate on the EU side? Sir Tony, I turn to you first.

**Sir Tony Brenton:** That is a big question. Briefly, it obviously impacts on EU-Russian relations. It has intensely sharpened the pressure on EU governments to be tough with Russia in the whole Ukraine context. We have seen a lot of discussion in the EU already on that subject. On the Russian side, they are still registering how much difference it has made. Putin is in a rather narrow circle. I think that Angela Merkel in particular has been talking pretty frankly to him, but I am not sure which other foreigners he listens to, and they are still waking up to how much damage the MH17 tragedy has done to them.

**Mr John Lough:** I completely concur with that. There is no doubt that this puts a spotlight on Moscow. It increases the level of impatience and frustration on the part of a number of leading European countries that wish to address the Ukraine situation in a meaningful way. In Moscow at the moment we are seeing preparation, if you like, for a probable further set of sanctions. It was significant that two days ago Mr Putin chaired a session at a security council to talk about the threats to Russia’s territorial integrity. It concluded that there were none but went on to talk about Ukraine and the possible consequences of this crisis. That is an effort perhaps to prepare people for the fact that there is more coming down the line.

**Lord Radice:** Just following on from that, does this focus rather more sharply our attention on the flood of arms that is apparently coming over the border from Russia into eastern Ukraine? There is a report in today’s FT which talks about Russia building up an army—not a Russian army but an east Ukrainian army—that is extremely well armed in all sorts of ways. What do you feel about that?

**Sir Tony Brenton:** Yes, this is depressing news. There was a sign earlier, when the Russians backed away from supporting the east Ukrainians—when they demobilised their troops, ended the legal authorisation for direct intervention in east Ukraine and recognised the Poroshenko election, and all that—that they were backing away from too vigorous a pursuit of their interests in Ukraine. I think they began to decide to reverse that when it became clear that the Ukrainian rebels were losing. They are maintaining their approach of equipping those rebels with heavy arms, and no doubt training them and placing people among them, even though the tragedy of MH17 has happened. So they are playing for pretty high stakes now.
Q30  **The Chairman:** This is a general question. Looking back at EU diplomacy towards Russia, not only in response to the situation in Ukraine but going back further, what do you think the EU has done right and what mistakes has it made? Clearly, there have been mistakes. Again, can we start with you, Sir Tony?

**Sir Tony Brenton:** It is easier to answer the second part of that question, although I can give one answer to the first part, which is that what the EU is good at is trade. There is exclusive community competence on trade and the EU played a key role, for example, in getting Russia into the WTO. It continues to play a sharp and effective role on trade, but on general political and security questions its problem is that its member states are very sharply divided in their approaches to Russia. To take two extremes, Germany and Italy have huge economic stakes in a good relationship with Russia at the one end, and Estonia and Poland are deeply suspicious of a resurgent Russia at the other. It is very difficult for the EU to arrive at a coherent position in any case. Also, the EU’s whole approach to diplomacy is slightly Utopian. It believes in vast documents signed by both sides. When I was ambassador there, we dealt in a thing called the four common spaces. It was ghastly. I shocked my staff by actually reading it. It was full of wishy-washy good intentions but there was nothing substantive there. It is fair to say, therefore, that the Russians really do not take the EU very seriously as a diplomatic actor.

**Mr John Lough:** I would simply answer that the EU is not a geopolitical organisation. It does not have a geopolitical bone in its body. But apart from the development of trade, it is very good at encouraging standards of governance. It has achieved fantastic things in parts of central Europe, notably in an important country on Ukraine’s western border, namely Poland, and to a lesser extent in Romania and Bulgaria. But if you are a Ukrainian citizen looking out at the world, you are very cognisant of the fact that a significant neighbour has made extraordinary progress over the last 25 years while your country has stood still or even regressed. From that point of view the EU has been the beacon of hope, but the fact is that it got way out of its depth in pushing this association agreement. There was nothing intrinsically wrong with that but it played into a developing political crisis in Ukraine. Even two years ago, some people warned that if Yanukovych carried on looting the country in the way he was, the lid was just going to blow off in Ukraine.

Two things merged. Russia was increasingly turning away from Europe, defining itself in anti-European terms and suddenly feeling that it was being challenged by the Eastern Partnership. In a way, it had simply ignored that before. I think it thought that it was a totally under resourced and hopeless initiative that was being conducted by an organisation with so many divisions in it. It suddenly woke up to the fact that there was a challenge and a couple of crises then simply merged. We then saw these remarkable events in Kiev in February, which I think simply stunned the Russians. They had not seen that coming.

**The Chairman:** Lord Maclennan has a supplementary.

**Lord Maclennan of Rogart:** Sir Tony, you spoke about the lack of geopolitical impact, but would you agree that the Union is trying to do something about this?

**The Chairman:** Remember to declare your interests.

**Lord Maclennan of Rogart:** I have nothing to declare.

There is the setting up of the External Action Service, the activity in Iran and so forth.
**Sir Tony Brenton:** It is fair to say that the EU is keen to play a larger role on Russian policy, but it was very striking that at the moment of the crisis in Kiev back in February, when the Maidan was occupied and Yanukovych fell, the EU’s interests were not pursued by the EU machinery. They were pursued by the so-called Weimar triangle, which is the French, the Germans and the Poles, because they have the deftness and political weight to co-operate in that very chaotic environment and to get results in a way that the EU simply could not manage.

**Q31 Lord Lamont of Lerwick:** Lord Chairman, I refer to the register of interests and the interests that I declared before this inquiry began. I am an adviser to Stanhope Capital and, like you, I am on the advisory board of the Official Monetary and Financial Institutions Forum. I am also on the advisory board of the Eurasian Council on Foreign Affairs.

This question to some extent overlaps with the first one, as it is about the effectiveness of British diplomacy at the EU level and in bilateral relations with Russia. How effective is that? Is the UK a constructive player and does it promote a coherent strategy on Russia with its EU partners?

**Sir Tony Brenton:** As an ex-British diplomat, naturally I think that our diplomacy is pretty good. Our relations with Russia have been dogged by a succession of problems that have placed us at a distance. Boris Berezovsky lived here in London and there are a host of other people who the Russians would dearly like to get their hands on living in London. The positions we take are seen in Moscow as being in the shadow of the United States, and therefore if they want to hear the hard western line they will go to Washington rather than come to London. So there are issues of that sort.

On the other hand, we have some assets. We have very big energy investments there and our energy companies are active in the area. Moreover, I think that Mr Cameron has worked very hard, up until about now, at trying to improve relations and to get over some of the issues. The particularly huge problem we had when I was there was, of course, the murder of Alexander Litvinenko. It meant that everything was frozen by the end of my time and we are still living with the aftermath of that. There are still sanctions in place, and of course a public inquiry has just been announced, which is just going to make things worse again. We are as effective as we can be against a background of difficult core factors in the relationship.

With regard to the EU, as I say, on the trade side I think that we are supportive and involved, and that is all reasonably straightforward. On the political side, certainly in my time and I do not think it has changed very much, the disposition is to regard the EU as a not very useful instrument for most of the time. It can be. If you want to protest about an appalling thing that the Russians have done and do not want to raise your own head above the parapet, the EU is a natural route to go through. I think we did that with regard to certain pressing human rights cases. But even that does not always work. I go back to the Litvinenko case. When we were directly affected and hit by the Russians—probably—getting EU backing for us in those circumstances was extraordinarily difficult. The EU fragmented because everyone was far more worried about their own interests with Russia than they were in backing a member state. Similarly, when the Estonians underwent a huge cyberattack from the Russians, there was a total lack of EU unity in response.

**Lord Lamont of Lerwick:** Could I go back to your answer to the Chairman at the beginning, because I think this question has to be asked? Some people think that the EU was a bit
provocative and too active—in among the crowds and so on—when the demonstrations against Yanukovych were developing. Do you think there is anything in that criticism?

Sir Tony Brenton: I think the failure probably happened earlier than that. As John has said, the EU, in its approach to the association agreements no doubt—in fact, I know it was—kept the Russians informed of what it was doing, but it would have been very careful not to give the Russians any impression that they were being given a droit de regard over what the Ukrainians, the Georgians or anyone else was going to be able to sign. So there is no evidence that the Russians really took to a high level the extent to which the EU was pursuing this and there is no evidence that the EU—more than any of the member states, actually—really appreciated how tough the Russian reaction was going to be. There was a lack of purely simple thinking about how the Russians were behaving at that stage.

That leads us up to the fall of Yanukovych and the Maidan revolts. I am not sure that the situation was saveable at that point. By the time Yanukovych had fallen, the Russians had decided that there was a great western plot against them, probably more American than EU, to displace them from their oldest and closest friend, Ukraine, and they were determined to roll that back as far as they could, hence the annexation of Crimea in particular.

Q32 Baroness Henig: Following on from that, a previous witness talked to us about the issue of basing relationships on interests rather than values, and we went on to have a discussion about that. In the current state of relations, do you think, first, that the EU should continue to raise values such as human rights, the state of Russian democracy and so on? How are the Russians going to view EU attempts to reform Russia? Secondly, you said that you thought that British diplomacy was very effective. I am sure that was the case some years ago, but if we look at the position today, do you feel that the UK raises difficult and thorny issues with the Russians effectively?

Sir Tony Brenton: I shall take the second question first. British diplomacy towards Russia and elsewhere has suffered because of a loss of language skills, particularly in the Foreign Office. There was quite a lot of complaint in Whitehall after the annexation of Crimea that the Foreign Office had not been able to give the sort of advice that was needed at the time. I think that is regrettable and it marks a change from when I was there. That is all I can say. Certainly when I was there we felt that we understood Russia pretty well. We knew which buttons were worth pushing in Moscow, which were rather few, and which were the buttons it was pointless to attempt to push. For example, when that boat was seized right beside Iran with a bunch of British sailors on board, the Russians happened to have close relations with the Iranian Government. We were able to get in very quickly with the Russians and through them send a message to the Iranians that we wanted the sailors to be released. That was quite a helpful piece of bilateral business that we were able to do. I am sorry, but I have lost the first question.

Baroness Henig: Of course. The first question was about human rights.

Sir Tony Brenton: Oh yes. I am absolutely convinced that we and the EU should continue to remind the Russians of our discomfort with their whole approach to human rights. It costs nothing. They are used to these lectures and they do not pay a lot of attention. However, if we stopped doing that, it would be seen, first, as a signal that we had lost interest. Secondly, there is of course a brave minority in Russia—the persecuted—who take heart from the fact that they have our and EU support. We need to maintain that support.
Q33 Baroness Coussins: I should first declare my interests. I am an independent consultant to four companies that are listed: Brown Forman, Mars Chocolate UK, Heineken and Camelot. I advise them on corporate responsibility. It is very difficult to think of anything that could be win-win in this situation, but would not one helpful thing that the EU could do, which is something that Putin is always complaining about, be to make sure that the EU does all it can to ensure that all the member states are doing what they should do, which should be compatible with EU values anyway? They should stop discriminating against Russian speakers, Russian nationals, ethnic Russians—however they are defined—who are perceived by Putin and Russia to be at a disadvantage in various other member states. Would it not be helpful for the EU to be seen to be taking some steps to make sure that that kind of discriminatory treatment, where it exists, is eliminated or at least condemned?

Sir Tony Brenton: When I was ambassador in Moscow, the Russians regularly complained to me about EU double standards, particularly with regard to the Russian minorities in Latvia and Estonia, the two places where they are disadvantaged largely by language tests being the route to civic rights. I did ask London about this and I was reassured that the practices of the Latvians and the Estonians were defensible in terms of EU values. I have to say that my private instinct at the time was the same as yours: that more could be done. The Commission has to be quite careful about how it handles its relations with member states, but as I say, my instinct was the same as yours in that more could have been done, even though in purely legal terms I was told that Latvia and Estonia were acting within the parameters of EU standards.

Q34 Lord Foulkes of Cumnock: I have no relevant interests, you will be pleased to hear. Sir Tony, I want to continue to ask you about your time as the ambassador. I was astonished to read, I think it was in the Daily Mail, that you had been harassed by members of Putin’s youth wing and that you were in constant fear of Russian espionage at the British embassy when you were there. Do you think that some of us have assumed that things have changed in Russia when really they have not?

Sir Tony Brenton: Things have undoubtedly changed in Russia. It is not a communist country. There are opposition parties; they are pretty feeble, but they are there. Believe it or not there is an opposition press, and the internet is still much freer, even despite recent restrictions, than it is, for example, in China. Discussion is relatively free. If you are an opposition candidate who looks as though he is going to win, you might have some problems, but as long as you are an opposition candidate who looks as if he is going to lose, you are fine. That said—John may have something to say about this—bits of Russia remain very unreconstructed, most notably the security agencies. Yes, in the embassy we knew that we were being subjected to constant surveillance—microphones and other stuff in our houses and so on. The harassment of me personally was a bit worse than we normally expect, really. I will not give you all the background. I had to give a speech at an opposition conference that largely consisted, I have to say, of quotations from President Putin but nevertheless so aroused their anger that a group called Nashi was set on me for several months. If you want an insight into the psychology of paranoia, you should try living with that. It did not work. They were demanding an apology from me which I was not going to give. That is a sign of how the Russian state is willing to be nasty even to diplomats when it chooses to, and I think the Russian capacity for that sort of nastiness has gone up in the past few years. Let us consider the death of Sergei Magnitsky, for example. I think John has some stories that he may or may not want to tell you, but the hand of the Russian state
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intervening wherever it likes in Russian society by applying unpleasant pressures on those whom it takes an interest in has, I think, become stronger.

**Lord Foulkes of Cumnock:** John’s stories might be an insight into that.

**Mr John Lough:** I am not sure that I am prepared to relate them here when we are on the record, but we may speak privately about them if you wish. What I will say is that I agree absolutely with Tony that we have seen the security apparatus return in a very significant way. It has re-energised itself and it has managed to impose on society a certain view of the outside world. Many of those old instincts that we thought might be on the way out because they are incompatible with the modern world of the internet, access to global media and that sort of thing seem to have returned with greatly increased vigour. If you have the misfortune to watch Russian state media at the moment, it is actually a tragic experience. You can see what is being done to public opinion, if we can call it that in Russia. This is deeply destructive and it is going to leave a horrible legacy for western countries to deal with.

**Lord Foulkes of Cumnock:** We have seen that in the Malaysian Airlines air crash, have we not? Is that not a good example?

**Mr John Lough:** Absolutely. First of all there was complete denial that it had had anything to do with Russia—of course it was the Ukrainian armed forces. Then there was the mythology about how the Ukrainians were trying to shoot down President Putin’s plane. Any sort of idea can be fabricated and it suddenly seems to acquire momentum in the Russian information space, which has been severely restricted. It is now much more difficult to gain access to certain global media than was the case just a few months ago.

**The Chairman:** Presumably, given the way in which diplomats are treated, people in business—westerners in business—are having much the same experience.

**Sir Tony Brenton:** Or worse, because of course they do not have the protection of diplomatic immunity.

**Q35 Lord Lamont of Lerwick:** I totally agree with what you have said about the Magnitsky case and the treatment of human rights. I say that because I want to raise a question relating to things from the Russian viewpoint. You were asked about the position of Russian speakers in the Baltic countries and I was rather surprised by your answer. You said that you had been assured that that treatment was consistent with European human rights or the European Convention on Human Rights. Mr Putin, in an article he wrote a few months ago, of which all members of the Committee have a copy, referred to this at great length and said, “We cannot tolerate the shameful status of ‘non-citizen’. How can we accept that, due to their status as non-citizens, one in six Latvians and one in 13 Estonians are denied their fundamental political and electoral rights?” The recent referendum in Latvia on the status of the Russian language again demonstrated how acute this is. Some 300,000 non-citizens were once more barred from taking part. I tabled a Question here to ask whether the British Government had ever taken up with the Latvian or the Estonian Governments the issue of Russian speakers in those countries. The response was that they had never taken it up. Are we really just ignoring something that the Russians have some reason to have a bit of a grievance about?

**Sir Tony Brenton:** As I said, I agree that it looks bad. The justification that the Latvians and the Estonians offer for their position is that it is a language test for other citizens’ rights.

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Most of these citizens are actually military pensioners who on the whole, with the greatest possible respect to this audience, are too old to master the local language and therefore remain excluded from civic rights. The Russians are angry about it, as Putin’s article demonstrates, and they raised it quite regularly when I was there. I am inclined to agree that the EU, and maybe privately the UK, should be encouraging the Latvians and the Estonians to do more.

**Lord Foulkes of Cumnock:** But are these not people who had been sent in by the Soviet Union to keep the Latvians and the Estonians under control?

**Sir Tony Brenton:** No. When the Soviet Union existed, a lot of retired Russian military people retired to those countries because they could live anywhere in the Soviet Union. Frankly, they wanted to live by the seaside or whatever it was. That is where the population came from.

**The Chairman:** I know that Lord Trimble has a supplementary question for you, as does Lord Jopling.

**Lord Trimble:** Actually, Mr Chairman, I was going to move on the question.

**The Chairman:** If Lord Jopling’s question is directly related to this issue, perhaps we should take it first.

Q36 **Lord Jopling:** I do not think that we are due to come back in the course of the meeting this morning to Estonia and Latvia, which are the two Baltic states that share a border with Russia. Thinking of the Russian-speaking minority, how much of a danger do you think there is that Putin will be tempted to do another Ukraine in those two countries by surreptitiously arming those who live there and surreptitiously moving his Chechen-trained thugs to go in there in the same way as he has done in Ukraine?

**Sir Tony Brenton:** That conjures up a sort of “Dad’s Army” image. I think it is very unlikely. The core reason why it is so unlikely is because, of course, both Latvia and Estonia are members of NATO. If the Russians did not take NATO membership seriously and hold back on the whole from constituting security threats to NATO members, we would not be having the problem that we see now in Ukraine and we would not have had the problem that we had in Georgia in 2008. The Russians take NATO membership seriously. In my estimation, they are not going to seriously threaten the security of NATO members, including Latvia and Estonia.

**Lord Jopling:** How firm do you think NATO itself is about Article 5?

**Sir Tony Brenton:** Article 5 is the raison d’être of NATO. If NATO failed to live up to that article, the organisation would be demonstrably worthless and it would collapse.

**Lord Jopling:** Thank you.

**Mr John Lough:** I would like to point out that I agree with Sir Tony. If the Russians were to get into some sort of direct confrontation with the Baltic states, that would lead to a dramatic escalation of tensions with western countries. They know that is a risk they simply cannot take. However, that does not mean that a series of covert actions could not be taken to test the will of the Estonian and Latvian authorities to deal with the problem, and to see what kind of reaction it generates in a number of western capitals. We saw that in the removal of the monument of the bronze soldier seven or eight years ago—I have forgotten
the exact year—and in effect there was a riot in Tallinn. Part of the local Russian population was then radicalised so that in that tiny country of 1.5 million people, you suddenly had a serious problem on your hands. Could the Russians stoke up a bit of trouble there? I think they could do it very easily, but it would be risky.

**Q37 Lord Trimble:** This question relates to the Eastern Partnership and the association agreements, and taking into account Russian views about them. You have largely covered that by saying that the Russians have now adopted a firmly hostile attitude both to the association agreements and to the Eastern Partnership. Evidently we did not realise that they were adopting such a hostile attitude. How did we make this mistake?

**Sir Tony Brenton:** I think we sort of knew it—“we” being at the middle-ranking level in the European Commission and the action force. I was over there to see Catherine Ashton about something else and I spoke to a few people then. They said that they were pursuing it. At the same time the Russians are of course pursuing their Eurasian Union, so we are in competition. However, we intend to pursue this because we do not see it as a direct threat to Russia, and we hope that the Russians see it in the same way. There was certainly an awareness that there was a competition was going on, but as I say I do not think that awareness was felt at a high enough political level in the EU for people who really understand Russia actually to be asked how tough the Russian reaction was likely to be. It became apparent only towards the middle of last year when the Russians imposed economic sanctions on Ukraine as the first step towards stopping Ukraine from, as they saw it, signing the association agreement. People then began to wake up to how Russia was feeling. But even then, actually, the EU pursued the association discussions with Ukraine—with Yanukovych as the co-partner to the EU in them—with a reasonable level of confidence that they were going to be brought to a successful conclusion.

**Lord Trimble:** And without realising that the Russians were going to take a very negative position.

**Sir Tony Brenton:** They knew that the Russians were—“hostile” is too strong a word—did not like what was happening, but they assumed that whoever it was, Ukraine could simply ride over that.

**Lord Trimble:** Did they have any grounds for making that assumption?

**Sir Tony Brenton:** In a sense, Russia’s behaviour has been very uncharacteristic. I saw quite a lot of Putin when I was the ambassador, and one of my conclusions about him was that he is a very risk-averse man—a cautious man who does not expose himself or his country to real danger. I saw him get into various confrontations with the West, most notably over Georgia, where Russia finally stepped back from the brink even after it had fought its war and won it. The annexation of Crimea was not the Putin whom I had known. As I talk with Russian experts, that is the general feeling. No one, but no one, anticipated the annexation of Crimea. There are various explanations in retrospect for why Putin did it, and therefore the assumption that “the Russians don’t like this but they will probably live with it” was reasonably consistent with the Russia that we thought we had prior to the Maidan revolution.

**Lord Trimble:** I should have said something about the register of interests, which records me as being a trustee of the Henry Jackson Society. That might be thought to be relevant to this witness session. However, I ceased to be a trustee nearly a year ago. It is another thing on
the register that is now a matter of history and which I have not yet got around to updating, but I will do it soon.

The Chairman: Thank you. I think that Mr Lough would like to speak.

Mr John Lough: Thank you, Lord Chairman. I will try to respond to Lord Trimble. It is important to keep two things apart here. The EU did indeed underestimate the determination of the Russians to ensure that Yanukovych would not sign the association agreement. They put tremendous pressure on him, having taken those trade measures last summer. A lot of weight was put on his fingers to make sure that he was not going to sign. The Russians believed that they had been successful. There was a Russian official who said in December, “Ukraine is ours. We have solved this problem”. That triggered some relatively small demonstrations in Kiev—the initial pro-European Euromaidan, as it was called. People thought that this was going to come to a fairly rapid end, and it looked as though it might simply peter out. Then Yanukovych used force. Whether he was under pressure from Moscow to do so, who knows? However, the demonstrations then became directed against Yanukovych personally and his regime. I think that is what the Russians completely misread. There was a mood in Ukrainian society, a degree of civic organisation that simply does not exist in Russia, and some very courageous people who were prepared to go out in front and lead the effort. Moreover, this was coming from the street. There was no proper political leadership of the movement. Within a very short space of time, Yanukovych had completely lost control of the situation and the Russians had given up on him. I absolutely agree with Sir Tony that no one saw this coming—that the Russians would simply annex Crimea within three weeks. Is Putin risk-averse? I think that one of his KGB instructors gave Putin a reference saying that one of his problems was that he had a low sensitivity to risk. It may be that as the President he overcame that insensitivity to some extent, but it really looked as though he and that small cohort around him were somewhat bounced into reacting to the situation in Ukraine. They believe fundamentally that western countries are responsible for this revolution in Ukraine, that it is a model that has been tried out elsewhere and that one day it might indeed come to Russia. These so-called “coloured” revolutions are seen by them as an extraordinary threat. Putin has personally experienced two colossal humiliations in Ukraine. The first goes back to when President Yanukovych won a fraudulent victory in the presidential election in 2004 and there had to be a rerun of the second round. Putin had a lot of egg on his face because he had been the one who first congratulated Yanukovych on his victory. The Russians misread the situation then and they misread it again 10 years later. They have a capacity to get Ukraine wrong because they think it is like Russia. However, Ukrainian society is in many ways very different.

Q38 Lord Jopling: I did not declare my interests in my earlier question. I receive funds from the common agricultural policy, I am a member of the British delegation to the NATO Parliamentary Assembly, and I am chairman of the committee there on civilian aspects of security. Last week, our witness told us that the EU had to decide between on the one hand a functional relationship with Russia, and on the other in deepening its relation and cooperation with the countries in the eastern neighbourhood. Do you recognise that, or do you think that it is not a stark choice and that a working balance can be struck in that neighbourhood? Finally, leaving aside Ukraine, do you think there are other red lines for Russia like Ukraine? I am thinking of Moldova, Georgia and Armenia. We had a delegation from there a couple of weeks back and they told us of the massive bribes that the Russians are offering them to join up with the Eurasian Economic Union.
Sir Tony Brenton: No, I do not think there is a stark choice between the EU having tolerable relations with Russia and with the countries that are now involved in the Eastern Partnership. What goes wrong, and what has gone wrong in Ukraine, is when the EU behaves as if it is looking seriously to attract those countries into the western orbit, with association agreements in the past being a preliminary to those countries joining the EU, which in the past was always a preliminary to those countries joining NATO, which is really the Russian red line. It is perfectly possible for the EU to have good, close, economic and political relations with those countries, provided that it is not seen to be trying to pull them in that general direction. It is a political choice for the West as to whether it wants to enter into that sort of competition. We have now seen the consequence of our entry into that sort of competition in Ukraine. I have forgotten the second half of your question.

Lord Jopling: Are there other red lines for Russia?

Sir Tony Brenton: The Russians have been very clear, right from the very beginning, about what they want as regards Ukraine. They want two things: first, no route into NATO; and, secondly, autonomy, federalisation, or whatever you want to call it, but protection for the Russian-speaking minority in Ukraine. That concern extends to Georgia, although it has a much smaller Russian-speaking community, and no doubt extends elsewhere.

You asked, with regard to the problems that we have hit in Ukraine, whether the Russians feel as intensely in other parts of the world, for example in Moldova. The answer is no. Ukraine is a very special case in the Russian view. Of course, half of Ukraine had been part of the Russian empire since the 16th century or so, speaks Russian, is as close to Russia—I hesitate to make this comparison—as Scotland is to England. That is one reason why the Russians have reacted so violently to what they see as Ukraine slipping off into someone else’s orbit. That said, they feel pretty strongly about Georgia as well. They have become tougher, it is fair to say. It is worth watching—if this Committee has not done so—Putin’s speech on 18 March when he announced the annexation of Crimea. It was pure Putin, and it was the Putin I knew. He said, in effect, “The West has been humiliating us and encircling us and getting into our sphere of influence for years and years, and”—this is his phrase—“the spring finally has to push back. I am not going to let this go any further”. That is the sort of psychological and political background to where we are now in Ukraine, to where we were in Georgia in 2008, and where we could conceivably be in other places.

Mr John Lough: I would like to respond on that point. It is important to keep in mind that countries on Russia’s periphery should be able to make choices. Russia has signed up to a security order in the form of the Paris Charter, going back to 1990, where the choices of others need to be respected. In the case of something as provocative—as the Russians would see it—in the form of NATO membership, obviously those things have to be finessed, and it is for countries on Russia’s periphery to work out how to manage these things. However, we sometimes make a mistake in forgetting that a lot of people in Ukraine look at Russia and the direction in which it has been going in recent years, particularly after Mr Putin came back to the presidency in 2012, look at countries on their western borders and can see that there are different models of development here. If countries on Russia’s periphery decide that they prefer not Russia’s model of development but the EU’s, that is the Russians’ problem and not ours. We need to be very clear that these are sovereign countries. Ukraine is a very large country, even with Crimea having been lopped off, with 42 million people. It sometimes acts as if it were a smaller country, but that of course is because
it is next to Russia. It is therefore fundamental that we continue to respect the rights of Ukrainians.

Q39 Lord Trimble: This is going off a little bit from other red lines. One little area around there which has not been mentioned is the territory of Kaliningrad. Might there be problems there? I think I saw a report not so long ago that the Russians have deployed some new missile systems in Kaliningrad.

Sir Tony Brenton: They threatened to. Kaliningrad is of course an exclave, and is part of Russia now. To use the phrase “threatened territory” would be to overstate it, but the Russians are concerned about its attachment to Russia. Originally it was part of Germany, and the Russians picked it up at the end of the Second World War. It is now surrounded by EU territory, which is an extra source of insecurity for the Russians. At the time the Americans were contemplating setting up missile defence in Europe, which the Americans said was directed against Iranian missiles but the Russians regarded as being partly directed against them, the Russians threatened in response to base missiles in Kaliningrad. The Americans then, as part of the reset, backed away from missile defence, therefore the Russians have not sited the missiles there.

Lord Lamont of Lerwick: Could I come back to Tony Brenton’s first answer to Lord Jopling? The first part of his question was about whether the EU had to make a choice economically between Russia and the countries that border it. We were told by earlier witnesses that the association agreement with Ukraine would be compatible with arrangements that Ukraine might make with Russia if it wanted to develop free trade with Russia. Is that generally true of these arrangements? Secondly, I notice that Putin, again in the article that he wrote, talked about having a free trade zone going right from the EU to the Pacific coast. That may have just been rhetorical visionary stuff—I do not know how much he really meant it. However, has the EU itself done enough in its economic relationship in freeing up trade with Russia itself?

Sir Tony Brenton: On the first half of the question, I am not an expert on the association agreements. They were pretty feebly drafted, because of course there is limited enthusiasm in the EU itself toward attracting Ukraine. There is no membership perspective, for example, for Ukraine. These are unique association agreements in that they do not contain a membership perspective. Yes, the EU has subsequently claimed that it told the Russians, “Whatever trade arrangements you want to pursue with Ukraine, Georgia, or whoever, will be compatible with what we are pursuing”. I do not think that message was understood by the Russians. Even if it was, the Russians saw the association agreement, as I said, as a step towards membership, even though that was not the EU’s stated intention, and therefore a step towards NATO. That is why it reacted so violently. The Russians are quite suspicious of free trade as a whole. It took them something like 18 years—I invent this number—to join the WTO. They were the last major economy to do so.

Lord Lamont of Lerwick: That was because of American opposition, as well.

Sir Tony Brenton: Not just American opposition. A lot of the problem came from the economic fact that Russia exports oil and gas, and those exports are not affected by its WTO membership. That membership is very good for those of us who are trying to export things into Russia, but not good for Russia exporting stuff which the WTO does not govern in any case. Therefore in a way it would be quite easy for Russia to back away from all these free
trade arrangements. Part of the consequence of all this talk about sanctions in the EU and the United States is that a statist mindset that has been pretty quiet in Russia in recent years says, “Entangling ourselves economically with the West in the way we are doing is dangerous. We should take advantage of the western sanctions to back away from that, to have a more autonomous, state-led style of economic development”. Given the way things are going with regard to Ukraine, which look bad to me, my guess is that that line of thinking is going to gain more strength in Russia over the years to come.

**Lord Lamont of Lerwick:** Could the EU have done more to develop a free trade relationship with Russia?

**Sir Tony Brenton:** The EU has basically ridden on the back of these principal thrusts, which, over the time I was there and indeed up to the time the WTO entry was done, aimed towards getting Russia into the WTO. There was something called the Partnership and Cooperation Agreement, which anticipated WTO membership, the renegotiation of which then waited for WTO membership to happen. However, that was a sort of amplification of all the rights given by the WTO.

**Mr John Lough:** I will just respond to Lord Lamont on this question about the compatibility of the free trade arrangements. As I understand it, now that Ukraine has signed the association agreement, part of that is this Deep and Comprehensive Free Trade Agreement. That is incompatible with simultaneous membership of the Russian-led customs union. However, I also understand from my economist friends that that does not affect a free trade agreement between Russia and Ukraine, so that is compatible. Publicly, in its public messaging, an error the EU made was simply not to respond to the arguments that Mr Putin and others were making—and making quite vociferously—that if Ukraine signed the DCFTA, the Russian market would be deluged by European goods coming into the Russian market, displacing Russian goods, or displacing cheaper Ukrainian goods over the border, which would therefore inflict damage on the Russian economy. We just never responded to that. When you do not respond in these conditions, it looks to the Russians as if they scored a point and they can make those arguments effectively in certain western capitals. We missed a serious opportunity there.

**The Chairman:** I must remind the Committee that we are getting a bit behind schedule and that we are hoping to have a discussion after the question and answer session.

**Q40 Lord Maclennan of Rogart:** I wish to ask two specific questions about the Russian attitude to NATO and the proper response of the European Union to these concerns. First, there has been growing discussion in Sweden and Finland about accession to NATO—stronger, I think, in Finland than in Sweden. Should the European Union take a careful view bearing in mind what you, Sir Tony, described as Putin’s risk-averse attitudes to this Nordic development? Should the EU get involved?

Secondly, neighbourhood countries, being sovereign, have the right to apply to join NATO. Should the EU be considering whether there should be conditionality, and making recommendations along those lines, in order to calm the Putinesque concerns about NATO?

**Sir Tony Brenton:** The EU, it has to be said, is very cautious. It might never have commented on NATO and NATO membership matters. There are tensions between the EU and NATO, which I will not trouble you with but which stem from the fact that Turkey is a member of NATO and Greece is a member of the EU, so this is not really a matter for the EU in any case.
If the substance of your question is, “How should we be handling Sweden and Finland’s interest in joining NATO?”, if that is what it turns into, and “Should we be worried by the Ukrainian and the previous Georgian examples, and be cautious about letting them in?”, my instinctive answer is no. Certainly, the Russians do not like NATO and they will be irritated by NATO’s expansion to include Sweden and more particularly Finland, which of course used to be part of the Russian empire a long time ago. But I think the Russians regard Sweden and Finland, which are now long-time EU members, as sufficiently outside their orbit that their entry into NATO would be an annoyance, but no more than that. This is not like a former part of the Soviet Union joining NATO, although of course that has happened already with Latvia, Lithuania and Estonia. There will be angry words, but I am much more relaxed about handling the NATO future of Finland and Sweden than I am about Ukraine and Georgia.

The Chairman: Lord Jopling wants to follow up on that.

Q41 Lord Jopling: We are going to have a situation at the NATO summit in September with a lot of pressure from Georgia to move towards a Membership Action Plan. It seems clear now that the Germans have always been strongly opposed to it. I think the UK Government will also be opposing such a MAP in September but, as I understand it, both Germany and the UK are using a whole lot of sweeteners, albeit less than a MAP, with regard to moving towards NATO membership for Georgia. Do you think that Putin will see much difference between a MAP and whatever is offered to Georgia? On the other hand, if the summit decides to give Georgia no encouragement, do you think that would encourage Putin to be even more aggressive than he is already?

Sir Tony Brenton: Obviously it depends on what the alternative package is, but I think the Russians will see a decision not to give MAP to Georgia as being an acceptable outcome. They would see MAP or any very visible step towards Georgian membership of NATO as being a direct provocation, given their present mood. There is a question for us here. It is a question not just for the Georgians but for the UK. Bits of Georgia, in our legal view, are occupied by Russia at the moment—Abkhazia and South Ossetia—so in any case there is a complication about extending the Article 5 commitment to Georgia. The question for us is: are we ready to extend that Article 5 commitment to Georgia? Are we prepared to go to war, if necessary, to defend Georgia?

Q42 The Chairman: May I turn to energy? I do not know whether this is a subject that you feel qualified to talk about, but do you think that the recent events mark a substantial turning point in the political willingness of member states to diversify their energy supply from Russia, bearing in mind that in some cases the energy relationship goes right back to Soviet days and is of very long standing?

Sir Tony Brenton: As you say, it has been a long-standing arrangement and the Russians have worked very hard at being reliable suppliers, particularly to Germany. That said, over the time I was ambassador in Moscow, the Russians turned off the energy twice to Ukraine and, one way and another, to a number of other countries around them. They are less than reliable to countries they take less seriously than Germany. At the moment, I think the gas is off to Ukraine because it has not paid its bills.

The EU is right to be looking for ways to reinforce its capacity to be independent of Russia. The prospects for this are very limited because Germany is about to abandon nuclear power, so German imports of Russian gas are about to go up. I read somewhere quite recently that
as the North Sea runs out we are about to start importing Russian gas in significant quantities. So in the short term the prospects of getting away from dependence on Russian energy are the reverse of good, as our dependence is going to go up rather than down. But in the longer term there is all sorts of stuff there, with the prospects of US exports of shale and so on, which we certainly should be working on developing.

**Mr John Lough:** Having worked in the Russian energy industry for some years, Lord Chairman, I have a view on this. It is the following. This is of course a relationship of interdependence, and in recent years it has to some extent just become unmanageable because the political relationship has deteriorated. This is at a time when people are suddenly acutely aware that the Russians have in some cases been using energy as a political lever. That is an undeniable fact.

We have simply become a little bit complacent about Russia. Sir Tony Brenton is absolutely right that the Russians had been reliable suppliers, over a long period, but they damaged that reputation seriously during two Ukrainian gas crises: in 2006 and 2009. We are now on the verge of another serious crisis. At the moment, it is the summer months and no one is too worried about heating their homes right now. But we have this issue out there: how is gas going to transit through Ukraine this winter? There are no alternative options, so we are going to have to sit at a negotiating table, doubtless together with the Russians and the Ukrainians, to find a formula. We should certainly be looking at ways to diversify our energy sources and that can be done over time. Russia, in any case, will be operating in a more competitive energy market in Europe, which is going to change one or two things. There are already indications of that, but at the end of the day Russia is going to remain a significant energy supplier to Europe and we have to find a way of managing that relationship better.

**Q43 Baroness Young of Hornsey:** This follows on from what Mr Lough said in relation to our need for energy supply. I should say that I have no relevant interests to declare on this subject. We have heard the view that Russia needs things from the EU, such as access to finance, technological advances and so on. Is there a way in which this relationship of dependency could be slightly recalibrated to make it a more effective one between the EU and Russia?

**Mr John Lough:** The answer is possibly. There was a thought, at least in the energy sector, that with increasing cross-investment—for example, with European companies going into the Russian upstream and Russian companies buying downstream assets in Europe, in which they clearly have an interest—some sort of balance could be found. The difficulty, of course, is that the legal and operating environments in those places are very different. I would suggest that it is rather easier to protect your investments in the European markets than in the Russian upstream. While there has been some progress in that area, it has not been decisive. One of the difficulties has been that Gazprom has been a major force in the acquisition of downstream assets in Europe, which has then created the whole problem of market dominance, with Gazprom effectively being in contravention of certain provisions of the Third Energy Package, which require the unbundling of assets. We might see demonopolisation on a greater scale within the Russian energy sector—it is quite possible that Gazprom’s export monopoly will be further eroded in the coming years—and if that were to happen and the Russian energy industry was run in a different way, there might be more opportunities to balance the relationship in that way.
Yes, finance and technology are important things that the Russians want, but I suggest that that market access is a very important lever. The other thing that we have not spoken about in this context is their desire for visa-free travel to Europe. That is perhaps the trump card that EU countries hold.

**Q44 Lord Lamont of Lerwick:** Given what you say about the dependency of Germany—I have a chart here, which shows that 37% of its gas comes from Russia, and that figure is about to go up—is it not unrealistic to expect Germany to agree to effective sanctions of the kind that America is demanding? It is totally unreal, surely.

**Sir Tony Brenton:** Yes, is the short answer. If we are talking about very deep economic sanctions, those are not going to happen, and for all sorts of reasons. I am rather hostile to sanctions; they never work, and they certainly never work with regard to Russia. Quite apart from that, there are things that can be done. Look at it this way: for the Russians, turning off the gas to Germany is the thermonuclear option. They are going to do that only in extremis. At the moment, the argument we are conducting with the Russians about what is going on in Ukraine is taking place at a lower level. There are measures that the EU could, if it chose, take at that lower level that are not likely to unlock that thermonuclear option, and the Germans know that.

**Mr John Lough:** I have just two points on this. First, the Russians make vastly more money from exporting oil than they do from gas. Yes, the Germans are dependent at the moment, and that cannot be changed just overnight. But over time it could be addressed, and in extremis Germany does not have to shut down its nuclear power facilities. Although I think they are going to go ahead and do that, it is at least another option.

I happen to take a different view from Tony on sanctions. I think that sanctions can work. There is some evidence that they worked in the case of Iran. There is also some indication that they may be working in the case of Russia, however limited they may be at the moment, because the threat of sanctions has chilled markets on the western side, not just in Russia. Looking at Russia’s economic situation at the moment, former Finance Minister Alexei Kudrin gave an interview to ITAR-TASS this week, saying in effect that sanctions are having an effect on the Russian economy—that is, a negative effect—and that this position in Ukraine is not sustainable and the country’s interests are being damaged.

**Sir Tony Brenton:** Perhaps I may respond to that. I fully accept John’s point: everybody knows that the sanctions are having an effect economically but they are not having any political effect at all.

**Q45 Lord Foulkes of Cumnock:** Do we have a clear picture of exactly what assets Russia owns within each of the European countries?

**Sir Tony Brenton:** Not that I know of, no.

**Mr John Lough:** I have certainly seen some evidence to the effect that the EU knows which energy assets Russia owns within EU countries. How far our knowledge goes beyond that, I cannot say.

**Lord Foulkes of Cumnock:** How could we find out? Surely, if they have an interest here, we could use that in some kind of political way as well.
Mr John Lough: We do not operate in the way the Russians do when it comes to ensuring the reliable protection of others’ interests. However, what we can do—and there is some evidence that we are doing this over the South Stream pipeline—is in effect freeze Russian plans to develop certain projects. But even on that, the noble efforts of the European Commission have not always been supported by certain member states. Mr Putin made a visit recently to Austria, where he received the red-carpet treatment and signed a deal over Austria’s participation in the South Stream pipeline.

Lord Foulkes of Cumnock: Yes, but I am thinking wider than that. In Britain, for example, we know that Russians own huge amounts of property, newspapers, football clubs—I could go on. Could we chronicle or list them? Could that not be used to influence them politically?

Sir Tony Brenton: As John has said, we do not work like that. We run an open economy. We have rules. People come in, buy things and trade who are of all nationalities—Russian, North Vietnamese or whatever. A move to restrict ownership on grounds of nationality—

Lord Foulkes of Cumnock: No, no, but if we can see that there is money-laundering and other such activities going on, which the Russians are very adept at, surely that gives us an opportunity. We seem a bit scared to do anything about them, do we not?

Sir Tony Brenton: The point about money-laundering is not a Russian-specific point.

Lord Foulkes of Cumnock: No, no.

Sir Tony Brenton: We have very effective criminal police, and so on, who pursue money-laundering cases erga omnes—against whatever nationality commits it—and we look to them to protect us from money-launderers. It is nothing specifically to do with Russia.

Mr John Lough: I would add that we also have banks, accountants and other providers of professional services who have their own codes of conduct. Knowing your customer is a very important part of that, and there are probably indications that due diligence work in recent years has been done in a sloppy way or that people simply could not find where the beneficial ownership was. These things are sometimes very hard to trace, but there is a strong suspicion that the City of London, for example, could do a good deal better in this area.

Lord Foulkes of Cumnock: Perhaps some UK people have their own vested interests.

Sir Tony Brenton: I am sure they do; it is a major source of business for the City.

Mr John Lough: It is a source of business, but I do not think we should exaggerate its scale. The think-tank Open Europe has done some very good work in this area that indicates that in fact it is minimal [compared to the overall stock of European assets invested in the UK, in fact only 0.5%].

Q46 Baroness Bonham-Carter of Yarnbury: I have to declare an interest—I am not sure how relevant, but it is on the books. I am the Prime Minister’s trade envoy to Mexico—a different bit of the world. Picking up on the money-laundering point, my noble friend Lord Chidgey argued recently in a debate in the Lords that the UK must act in the financial sector. He said that the financial authorities believed that between £23 billion and £27 billion has been laundered through the City of London each year and that major changes are required if the UK is to detect, freeze and seize corruptly obtained assets. Earlier, Sir Tony, you said that the EU was good at trade and that the UK was pretty straightforward on that front. Specifically with regard to Russia, has the EU’s anti-money-laundering directive proved...
effective? I think that Mr Lough just mentioned it. How should the fourth iteration of the directive be structured to ensure that the EU can effectively combat Russian money-laundering in the EU?

Sir Tony Brenton: I am afraid that I simply do not have the expertise to answer that question.

Mr John Lough: I do not have the expertise either. I am not aware that the EU anti-money-laundering directive has been a huge disincentive to Russian investors coming here. In fact, I confess—I betray my ignorance—that before we met today I had never even heard of that directive. That perhaps says something about my ignorance.

This is a matter for forensic experts—we have a lot of them in this country who can do that sort of thing very well. If we wish to take firmer action in this area, I am sure that we can.

Q47 Lord Radice: I declare my interest. I am an unpaid board member of Policy Network, which, as far as I know, does not have any interests in Russia, but I might as well declare it. Are there members of the Russian elite, as far as you know, who are troubled by the direction in which President Putin has been taking Russia, and what is the evidence for that?

Sir Tony Brenton: I know some members of the Russian elite and I talk to people who come here. The answer is that the business community is really quite concerned but it is maintaining a very low profile, because raising your profile against President Putin in Russia can cost you. As John said, the most visible expression of that was the interview that Alexei Kudrin gave a couple of days ago. So, yes, there is concern out there in the business elite, and I am sure among liberal economists, that this is forcing Russia, as I mentioned, into a more protectionist, statistist style of managing its economy. But there is no sign—to repeat myself again—of those concerns having any impact at all on Russian policy.

Q48 Lord Lamont of Lerwick: This question is for Sir Tony Brenton. When I was in government in the early 1990s, I had quite a lot to do with economic relations with Russia, and I dealt quite a bit with both Gorbachev and Yeltsin. My strong impression at the time was that both of them wanted to be a partner of the West. When Putin succeeded Yeltsin, do you think that he had from the beginning a fundamentally different view of what the relationship between Russia and the West should be, or did something change while he was President?

Sir Tony Brenton: Something changed. When Putin took over, more or less his first action was a suggestion that Russia should join NATO. When he came in, he had lots of domestic problems. He had the oligarchs to deal with, disorder and all that. Yeltsin left him a mess and he was very focused on sorting it out. His approach, therefore, was that he wanted no external problems. He wanted a co-operative relationship with the West and he maintained that co-operative relationship, but against a background of growing disenchantment.

I cannot date these events precisely, but there was a string of things that the West simply upset him by doing: the Kosovo war, the further expansion of NATO, a sequence of things of that sort that finally soured him to where we now are. From what I hear, he operates in a very restricted circle of officials, who are friends basically—“cronies” is the current word—in Moscow, all of them securocrats. So access for the liberal economists who surrounded Yeltsin and Gorbachev is close to zero. Part of the problem is that that restricted group is intensely focused on Russian security to the exclusion, probably to the disadvantage in the long term, of developing relations in other ways with the West.
Mr John Lough: In response to Lord Lamont, I think the critical thing that changed—Tony has referred to a number of factors here—is that the oil price rose exponentially and Russia became a wealthy country, relative to what it had been when Mr Putin came to office in 1999-2000. As a result of that wealth, a degree of confidence returned. The adrenaline started to course through the system, and it seems in a very bizarre way, despite the greater confidence about Russia’s place in the world, to have reactivated a sense of grievance about the way the Cold War ended and what happened to Russia: the trauma that Russia lived through with the amputation of some of the former Soviet republics. Tony has referred to some things that western countries have done that have been perceived in a certain way. It seems to have built up and built up.

Putin suppressed some of his instincts for a while, but then something detonated in February this year and made him do something that up to that point, I think, had been inconceivable. Our problem now is that he has got so deep into this that we now have a public opinion problem in Russia: he has to save face. I just cannot see how he can save face and extricate himself from this situation at the moment. I believe that this crisis will have profound effects on Russia itself, not just on Ukraine or Europe but on how Russia develops.

Lord Jopling: I suggest another scenario. One read before recent months that Putin’s position within Russia was not all that sound. Some commentators were saying that there was some doubt as to whether he would survive his term. Nothing endorses and enhances the reputation of a leader more than flag-waving and becoming the great champion of the nation. I remember in particular the effect of the Falklands on the reputation of our Prime Minister of the day, which dramatically changed the public esteem for Margaret Thatcher. Do you see any parallels, in that he might have felt that by being belligerent he might strengthen his domestic position?

Sir Tony Brenton: We are in an exceptional position now, but if you go back to a year ago, before Ukraine blew up, Putin was already pretty popular. He was enjoying 60% popularity. Let us not kid ourselves that what is going on is a frenzy that will pass and then Putin will be in real trouble. That is nonsense. Putin is the President the Russians like. He has delivered economic growth, although that is going to slow. He has delivered a feeling of national pride and self-confidence, which the Russians feel is part of their birthright.

I do not share John’s view that we are looking at some conflagration in Russia in the near future. I think that Putin has the place sufficiently wrapped up that, barring some huge cataclysm, he will not go. We will get through this Ukraine problem, one way or another. Russia will suffer from it; its economy will be hit. At the moment, he is redoubling his bets by continuing to arm the rebels, but at the end of it he will claim that he has stood up for Russia’s rights and has seen the West off, and all that, and he will, I am pretty confident, remain President.

Mr John Lough: First, for the record, I did not refer to any conflagration in Russia; I referred to the fact that I think that this crisis will have a serious effect on Russia. It is very difficult to say what it will do to Mr Putin personally, but I do not think that the 85% popularity ratings are sustainable. The economy will definitely take a hit. We saw when he returned to office in 2012 that he had something of a wobble, but he got over that, in effect by enunciating a certain view of the world and his call to so-called conservative values—he was playing to a certain part of society—but I do not see that the bit of society that was agitated by his return in 2012, the urban classes and a sizable part of the middle-class, will be particularly
comfortable with some of the things that are happening. I think that all bets are off in terms of how Russia is going to develop and what Mr Putin’s position is going to be in the coming years.

Q49 Lord Trimble: The last exchanges were about when Putin changed. By coincidence, yesterday, in an address by Rodric Lyne to the Association of Conservative Peers the change in Putin was dated to 2003 as the time when he moved away from a pro-western stance to adopting a stance hostile to the West, which came after the economic improvement and the oil price going up, which produced a degree of prosperity.

The other thing that happened in 2003 was the Khodorkovsky affair, which came about because Khodorkovsky was challenging Putin over corruption. Corruption has become hugely more significant in Russia since then. I suggest that reinforces the fragility of Putin’s position. Because of the rise in corruption, he needs the oil price now to be up at a very high level. It is round about that now, but the outlook for the next few years is of the oil price declining. Consequently, Putin’s position will become more fragile. He is buoyed up at the moment by the Ukrainian crisis, but surely that effect will be shortlived.

Sir Tony Brenton: You are right that corruption has got much worse. Corruption is central to the system. The way the Russian governmental system now works is that you get impunity in exchange for loyalty, and you use your impunity to extract rent from whoever you have control over, so the whole system is sucking funds out of Russian society, and that depends on funds coming in from oil and gas. With the greatest possible respect, I think it is a mug’s game to try to predict oil prices. I look at a world where Iraq and Libya are in flames. I do not necessarily see a world where the oil price is going to go down. The other point you make, which is absolutely correct, is that the movement of the oil price is absolutely crucial. If the oil price descends sharply, Putin has very real problems.

Mr John Lough: On the oil price, I think Tony is absolutely right. Mr Putin said himself quite recently that the only people who can really change the oil price at the moment are the Saudis, and they have no interest in an oil price below, I think he said, $90, so we are going to stay where we are. I think that for the moment that probably gives him a lot of confidence that he can continue his policies. Certainly we saw that fairly dramatic drop in the oil price, I think in 2008-09, and, again, the Russians had a wobble. It got up very quickly, but it is absolutely clear that the dependency on the oil price has become greater in recent years, not less, and there is indeed a very long-term problem for the Russian economy.

Q50 Lord Maclellan of Rogart: This question has not been raised before. Could you say how the Russian leadership would respond to greater initiatives from the European Union on culture, education and science? It seems to me that we have a long history with the Russian leadership in that regard. I refer to Pushkin and Rachmaninoff in this connection. It seems to me that if we were to take a more active role in those areas and in collaborating on science and on educational exchanges, we might help to reduce some of the frictions.

Sir Tony Brenton: I agree entirely. Ordinary Russians think of themselves, obviously, as Russian, but if they ask themselves what they are beyond being Russian, they tend to say European. The cultural, educational and all other such links with Europe are an important component. What has been going on in Russia since the collapse of communism has been a gradual spread of European values and systems and all that. One of the great tragedies of where we are now, with all the sanctions, the coldness and all that is that that process looks
as if it may stop and go into reverse. We have a whole raft of senior Russians now who simply cannot come to Europe. We have a whole set of links that we are systematically cutting off. One of the more ludicrous sanctions that has been imposed in recent times is that concerning the EBRD, which funds small Russian private businesses, which is exactly the component in Russian society that we want to develop if we are thinking about Russia post-Putin. One of the EU sanctions has involved trying to stop funding from the EBRD. The whole thing is insane. Sanctions are simply going to make worse and slower what I am confident is eventually going to happen, which is that Russia will become a much more normal and democratic European state. Those sorts of links are an important part of moving towards that objective.

**Mr John Lough:** If I may, I do not think that Russia is going to become a much more normal and democratic state under Mr Putin’s leadership, although I share the long-term hope, of course, that the country will go down that route. I think that culture, science and education, which were referred to, are extraordinarily important. We must maintain those links. This is the UK-Russia Year of Culture. A remarkable exhibition has just opened at the Tate Modern, the Malevich exhibition, and there are other excellent things happening at the Science Museum this year. This is also the EU-Russia Year of Science, as I discovered quite recently. I do not know what evidence there is to point to its successes, although it is said that in the scientific area there has been a lot of effective collaboration, just as there has between NATO and Russia in the area of science. It is extremely important in this context to differentiate between the Russian leadership that we are trying to influence at the moment in its policies over Ukraine and Russian society, with which we wish to have much stronger relations. We wish to see Russians able to travel more freely, to come to this country more easily and to receive visas more easily, which is a massive problem. It is still a relatively small number of Russians who are travelling abroad. When their numbers increase, of course, this will have an effect.

**Baroness Bonham-Carter of Yarnbury:** This is a very small point, but the cultural connections have been affected by the anti-gay legislation in Russia.

**Q51 Lord Lamont of Lerwick:** A lot of our witnesses, in particular a lady from one of the think tanks in Moscow, expressed the desire to have a greater rule of law and a rules-based society. Obviously, the massive corruption has increased, but is it possible to say anything optimistic? Has there been any positive development as regards the rule of law? Did Medvedev have no influence at all on this aspect?

**Sir Tony Brenton:** Yes, that is the case. I have not looked at the situation recently, but certainly when I was ambassador and for a few years subsequently, in commercial issues the courts were functioning better and more objectively and corruption was, in fact, diminishing. I was meeting Russian businessmen who said, “Gosh, I just fought a case against the tax authorities and won”. The objectivity of law at that level was getting better. Of course, law is a huge British export in the sense that British legal firms have big offices there and are doing a lot of business with Russians, part of which contributes to their own legal system. I cannot comment on what has happened in the last two or three years, but there were optimistic signs there.

**The Chairman:** You have both been very understanding and kind. Can I just ask one tiny question? I have been very restrained. You said at the beginning, Tony, that you thought there had been a loss of language skills at the Foreign Office and that the Foreign Office had
been less adept than perhaps it had been in earlier times. Do you think the same applies in other EU member states: that the expertise on Russia that has declined in London has declined in Paris, Berlin, Rome, The Hague or anywhere else?

Sir Tony Brenton: I do not know whether it has declined. In my embassy, all the front-line officers—that is, those who dealt actively with Russian society and business—spoke Russian. I do not know whether that is still the case in our embassy, but it was much less the case in other European embassies, and much less the case in the US embassy as well. We were good.

Mr John Lough: On that point, I would add that the language issue may reflect a broader point. My feeling is that over the past 25 years we have lost a lot of our overall capacity—

The Chairman: “We” being Britain?

Mr John Lough: And other major European countries. We have lost a lot of our capacity to deal with Russia. Of course, having a common language is part of that, but it is also an understanding of the historical factors that have shaped Russia’s existence, the idiosyncrasies of the Soviet Union, and the legacy of that Soviet experience. Without that it is difficult for policy-makers to make sense quickly of what Russia is doing in Ukraine, what its logic is and where this might lead. That is a huge deficiency right across our systems. One of the reasons we have got into this situation is because we thought that Russia was not such a problem. It was an irritation and it made a noise at certain points, but the country was getting wealthier and it seemed logical that it would get on to another track. But it has not done that, so we need to rediscover some of the skills that we had in the past.

The Chairman: And the Commission too, presumably?

Mr John Lough: I think that applies to European institutions as well, absolutely.

The Chairman: You have both been extremely patient and kind, have given us a great deal to think about and have helped to refine our thoughts. You were modest at the beginning in saying that there were some things that you did not feel able to respond to. However, I think you have responded with great eloquence to everything we have asked. Thank you very much indeed.
British Council—Written evidence

1 The British Council

1.1 The British Council creates international opportunities for the people of the UK and other countries and builds trust between them worldwide. We are on the ground in six continents and over 100 countries bringing international opportunity to life, every day. Each year we work with millions of people, connecting them with the UK, sharing our cultures and the UK’s most attractive assets: English, the Arts, Education and our ways of living and organising society. We have 80 years’ experience of doing this.

2 The British Council in Russia

2.1 The complicated history of the UK-Russia relationship is reflected in the British Council’s own recent history in Russia. We first opened in 1945 at the end of the Second World War only to close again in 1947 at the onset of the Cold War. We re-opened in 1967 but it was only in 1992 that we opened our first information centre in Moscow. In 2008, we had to close our offices in Ekaterinberg and St Petersburg and we currently operate only in Moscow. Following a period of improving relations between the UK and Russia back in 2013 the then UK Foreign Secretary William Hague and Russian Foreign Minister Sergey Lavrov announced that 2014 would be the UK–Russia Year of Culture.

3 Engagement not isolation

3.1 The British Council is a non-political organisation committed to people-to-people engagement. We believe that engagement is better than boycott and isolation and that when political or diplomatic relations become difficult cultural exchange helps to maintain open dialogue between people and institutions. Wherever possible, we seek to continue our work even if the political situation becomes tense or difficult. We work long term building lasting partnerships and developing networks that can endure and keep lines of communication between peoples open despite political or diplomatic challenges.

3.2 We are naturally concerned about the situation in Ukraine and the current political tensions. Yet despite the current state of UK-Russia relations, we remain committed to the development of long-term people-to-people links with Russia as we do in over 100 other countries and we are continuing to deliver or support the cultural and educational projects and events in Russia planned for 2014.

4 Our work in Russia

4.1 The British Council works to improve relationships between the UK and Russia by sharing the best of the UK’s arts, education and language, and facilitating the sharing of Russia’s immense cultural heritage with a UK audience. We do this by building relationships between key opinion formers, artists and educationalists and fostering trust and understanding between the people of the UK and Russia.
We showcase the best of the UK’s arts and creative industries, generating opportunities for both young and established artists and businesses to access the Russian market, and we facilitate access by Russian partners and regional authorities to UK expertise in the creative economy, recently in film, drama and the visual arts. We help nurture the next generation of Russian cultural leaders and creative entrepreneurs through an extensive programme of cultural management development and connect them with the UK.

4.2 We promote access to UK higher education institutions, schools and language colleges as the destination of choice for Russian students. Over 5,000 Russians are currently undertaking full time education in the UK - an increase of 63 per cent over the past five years.

4.3 We also work with Russia’s 150,000 English language teachers, policy makers and other professionals, to improve the quality of English teaching – particularly in the state sector, where English is taught to an estimated 15 million learners in more than 60,000 schools.

5 September 2014
EU-Russia Relations: Are Long-Term Structural Solutions Feasible?

EU-Russia relations have entered into a geopolitical competition which is diametrically opposed to the interests of both parties. This did not happen abruptly as a result of the events in Ukraine. It is the result of a much longer, incremental process in which geopolitical images gained the upper hand, but which has now entered a radically new stage of confrontation. While this geopoliticisation of EU-Russia relations was by no means an inevitable development, it will be very hard to turn back the clock.

The state of EU-Russia relations

EU-Russia relations can be approached from a long term and a short term perspective. When analysing short term events, there is no doubt that Russia has overstepped some key lines of the post-Cold War constellation. Most importantly, through the annexation of Crimea it has broken a European taboo. While the principle of changing borders without consent of the parties involved has been violated before (the case of Kosovo seen by Moscow as an important, even traumatic precedent), the annexation of territory was a fundamental and dangerous breach of post-Cold War arrangements. Russia did not live up to its commitments, including its role as guarantor of Ukraine’s territorial integrity under the 1994 Budapest memorandum.

When looking at longer term developments, we have seen a logic of competition develop between Russia and the EU, especially over the last decade. Trust has spiralled down, mainly in the shadow of NATO enlargement, of power consolidation in Russia and of the coloured revolutions of 2003-2004, which were perceived by the Kremlin as masterminded by the West. A situation has emerged in which both Moscow and Brussels started to understand each other’s behaviour in terms of the negative images they had created of each other: every step taken (in particular the Eastern Partnership on the EU’s side and the Eurasian Customs Union on Russia’s side) was seen as an inimical act, aiming to maximise influence in former Soviet states at the expense of the other. In literature this is referred to as an ‘attributional bias’ in foreign policy.

How geopolitical reasoning has become dominant in Russian foreign policy is obvious and no doubt a mixture of domestic and international factors. But also the EU’s policy had more geopolitical implications than many inside the organisation probably realised. Through Deep and Comprehensive Free Trade Areas with some neighbours, the EU is extending its economic and legal sphere eastwards and anchoring countries like Ukraine firmly within its economic and legal sphere. At the heart of the Association Agreement is the transfer of EU regulation to partner countries. This is going far beyond pure economic cooperation. In a context of global competition over a new generation of free trade agreements, getting one’s regulatory standards accepted creates a considerable geopolitical difference.

Lessons learnt

The current crisis over Crimea and Eastern Ukraine has made two things clear. First, post-Cold War wider Europe lacked effective collective security mechanisms needed to solve or prevent conflicts of this sort. The OSCE was side-tracked and even humiliated at the early
stage of the conflict. It lacks the necessary legitimacy in Russia to play an effective role. Secondly, the EU process of enlargement and of association with eastern neighbours has bumped into its limits. It has reached a point where, through the Association Agreement with Ukraine, it is considered by Moscow as threatening vital interests. This may explain, but certainly does not justify, Russia’s radical action over Crimea. It is hard to overestimate the feeling of humiliation that has grown in Russia over the last decades. While Moscow hoped in the early 1990s to be accepted as a ‘normal’ great power in the international community of states, it ended up in a situation of relative isolation. Not only did it see the EU enlarge, it also saw NATO enlarge up to its borders and the deployment of a missile defence shield. All this played in the card of conservative and nationalist forces, who strongly believe that the West – the USA in the first place – continues its policy aimed at weakening Russia.

As a consequence, there is a structural issue that needs to be tackled but is now harder to resolve than ever since the collapse of communism: the place of Russia in wider Europe. This is an age old item, but it has now forced itself back to the top of the agenda. As long as this structural issue is not tackled, tensions are likely to continue and new crises may emerge. This will require the rethinking of European integration. Ultimately also the EU will have to get out of a Catch-22 situation, in which two of its key foreign policy strategies cannot be combined: its (now defunct) Strategic Partnership with Russia and the Eastern Partnership, built on Association Agreements and privileged relations with former Soviet states. After ten years of European Neighbourhood Policy and five of Eastern Partnership, the gains for the EU are questionable. It has now signed Association Agreements with Ukraine, Moldova and Georgia, but all three states have an unsolved territorial dispute with Russia. Moreover, all three countries face serious internal challenges, not least in the field of corruption and the rule of law, that are likely to inhibit the implementation of the Association Agreements (for different reasons the implementation of the DCFTA has already been postponed in the case of Ukraine until December 2015).

**The way forward**

A way out of the crisis is hard to imagine at the current stage. Russia’s strategy is mainly one of surprise and denial. This makes its next steps difficult to predict. The Minsk agreement has created glimmers of hope. The ceasefire is far from holding, but the willingness on both sides to at least pretend that it is, may – in the most optimistic scenario - indicate an increasing willingness to get out of the conflict. Under a less optimistic scenario it is simply a way to gain time.

While sanctions may have been inevitable (and surprisingly light in the case of the annexation of Crimea), the EU and its member states should also think about the longer term prospects we can give Russia. Both can go hand in hand. First and foremost this requires creative thinking about a collective security system in which Russia has a place. Secondly, it requires reaffirming the goal to create a free trade area from Lisbon to Vladivostok (as provided in the Four Common Spaces). This is the only way to solve the incompatibility between the EU’s DCFTA and the Eurasian Customs Union around Russia. This incompatibility (following mainly from the fact that the Common External Tariff of a customs union excludes separate free trade arrangements with third countries) forced states like Ukraine to make geopolitical choices they may have preferred to avoid. Thirdly, Russia’s concerns have to be taken more seriously. Moscow – and not just the elites around Putin – strongly felt that its concerns about the Eastern Partnership fell on deaf ears. We may have
Dr Tom Casier—Written evidence

to rethink the wider European construction, possibly giving Russia a place in an integration process of double, but compatible, concentric circles (one around the EU, one around Russia), leaving Moscow the autonomy it seeks while at the same time engaging it within a wider European structure. On the EU’s side this would in the first place require a more open Eastern Partnership. On the Russian side one can wonder whether the necessary changes are likely under the current regime.

Brussels would also benefit from a better expertise of the local situation and concerns, both in Russia and in Ukraine. The decision of Yanukovych not to sign the Association Agreement, for example, had been the subject of speculation in the Ukrainian press long before he announced his decision, but took the EU by total surprise. Further, the EU needs to revisit its policy of democracy promotion. While prior to the Euromaidan protests Ukraine was often presented as the best pupil in the Eastern Partnership class, it was obvious that Kyiv was mainly paying lip service to the EU’s democratisation efforts. Only the degree of corruption should have made clear that real, substantive democratisation was unlikely and deserved more policy attention than the institutional façade of democracy.

Confrontation will not be the way out of the crisis in the longer term. Harsh action is likely to lead to a harsh response. A lengthy and difficult process of de-escalation, normalisation and trust-building will eventually be inevitable. However, it may be hampered by Putin’s strong identification with Russian power and the fact that the crisis unleashed powers he may not be in control of. This being said, Russia’s power should not be overrated. With a Russian GDP the size of Italy and a vulnerable economy, Russia is not in a very strong position. The developments risk to undermine the image of trustworthiness among potential investors. Also energy dependence tends to be overrated and is ultimately predominantly a matter of internal solidarity within the EU. It is clear that we have little to win from a long term confrontation in wider Europe. EU and Russian economies are strongly interdependent and likely to suffer. Lasting confrontation would also force Europe to concentrate on regional security again, while fundamentally both parties share many security concerns and European security will be hard to achieve without involving Russia in one way or another.

All this is definitely not enough ground for optimism. A way out of the crisis is hard to conceive at this stage. However, there is no choice but thinking about long term structural solutions in parallel with short term tactical responses to a rapidly evolving situation on the ground.

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October 2014
Dr Tom Casier, Josef Janning and Dr Marat Terterov—Oral evidence (QQ 110-122)

Evidence Session No. 7.  Heard in Public.  Questions 110 - 122

MONDAY 27 OCTOBER 2014

Members present

Lord Tugendhat (Chairman)
Baroness Billingham
Lord Lamont of Lerwick
Lord Maclennan of Rogart
Lord Trimble

Examination of Witnesses

Dr Tom Casier, Jean Monnet Chair, Senior Lecturer in International Relations, University of Kent, Mr Josef Janning, Senior Policy Fellow, European Council on Foreign Relations, and Dr Marat Terterov, Executive Director and co-founder, Brussels Energy Club

Q110  The Chairman: First, I thank you all very much indeed for agreeing to put evidence to us, and for being here early, which is very kind of you. We have just this moment arrived. I am sure that it has all been explained to you but we are doing an inquiry into the relationship between the EU and Russia. We will be reporting in the first quarter of next year; we need to report before Parliament comes to an end, with the general election. This is a formal meeting of the inquiry and there will therefore be a note taken of the discussion and everything is on the record, but obviously if there is something that you wish to say off the record, please do so. If at the end you feel that we have not covered something sufficiently, or that you have an esprit de l’escalier of some sort and you want to come back to us, please do, but I repeat what I said at the beginning: we are very grateful to you for agreeing to meet with us at our first meeting in Brussels.

Let me kick off the questions. If you all agree, obviously do not feel the need for everyone to say the same thing, but if you have different views, please make that clear. Let me ask a very obvious question: with a new Commission and a new Parliament, who do you think is likely to lead on policy towards Russia? Would you expect any particular policy shifts arising from
the change of personnel and anything happening in capitals that would suggest that there might be? Shall I turn to you, Dr Janning, as you are opposite me?

**Mr Josef Janning:** Thank you very much. Thanks also for the opportunity to speak here and, hopefully, inform you. As I read the development of the European Union, over recent years the emphasis of key decision-making and core agenda-setting has moved to the European Council. So I see that more clearly now than before that the European Council will be the institution in the lead, despite the considerable experiences of the new President of the Commission and his reputation among his former peers in the European Council. He will not be able to compensate for that, so the tone and substance will be set in the European Council. None the less, I believe that it makes a difference to have Donald Tusk as President of the Council. Tusk will not simply be able to play out the preferences or perceptions he may have or may have had as Prime Minister of Poland. He will need to build a consensus around member states. It helps greatly that he has a very good personal relationship with the German Chancellor. While he would bring to the table a rather keen and sober assessment of what Russia could do wrong and could do badly, with Angela Merkel he has a counterpart who shares his view in principle but is also determined not to close the door on Russia. So in this kind of chemistry alone, you have in a nutshell the principal elements of the compromise that the EU will need to reach. That would rather reinforce the lead role of the European Council.

**Dr Marat Tertorov:** There are two questions here. One is on leadership and one is on, maybe we could say, continuity or change on Russian policy—on our external policy towards Russia. Certainly, they are interrelated and probably the second one, to some degree, is more important for us to see what will actually happen, as opposed to just who will lead. On the question of who will lead, if we talk about the institutions themselves—that is, the EU institutions—I think it would fair to prognose or suggest that there would be significant leadership taken in the Council. There is certainly substantial European heavyweightedness there in terms of personalities. Certainly they are very experienced people who can take it on themselves to show leadership. Yes, we will see that.

I would add two caveats from my humble experience of having lived in the city for seven years and working for an international energy agreement, the Energy Charter Secretariat, as well as being very much involved in the NGO environment that deals with the institutions. One caveat is that I would certainly like to see more leadership from the Office of the High Representative for Foreign Affairs. In principle, we had a lot of scepticism, on the record and off the record, about the last—outgoing now—High Commissioner for Foreign Affairs in terms of capacity to deliver change and policy of genuine interest to, let us say, the EU 27—now EU 28, of course. You have to appreciate that I am a historian as well as a geopolitical analyst and given the geopolitical climate in which we are operating at the moment—with the Ukraine, Middle Eastern issues, Eurasia and energy security issues—we probably have not seen as much delivery from the last high official for foreign policy as we would have liked to. We hope to see more from the current Italian Foreign Minister who is just coming in to that post. However, there is, I must admit, some degree of scepticism within the EU institutions and in the member states, as well as broader, analytical stakeholders community about the capacity of the new person to deliver. Certainly, I know that there is a lot of, let us say, scepticism within members of the so-called new European circles—eastern European countries—and there was much more, let us say, hope that someone such as the
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Polish Foreign Minister, Radosław Sikorski, would in fact be endorsed as the new representative and that in this time of geopolitical challenge with Russia—

**The Chairman:** But he was not.

**Dr Marat Tertarov:** But he was not, so let us say that I am sceptical about the Office of the High Representative. I would also like to say that the European Commission should not be ignored in this context. We have certainly seen in the past the EU-Russia energy dialogue—the formal energy dialogue, which was founded in 2000—which came from the Commission, from individuals within the Commission who were very much involved in engaging Russian counterparts in the Ministry of Energy and other government circles. There are still a few people around in the Commission, who would probably play a more supporting role. So I would qualify the question of overall leadership.

**Dr Tom Casier:** Thank you very much for the invitation, first of all. I would agree with Professor Janning that I would expect the President of the European Council to play an important role, especially given his past and the way in which the role has been developed by his predecessor, Van Rompuy, who played quite a high-profile role in international relations in the foreign policy of the EU. What will be interesting is to see to what extent the line will be pragmatic, or whether we will see the new leader develop a more strategic vision for relations with Russia. This is what has mainly been lacking—a strategic vision for relations with Russia as well as for the European Neighbourhood Policy and the Eastern Partnership.

Mr Tusk is potentially an interesting person to take the lead on that because he is known as being rather pragmatic, but he has a very clear opinion on Russia. He has enough political weight to fulfil the expectations, not only because of his role as Prime Minister but indeed because of his close links with Germany and the German Chancellor.

The second important point will be the link to the European Commission and the question as to whether Mrs Mogherini will fulfil a different role there, being better at establishing that bridge between the European Commission and the European Council. I am curious also to see what role Mr Timmermans—the former Dutch Foreign Affairs Minister—will play, especially as he played an important role after the downing of MH17 and was maybe one of the builders of a new consensus, which may create the right momentum within the European Union for a more coherent and consistent policy, vis-à-vis Russia.

**Mr Josef Janning:** If I may, I would like to add a sentence to this because it might come back in the discussion. I think that the new strategic vision argument is a very interesting one, because most of the time during EU discourse it means that we are taking the moral high ground.

**Dr Marat Tertarov:** I agree.

**Mr Josef Janning:** If the new leadership of the EU is all about the strategic vision, it probably has to be a rather pragmatic or realistic one. It would probably be the departing point from present policy, which is very good on paper but has little effect on Russia. If we are really going strategic, then first of all we will have to face the realpolitik. That would be the driving element of a strategic Russia policy.

**The Chairman:** That leads on to your question, David.

**Lord Maclennan of Rogart:** Before that, I just wanted to ask whether it would not be more difficult to reach a consensus within the Council than it would be within the Commission. I
am thinking particularly of Hungary and Viktor Orbán at this point. I wonder if he will align himself.

The Chairman: We will be coming to that.

Q111 Lord Trimble: A number of witnesses who have already given evidence to the Committee have said that the EU—by which they were referring to both member states and the institutions—has suffered a loss of collective analytical capacity with regard to Russia. The result is that the EU may have lost the capacity to act strategically in its dealings with Russia, which is a polite way of saying that they blundered into this confrontation. Is there a need to rebuild capacity and how could the European External Action Service be, as it were, bolstered?

Dr Marat Terterov: I will answer because it follows on from what you have just said. In fact, you have already started talking about strategy and the moral high ground. That is the line of discussion. We are not quite the United States of Europe so it is not that straightforward either in the way the institutions themselves work or in the positions of the member states, particularly after 2004. I have always said that, since the big-bang enlargement of 2004, we have not really considered the situation properly in respect of our energy security, in particular our transit security. No one was talking about transit security before 2004. After January 2006 we started to talk about it, while after January 2009 it was a hot topic. That is the first thing.

The second thing is that, broadly speaking, I would agree with the statement. The question before me states, “Do you agree with the statement that we have lost collective analytical capacity?” At the moment, just commenting in purely tactical terms, we do not as an EU28 have a strategy towards Russia. What we have is strategies towards the neighbourhood. We have a strategy, let us say, towards the Eastern Partnership countries because they are more relevant to Russia than the countries of the southern Mediterranean. If we look at our engagements with Ukraine, particularly after the Vilnius summit in November last year, that strategy becomes de facto our Russia strategy and our Russia policy. So, de facto, by not engaging with Russia or by applying a strict policy of sanctions together with our friends the Americans—I came back from Washington just a few days ago—our Ukraine policy becomes our Russia policy. This, I would argue, is significantly different—I would call it a major distinction—from what was happening in the early 1990s. In the early 1990s, when we had the new euphoria around the end of the Cold War—Francis Fukuyama talking about the end of history—we did have a strategy. We were talking about the Eurasian economic space, at least in a framework context. The Energy Charter Treaty, the organisation by which I am partially employed, is a great example of that because the Energy Charter Treaty and the whole process around it is about integrating the energy markets.

Q112 The Chairman: I am not clear. The key thing is this: have we lost analytical capacity? What you are saying is very interesting, but do you think we have lost analytical capacity?

Dr Tom Casier: To a large extent I do not think that we ever had analytical capacity. Russia has always been one of the most divisive issues in the European Union, but we cannot really blame the European Union for that because in the main it has been dependent on the member states. I think that it was mainly a problem of the member states having different visions of their relations with Russia and pursuing their own business interests. Now we are in a rather unique situation where there is a momentum on which there is a broad
consensus. We have managed to impose sanctions on Russia, which is a unique thing. We never managed to do that before. But the big challenge will be how to get out of this situation. You can feel that there is increasing pressure from certain member states to return to business as usual, and that will be a challenge. In particular, when we talk about Crimea, we have a situation where one of the most important European taboos has been broken. The annexation of a country is something that is unacceptable by all standards, but it will be very hard to do anything about the situation. I hear in diplomatic circles that it is already very much accepted as a done deed, a fait accompli. So the big challenge will be there.

I think that there is a huge need for more knowledge about the local situation both in Russia and in the Eastern Partnership countries. One of the points where the EU went wrong is that we did not see coming, first of all, the decision by Yanukovych not to sign the EU association agreement. Then we did not expect the Euromaidan to follow because we underestimated how serious an issue it would be for Russia. That is where we have to build much stronger analytical capacity. In terms of policy, we have to think about a much stronger link between the European External Action Service and the Commission. That is because, in contrast to the Eastern Partnership, the links between the Commission and the EEAS are much weaker. It greatly depends on informal mechanisms and how people in the two institutions interact with each other. That is really crucial for the future.

**Mr Josef Janning:** A lot of the analytical expertise that the question refers to resides, I presume, outside of Governments and the EU institutions. It is where you have scholarly expertise and relevant policy research work. If you look at that, you can say that through the Cold War years many European countries built up significant resources in this area, but actually most of them have been lost. If you wanted to make a list of the top research institutions, you would come up with only two in Europe. One is the Aleksanteri Institute in Finland and the other is the Ośrodek Studiów Wschodnich in Poland. These are only two policy research institutions in the European Union where there is significant expertise on eastern Europe, including on Russian domestic affairs. I have no problems with this being on the record: when I speak with people in charge at the Foreign Ministry in Berlin, they tell me, “We don’t have counterparts any longer in the policy research community whom we could turn to and expect an authoritative and fast response”. On the EU level itself, not a single institution is dedicated to policy research in the field. We have the European Union Institute for Security Studies, but while that is part of its wider mandate, it does not have the specific expertise. I do not want to speculate about the United Kingdom because I do not know enough about the situation there, but I know that, particularly in Germany, this has been recognised. The German Parliament recently passed a resolution calling on the Government to reinvest in this knowledge because it was discovered that over a period of about 20 years when everyone was studying Russia from the inside, that knowledge was of no real use. The expertise had kind of evaporated.

**Q113 The Chairman:** I see what you have said about the United Kingdom. It is our impression that back in the Cold War a lot of people in the Foreign Office knew a great deal about Russia and had made a life’s study of it and there was a lot of expertise outside government in London, but that has withered on the vine. We found that the awareness, the depth of knowledge, of Russia and what makes it tick in London is certainly not what it once was.
**Mr Josef Janning:** You will still find, in London as well as Berlin—in Warsaw, as well as other places—serious, knowledgeable diplomats with years of experience of this. These people will all tell you that, over the past 15 years, the space that we have in our day-to-day routines to sit back, reflect, go through the options and do analysis has become ever smaller. Administrations today are squeezed into a much more rigid timeframe. That goes not just for Russia but for many other issues as well. One of their key complaints is that what they sometimes call strategic space—that is, the space to not write the next paper or speech, or to not copy and paste from previous positions—in which to have some open discourse has been shrinking. That is why they have an increased interest in being able to reach out to people who understand the constraints and interests of policy-makers and Administrations but bring to the table a profound knowledge of the subject. That is why the focus on policy research institutions is so urgent now.

**The Chairman:** The EU was talking to the Ukraine about the association agreement for some time. I do not want to put words in your mouth, but my impression was that people were taken by surprise by the Russian reaction and that they did not anticipate that the Russians would react as strongly as they, in the event, did.

**Mr Josef Janning:** A lot of people in the small community that exists have pointed to the fact that Russia may not be ready to buy into this kind of post-modern argument that it is all about economic integration, functionally defined contacts, approximate legislation and implementation institutions. They have pointed out that the Russians still think very geopolitically. They project their own thinking on to us, as we often tend to project our thinking on to them. That position has not been heard much, because people thought that it was not relevant. Russia may think geopolitically, but what do they have and what could they do? The Ukraine crisis told us that they actually could do something.

**Q114 Lord Lamont of Lerwick:** Looking to the future on which the EU-Russia relationship should be built, we have covered how much Europe should be willing to invest in those interests, but what are our fundamental interests vis-à-vis Russia? I was particularly interested in Dr Casier’s paper and what it says about free trade areas and making association agreements compatible with Russia’s Eurasian free trade area as well. How the hell do we get out of the situation that we are in? As desperate as it is, are there things that we can build on to move, ever so slowly, towards a slightly better relationship?

**Dr Tom Casier:** Absolutely, and that is the reason why I spoke about the strategic vision and my impression on the free trade area specifically. It is important to see what the core of the problem of EU-Russia relations is, independent from the crisis in Ukraine and the annexation of Crimea. I would like to highlight two core problems. One is that the EU is pursuing two conflicting projects: the Eastern Partnership and the now defunct strategic partnership with Russia. These are two projects that have turned out, since November last year, to be incompatible. We need a fundamental strategic solution for that.

The second is a structural problem, an age-old problem, which has to do with the place of Russia in the wider Europe. That goes back many centuries, but it is back on the agenda and we will not be able to ignore it. Even if we solve this crisis, if we do not find a structural solution for it, it will keep coming back. We will move from crisis to crisis. The most important thing, apart from the short-term action that we have to take, is to think about this long-term policy. I have made a couple of suggestions to deal with the external aspects, such
as what has to happen with EU-Russia relations. You also have to deal with the internal aspect: what has to change within the European Union in terms of how you deal with Russia.

Externally, we have no possibility to continue with the Eastern Partnership policy as it is now without involving Russia. We have to think in the longer term—beyond this crisis, maybe even beyond President Putin—about some sort of trilateral construction involving Russia. The feeling of humiliation in Russia is enormous. That also explains why there was so much support for Putin when Crimea was annexed. There was a lot of support because this feeling that Russia has been humiliated by the West is very strong. We can discuss whether it is rational or not, but it is definitely present. The first thing we have to do is indeed to make sure that the association agreements, which the EU have now signed with Ukraine, Moldova and Georgia, are compatible with the Eurasian Customs Union and the economic union that Russia is creating. The core of the problem is that the customs union has its own common external tariff and cannot be combined with free trade arrangements. So, for Ukraine, it is impossible to be part of the customs union and have free trade arrangements with the European Union. That is the first thing that we have to solve.

In the common spaces that Russia and the EU have agreed on, this objective is already there. They mention a free trade area from Lisbon to Vladivostok that would encompass the EU and former Soviet states, which would make it compatible. It will be extremely hard to realise that in the first years, but it has to remain a core strategic objective. We may also think in terms of what you could call a system of double concentric circles. There was a lot of talk back in the 1990s about concentric circles around the EU with more integrated countries in the core and, as you move further away from the EU, you would have less integrated but still countries associated with the EU. I think that we have to accept that there is a second circle around Russia. We have to accept that there will be concentric circles around Russia as well, with different levels of integration and engagement.

Lord Lamont of Lerwick: But they would overlap, the concentric circles.

Dr Tom Casier: We have to make it possible for them to overlap. It should not be a forced choice: for Ukraine, the choice between Russia and the EU was unwelcome. It was portrayed as being for economic reasons and not in their interest. We should avoid forcing these sorts of choices upon neighbouring countries. Linked to that, the crisis in Crimea and eastern Ukraine has proven one thing: we have no effective collective security mechanisms in Europe. We have the OSCE, but at the beginning of the crisis it was humiliated. The OSCE lacks the legitimacy in Russia to function in an efficient way, so we need to rethink some sort of collective security construction, which is beyond the European Union. It is a major challenge but there is no choice, because security in Europe will never be achieved without including Russia in one way or another. Internally, the European Union probably has to realise that its policy—and maybe I slightly disagree with Dr Janning here—is perhaps more geopolitical that it realises. I am not saying that the EU is consciously thinking in a geopolitical way, but the implications of the association agreement and a deep and comprehensive free trade area with Ukraine are geopolitical in terms of influence and control—without calling it a “sphere of influence” or anything. It has very much been read like this by Russia. We have to remove these fears through closer integration of the two projects.

Lord Lamont of Lerwick: But when you talk about a free trade area from Lisbon to Vladivostok, is this just a rubric, a temple on the hill? Is it something that you would really go
for? When you think of what that would involve, and when you think how complicated something like TTIP is involving the United States that is absolutely up for this, the idea of integrating so much legislation and so much economic regulation between the EU and Russia would be a massive undertaking.

**Dr Tom Casier:** Absolutely.

**Lord Lamont of Lerwick:** Do you think one would move towards it or is it just a long-term goal?

**Dr Tom Casier:** Once we get out of the current crisis, we should slowly move towards it. There is no doubt that it would be a longer-term goal. The EU and Russia have been negotiating on a new agreement for many years. The old PCA—partnership and co-operation agreement—was supposed to be replaced in 2007. We have not been able to make any real progress towards a new agreement. It will be very difficult to reach that. First, we need to create the right conditions by tackling the structural issues in EU-Russia relations by taking away these fears on the Russian side, without justifying in any way what Russia has done in eastern Ukraine and Crimea, of course.

**Q115 Lord Trimble:** I find your analysis quite persuasive but I have difficulty with the problem that Russia has created as a result of what it has done with Crimea. We cannot acquiesce in that. How can we defuse their fears and establish something more positive while that is still there? Is there any possible way of doing something with Crimea which does not involve humiliating Russia or us having to acquiesce or endorse annexing other countries by force and changing boundaries without agreement? We cannot acquiesce in breach of those principles. Is there some way of reconciling this?

**Dr Tom Casier:** It is extremely difficult because I hear more and more in diplomatic circles that it is accepted that Crimea is ‘lost’. It will be very hard to win it back. It is almost impossible to imagine that. I am not saying that we should accept it. It is very ironic but it is an easier situation in a way than the situation of Abkhazia and South Ossetia. They need to be recognised as independent countries. In Crimea, we can continue business as usual with Russia and just keep mentioning in all sorts of documents that we do not accept the annexation of Crimea. But it does not stop us from interacting with Russia. That being said, we should follow a two-track approach in which we link the sanctions to long-term prospects for Russia and try to think about how we can involve and integrate Russia better.

**Lord Trimble:** Would the way out of this be to move Crimea into being an independent state distinct from Russia.

**Dr Marat Terterov:** Impossible.

**Dr Tom Casier:** Russia would never accept that. It is a key issue but the annexation is unacceptable by all standards.

**Lord Trimble:** It cannot be treated in the way in which we treated the Baltic states because the relationship with the Soviet Union was completely different from our current relationship or any future relationship with Russia.

**The Chairman:** Historical analogies are almost always inaccurate. One that comes to mind is the Saar and the way in which it was restored to Germany, which is what it wanted. The referendum was quite elegant and you could have another referendum in Crimea which
would probably result in voting to join Russia but it would be a properly constituted referendum.

**Mr Josef Janning:** That could be an option, if the general conflict had been somehow overcome or had been overshadowed by new modes of co-operation, but in principle there is no way around it. You could get into all sorts of problems. Think of the problems the EU has with goods from Palestinian territories. You would have the same problems with goods from Crimea. Think along the lines of the association agreement with Ukraine. We could not treat Crimean goods as foreign but we could not admit them easily to the European Union. There would be all sorts of problems. For the interim, the pragmatic solution will be to see: is Poroshenko and the newly elected Parliament ready to say, “Well, for the time being we don’t accept it but we live with it”? If it takes that position, we could take that position too without speaking much about it and then see what we could do in developing terms between Ukraine and Russia. If things go well and there is an opportunity for another referendum, that would be an option.

**Lord Trimble:** For the Ukrainians to do that, there would have to be something substantial coming from Russia.

**Mr Josef Janning:** I see the Ukrainians almost ready to do it to solve the problems already on the table—for example, energy in this winter and restarting the economy. For Poroshenko that is vital. Crimea, in spite of the normative position and the legal position on that, is not vital to him.

**The Chairman:** You look as if you disagree.

**Dr Marat Tertverov:** It comes back to an earlier point and the whole thing about our collective ability to analyse Russia and our knowledge deficits, let us say. I was born in the Soviet Union, although I grew up in Australia. I watch Russian TV. My father-in-law is a retired naval captain of the Russian Baltic fleet and my wife is from St Petersburg. I listen and I talk. One of the most popular things on Russian TV is the talkback shows with the experts and one of the main topics on the airways is what is going to be done with Ukraine. The perception and narrative that comes out of that, which shapes narratives to do with policy towards the West, let us say, broadly speaking, is that the current constitution of the Parliament that is evolving is not really one that is willing to make peace on the type of terms that we would like.

**Mr Josef Janning:** The Parliament in Kiev?

**Dr Marat Tertverov:** Yes, exactly. First, there is a huge critique about the Parliament. There are two main blocs—the Poroshenko bloc and the Yatsenyuk bloc—and then there are two right-wing blocs. Yulia Tymoshenko’s bloc is towards the bottom. At least, it was at midnight last night; I did not see the news today. All these Parliaments have their own oligarchs. Basically, this parliamentary structure we, in essence, are supporting. Again, I was just in Washington and US senior decisions-makers last week were making all kinds of positive statements towards Ukraine, including about diversification away from Russia on the gas side, which was one of our questions. In essence, our policy is reinforcing oligarchy in Ukraine. Russia is also an oligarch country. All former Soviet Union states are neo-oligarchical political economies. But they are not happy with that.

**Lord Lamont of Lerwick:** You mean each party has an oligarch? You said each Parliament.
**Dr Marat Tertterov:** Yes. Sorry, I apologise. Each party is dominated by an oligarchical clan, if you like. So, that is the essence. None of these blocs is able to form a coalition that we would call a peace coalition—certainly, not one that Russian public opinion, which goes into policy-making, would be willing to accept as a peace coalition. The perception is that Yatsenyuk—a man whom Victoria Nuland called “Yats”, which is ridiculed very much in the Russian political establishment—is seen as a neo-Saakashvili and as someone who is representing American interests in the Ukraine. We heard this from the horse’s mouth last night. You cannot believe how sensitive it is for the Russians. It is psychological more than geopolitical. In April when I was there for three weeks, my father-in-law said that his pension had been delayed. If your pension is delayed here, you let the pension authorities know about it. His response was, “I don’t mind for the moment because everything needs to be concentrated into the Crimea. We have spilt too much blood over Sevastopol”. For the Brits, Sevastopol is well known as a place in the Crimean war. There is tourism et cetera. For the Russians it is a holy of holies, so the perception is that if you have a pro-West and pro-American Government, in particular, there is a genuine risk that Sevastopol could host NATO vessels.

**The Chairman:** But this is not inconsistent with what Dr Casier said. You were pointing towards a resolution in which basically a way was found that would leave Crimea with Russia.

**Dr Tom Casier:** I am not promoting that idea. I think that it will be very hard to ‘gain’ it back. It will be unacceptable and non-negotiable for Russia.

**The Chairman:** Exactly. I think that we see that.

**Q116 Lord Lamont of Lerwick:** Could I ask Dr Casier something else? To go back to your point about the overlapping or concentric circles, one of the people whom we are going to see here wrote us a letter in which they said this, and I wondered if you agreed or disagreed with it: “Those post-Soviet countries that are between the two integration spaces, the EU and the Eurasian Economic Union, must be offered the prospect of EU membership, otherwise it will be a geopolitical vacuum”. So there must be for the partnership countries a clear perspective of EU membership. Do you agree with that or is it in conflict with what you are saying?

**Dr Tom Casier:** I do not think that it is a good idea, because we have seen now that simply having the association agreement with Ukraine has upset Russia so much and created broad support for Putin. I am not saying that Ukraine is not entitled and does not have the right to become a member of the EU, if certain conditions are fulfilled, but it will make the geopolitical situation worse. We have to think about a different model for a wider Europe, where the two projects are no longer clashing with each other and become compatible.

**Dr Marat Tertterov:** Exactly.

**Dr Tom Casier:** We have to do that first, before talking about EU membership. Maybe in that context, EU membership will become easier and we will be able to offer it to Ukraine. What we absolutely have to avoid, at least in the longer term, is a policy that leads to more confrontation, because even if Russia is hurt by the sanctions, by capital flight and by its weak economic growth right now, it is not going to give in. I think they are willing to hurt themselves to a large degree for the simple reason that Putin and the elite have identified their position so much with power and Russian pride that it will be very hard to force them, by sanctions or whatever, to step back. We need to rethink the situation in wider Europe.
rather than trying to impose more sanctions on them. We should probably keep the sanctions as they exist now but discuss longer-term prospects for Russia’s position in Europe and maybe link them to building the sanctions down.

Q117 Lord Trimble: We also have the impression from what people have said to us in evidence that it is not just the association agreement and the prospect of European membership to which the Russians object so deeply. What affects them as much as anything is that, if Ukraine becomes a successful country by developing in the way that Poland has done, and if it becomes a genuinely democratic country rather than having those rather curious arrangements that so many post-Soviet countries have, the Kremlin regards those developments in themselves as posing an existential threat to Russia. It is not just about the issues over Crimea and all the rest of it; it is the fact that a successful, democratic Ukraine in itself is something that they cannot tolerate.

Dr Tom Casier: I would agree. We cannot look into Putin’s head but I think that he developed a view in 2004 that the Orange Revolution and the other colour revolutions of that time were very much masterminded by the West—that they were very often, in the first place, US-steered revolutions. Indeed, he may even have a personal fear that this could be repeated in Russia. We should not forget that only a couple of years ago, around the time of the parliamentary and presidential elections in Russia, we saw huge mass demonstrations. The potential is always there. It definitely plays a role and this fear also goes hand in hand with Putin’s concerns over the enlargement of NATO.

Lord Lamont of Lerwick: Yes, one is a precursor to the other, historically.

Dr Tom Casier: Precisely. Relations with the EU develop very much in the shadow of American policy and NATO policy because the things that have happened in terms of NATO enlargement, especially to the Baltic states but also with the missile defence system, for example, were received very badly in Russia. Russia felt that its concerns were not heard. Also, on that point, we have to make sure that we can think about a collective security system to replace or overshadow NATO to a certain degree.

Q118 Baroness Billingham: Can I come to a fairly practical question? In fact, you raised it in your introduction, Dr Janning. It is about the role of Germany as far as all these problems are concerned. I wonder if you could help us by telling us what the views are in Germany on Russia and the Russian policy. Is the very hard line that we know there is in the Chancellor’s office supported among the political parties and in the legislative chambers? How has German business, which is in such high profile given the news in the last couple of days, responded to the new line on Russia, because that is going to be imperative to the future of the German people?

Mr Josef Janning: I am not sure whether I agree with the assertion in the question that says that the Chancellory’s line is harder, but it looks harder. I still see the German political class, at least that part of the class holding office, as subscribing to the longer-term strategic approach to Russia, which is to say, “Russia is different, difficult and can do harm but it will always be there, and we will have to find a way to live with whatever Russia we have. Once the Russians understand that we are ready to live with them wherever they go, they may be ready to listen to us to a certain degree”. Chancellors from Adenauer to Merkel have tried to capitalise on the traditional prejudice that the Russians have vis-à-vis the Germans: that if there is anyone west of Russia who could be useful to help Russia, it would be the Germans.
That goes back to Peter the Great. Germany has always been the reference point for ambitions to become something else—more modern, more efficient, better organised, having a better military or what have you. The focus has been Germany and, into modern times, German Chancellors have tried to use that.

Angela Merkel does the same but she has a very clear position on the legal and normative side of it and, in her view, that is part of the success of such a strategy. Talking as Chancellor, as Schröder is doing now as an ex-Chancellor, she would think it would weaken the German position. Why should the Russians respect a Germany that is willing to compromise its principles? The Chancellery’s analysis is: “The Russians need us”. They can sustain quite a while not listening but, at the end of the day, they will find no better partner in the West than Berlin, so whenever they want to do something, they will have to come back anyway. For that matter, the Chancellery’s line has been to make it very clear to Russia that they do not like this but, at the same time, to say: “We are ready to listen to you. We are ready to talk to you when you are”. Merkel is the one western leader who has talked most to Putin since the outbreak of the crisis, but she and her people have also signalled to the Kremlin, “We can’t continue calling you if there is no result”. There has to be some result and I believe that, if you asked in the floors of the Chancellery, they would say, “A little bit of the Minsk movement, with Putin and Poroshenko trying to set something up, was also due to us because we have insisted that at some end Putin has to deliver, otherwise it will simply be impossible for us in our own western framework to continue calling them”. Merkel’s line has a domestic element to it, because for the first time we have a rather principled debate in Germany about its Russian policy. The line that I described in the beginning is now being contested—and within Merkel’s own party. Her former Russian co-ordinator, Schockenhoff, who was good and knowledgeable on foreign policy and an active Member of Parliament, has launched some very critical resolutions calling for a more principled approach to Russia and for clearer gestures of discontinuing formats. The latest conflict was the Petersburg dialogue, which is a sort of second-track meeting of think-tankers, government and NGOs, along with the bilateral summits that were created a number of years ago. That has been postponed now because on the German side, the NGOs did not want to participate. The Chancellery does not really like that because it makes its own business a bit more complicated. But Merkel has to be fairly outspoken domestically, so as not to let the rather Russia-critical voices in her own party—there are also some among the Social Democrats and a lot among the Greens, who are very hard-line on Russia—get out of hand. Also, public opinion in Germany is rather disappointed in Russia. Many Germans would say, “We do not love the Russians but we do not fear them”, as the Poles do. The Germans do not fear the Russians; they think that we are far superior to Russia.

**Baroness Billingham**: Really? I am surprised by that.

**Mr Josef Janning**: Russia has never really been superior to us other than exploiting Germany’s foolish ideas to rule the world. That is what many average Germans think. They have no fond memories of the Red Army in Germany, absolutely not, but if you talk to the people in the streets they are not afraid of Russia.

**The Chairman**: You were going to ask a question, Robert, about the other countries.

**Q119 Lord Maclennan of Rogart**: I really want to go back to Norman Lamont’s question about the long term and the future, with free trade being an objective. Listening to you, it sounds like the day after tomorrow, how we expect countries to move in the short term.
How does the EU get the show on the road? Do we have to be led by one country? How do we formulate those goals? We have had a lot of cross-currents this afternoon and I would like to know what we should be doing as a—not quite unified—union.

Mr Josef Janning: One of the principal issues that we are still struggling with is that although we have these unique and dense structures of integration and interaction in the EU, we still have not fully overcome the rivalry that exists among EU member states—large versus small, small versus small, large versus large. One would think, from what I said earlier, why should we not ask the Germans to lead EU policy on Russia? I think it is a non-starter, even though Germany probably has a view that is fairly balanced and brings in a lot of interests from other member states. But it would immediately generate mistrust from other member states and would thus limit the effectiveness of German leadership. Leadership signals have to come through the European Council. It would very much help the dynamics in the European Council if member states began to cluster around issues in a slightly more reliable way, so that you do not begin to build coalitions—a Russia coalition or a Russia strategy coalition—every time Russia pops up as an issue, but you already have something; you have the Swedes, the Finns, the Baltics, the Poles and the Germans reaching out to some other member states not immediately in the neighbourhood in order to create a meaningful policy cluster that would seek to come to the table with a common position.

Lord Maclennan of Rogart: Going back to the concept of free trade from Lisbon to Vladivostok, if we do that, how do we involve countries such as Azerbaijan and Armenia? Do they look towards Russia to be their spokesperson? How do we bring the whole lot together, if that is the long-term goal? I think Dr Casier said it should be.

Dr Tom Casier: It would definitely be a challenge, but if the EU and Russia take the lead on free trade it will be easy to extend that model to other countries. Obviously, the case of Azerbaijan is a very peculiar one because of the oil and its conflict with Armenia, its geostrategic interests. But the fact that Armenia has now chosen Russia’s side—it was the first country to defect from the Eastern Partnership back in September last year, which did not get so much media attention—has a lot to do not just with Russian pressure but the fact that is has close links with Russia, in terms of trade but also in terms of people going to Russia to work there and sending the money back home, the money that is badly needed in Armenia.

We need an approach in which we come up with a model for free trade that is open to other countries. I admit it is not necessarily a very concrete plan. It will take time and creative thinking to get there. But the basic idea should be that now we have this model of integration around the EU which is making borders more and more irrelevant—we are taking borders away—but the implication of the EU enlargement and the association agreements is that we have created new borders in Europe and have run into the limits of the Eastern Partnership policy. The free trade area is a way of taking away these borders, of trying to make them as irrelevant as possible in this model of double concentric circles. They will always be there. Russia will not become a member of the EU at any point in time but at least we can make the borders less relevant so that the tough choices do not have to be made.

Q120 Lord Maclennan of Rogart: How does the Commission’s indication that we should not enlarge the European Union for five years assist that process?
Dr Tom Casier: Personally, to start with, I think it has a lot to do with enlargement fatigue. The Commission and Juncker realise that there is not much support for enlargement in the short term. But it is also an easy quote in the sense that there is probably no country that is going to be ready to become a member of the European Union in the next five years, during the Commission’s term. If there are candidates on the waiting list, they are in the first phase in the Balkans, and it definitely will not be one of the associated countries under the Eastern Partnership because they are not ready by far. We should also keep in mind, not just for Ukraine but also for Moldova and Georgia, that there are huge internal problems in those countries, with democracy, with corruption, (and this problem also has to do with this loss of analytical capacity), which we have ignored for far too long. The EU has often referred to Ukraine under Yanukovych as the best pupil in the Eastern Partnership class, while there were very serious issues with democracy. There were free elections but that was more of an institutional façade. What happened behind the scenes was anything but democratic. We also have to be very careful not to make the same mistake again, and to understand the situation on the ground. We can be hopeful that Poroshenko will be successful in carrying out reforms, but it is far from guaranteed because the situation in Ukraine is extremely complex.

Lord Maclennan of Rogart: What about the revision of the European Neighbourhood Policy? If we are not going to have new membership in the next five years, can we do anything about that? We have heard that there will be a review. Can we envisage what it might do?

Mr Josef Janning: We need a much more flexible instrument. For quite a while the EU followed the line to say, “Let’s make all possible use of group dynamics”. That is why there was always this emphasis on the group. The more interaction we can create in this group, the stronger the pressure will be on Belarus to say, “Why are we not part of this?” because they were always there on paper. Russia has destroyed that policy by breaking Armenia away—Azerbaijan was going in a different direction anyway—and now creating trouble with Ukraine. The Eastern Partnership or neighbourhood is basically Moldova and Georgia. The indications are that they do not want us to press on that issue too much because Russia can create trouble at any time in either country.

What it comes down to is that the EU will say, “Our neighbourhood will remain our neighbourhood, because they will not be joining the European Union and they will cease to be a problem in the wider sense of the word”—that applies to the eastern and the southern neighbourhood—“and we will not pursue this kind of collective, group-based neighbourhood policy. We will look at it as a group but we will have very specific policies with each of these countries. We will not walk into the trap once more like we did with the southern neighbourhood, where we said ‘More for more’, and find ourselves now in Egypt in the situation that we are considering doing more for less, against our earlier assumptions”. This all comes down to the point of saying, “Let’s try to be more individual, more situation-specific. Let our own neighbourhood philosophy be our philosophy and not necessarily be the acquis of all those countries involved”.

Q121 Lord Lamont of Lerwick: I want to ask Dr Terterov a question about Mr Putin. He was the successor chosen by Yeltsin. Yeltsin had a completely different view. He talked about Russia becoming a member of NATO. He certainly envisaged a sort of absolute partnership with the G7, which then became the G8—Russia being a capitalist country. He chose Putin; he must have known what Putin was like. In his first term in office, Putin seemed to go along
with all the things that Yeltsin had. Then in his second and his third term, and in his period as Prime Minister, he was a different man. Was he always different or did he change, or did something cause him to change?

**Dr Marat Tertarov:** First of all, we tend to have this view of Russia during the 1990s as being a little bit more allied to our interests—you said that Russia was a capitalist economy, a market economy. Russia gave more favourable terms to energy companies—for example, to acquire assets such as oil and gas, particularly oil deposits in the Russian Federation. We tend to have this view that, yes, Russia was a bit more chaotic, and then Putin comes in and starts to stabilise. However, Putin was someone who came into power. Maybe he was endorsed by Yeltsin and had a certain view of what Russia should be like. Maybe he wanted to, let us say, develop this position. But a couple of things happened that are very important to note. From about 2002-03, oil prices start to rise structurally and continue to do so until a decline in 2008. Obviously, this allowed the Russian state to be far more powerful fiscally. That is also linked very much to a second issue, with which many of you are probably familiar: the case of the Yukos oil company and Mikhail Khodorkovsky. I am simplifying it a little bit, but Putin had a certain deal with the oligarchs at that time, including Berezovsky, Abramovich—those sort of people, whereby it was said, “If you play by certain rules, your assets and interests will be, let’s say, maintained”. We tend to consider Khodorkovsky as a black sheep in this sort of get-together. Therefore, Yukos is dismantled and a lot of those assets go to Rosneft, some go to Gazprom, and therefore, with buoyant oil prices, the Russian fiscal state becomes far more significant, which expands the power of Putin. I would not say that Putin was inimical to western interests from the beginning. There was an interview with Putin on “Breakfast with Frost”—the late David Frost—where he spoke positively of possible Russian membership of NATO. You can have a listen to that interview. So I would not say that he was inimical. In fact, his Prime Minister at the time—someone well known in London—Mikhail Kasyanov, was directing a lot of Russian economic and financial policy. Of course, Tony Blair met Putin at the time, I think in the Mariinsky Theatre. It was still quite a positive phase of relations.

However, it comes down to one or two fundamental issues and to your question about the principles on which we should base our relationship with Russia and a lot of the things that Tom was saying about the incompatibility between the Eastern Partnership and our Russia strategy, which from an EU perspective is the PCA, the partnership co-operation agreement. Basically, in the mid-2000s, Russia felt itself more comfortable and stronger as a fiscal state. You do not need to be a classic, private-property, rule-of-law British or western economic model to be a market economy. The state can act as a capitalist as well. If you go to our friends in Saudi Arabia and the UAE, you see that these are very much state-capitalist economies which are very pro-business and pro-market. Basically, in the mid-2000s, we start seeing adjustments when Russia feels that we in Europe are being overly paternalistic in our Russia policy. “Paternalistic” means that we are not listening to them when they are asking, “Why are you expanding NATO to the borders of our country? Why are you seeking to accuse us of playing divide and conquer by dealing with the member states bilaterally and not with Brussels?”—which Russia used to do very much before the last Commission. “Then again, you’re encroaching right on our doorstep; you’re encroaching right on our borders with NATO, with EU enlargement, with the Eastern Partnership”. The Eastern Partnership was, in a sense, a source of great frustration, which fuelled very effective careers for a lot of Russian spin doctors, such as the ones who were on this TV show that I was watching, who
then say, “Look, we can no longer work with the West. We tried to work with them in the
1990s. We tried to engage the Brits, Tony Blair, and with George W Bush, but look at what
they give us in return, instead of trying to develop a more common vision for Europe”. Again,
you have to understand the psychology. The Russian elite spend their time in London, in
Miami or shopping on the Ku’damm in Berlin or in Vienna and all these sort of places. They
love the West; they love everything that is western. Putin, for example, loves Abba; it is one
of his favourite bands. They love the West, but they feel that it is being hypocritical,
paternalistic and almost too Westphalian supremacist, if you like—if I can use this sort of
terminology—in its treatment of Russia. There is some similarity, by the way, with Turkey
and the EU as well as China—which is a bit further away—and the EU. Therefore, you tend
to get nice, cosy relationships between the political elites from these countries. That is one
of the key issues for me in your question. If we really want to develop a durable, long-
standing relationship with Russia, we need to implement philosophies of mutual respect, not
trying to engage Russia as a distant partner or to pull some of these countries towards us or
create that perception in the public narratives within Russia. We need to work together with
them.

On your question earlier, Lord Maclennan, about whether we can work on this free trade
space, the huge Eurasian landmass, it may be a bit of a pipe dream. However, if we start
creating the perception that we are trying to move in that direction, I guarantee that it will
change the chemistry in our relationship with Russia. It will change the way they look at us; it
will change the way they act as an interlocutor. But at the moment they feel, “We are
supplying you with gas. When have we stopped the gas supply to the Brits, to the Germans
or to mainstream west European countries? On the other hand, you’re promoting these
diversification projects. You’re going to the Azeris and saying, ‘Give your gas to us. Don’t
work with the Russians.’” They see this as being a little hypocritical and not trusting Russia as
a partner. They do not see a basis for that.

**The Chairman:** We are going to have to pack up soon.

**Dr Marat Terterov:** Could I just add 20 seconds?

**The Chairman:** Okay, quickly, please.

**Dr Marat Terterov:** There is one fundamental issue that we must understand. We have a
certain understanding of the world: sovereignty, rule of law, private property—these are all
concepts that are all very understandable and dear to us. We cannot just automatically
assume that these concepts will work and be embedded in the same way in the former
Soviet Union.

**The Chairman:** I do not think that we assume that.

**Dr Marat Terterov:** But here in Brussels we do and that is a big problem

**Q122 The Chairman:** Dr Casier, you were very interesting on how you saw a long-term
relationship. We have ratcheted up the sanctions. On what basis, do you think, and by what
criteria could we ratchet down? What do the Russians have to do that would enable us to
ratchet down?

**Dr Tom Casier:** In the first place, Russia has to give a clear signal that it is willing to help to
stabilise the situation in eastern Ukraine, withdrawing Russian troops who are obviously
there on the ground. That would be the most important signal. I see some signs of hope,
because, since the Minsk agreement, although the ceasefire did not hold, at least the parties on both sides are willing to pretend that it is more or less holding. That may indicate that there is a willingness at least to resolve the conflict. There is a real risk that Russia does not control the situation entirely, because other forces are at work there that are not fully under government control. That may complicate the situation, but eastern Ukraine should be the most important and first case where Russia has to make very clear concessions. Only then can we start thinking about reducing sanctions. In parallel, we have to hold talks on Crimea. At the end of the day, as Dr Janning said, the position of the Ukrainian Government will be a determining factor and perhaps create some opportunities for co-operation. It will be an extremely difficult process. The major challenge is that Russia had a strategy of denial and of surprise. Its next steps have always been very unclear. The annexation of Crimea came as a total surprise, as did developments in eastern Ukraine. That makes it of course very unpredictable. The question is: is Russia now playing for time or is it more willing than it was a couple of months ago to work towards a political solution of some sort?

The Chairman: I am really sorry that we have to finish. Thank you very much. You have each brought a somewhat different view, but I think that there is a certain coherence to what we have heard. Thank you, all, very much indeed.
CBI—Written evidence

CBI submission to House of Lords European Union Committee sub-committee for External Affairs on “The EU and Russia”

1. The CBI welcomes the opportunity to respond to the committee’s call for evidence. The CBI is the UK’s premier business lobbying organisation, representing over 190,000 organisations, collectively employing a third of the private sector workforce. Our mission is to promote the conditions in which businesses of all sizes and sectors in the UK can prosper for the benefit of all. To achieve this, we campaign in the UK, the EU and internationally for a competitive policy landscape.

2. Our submission to the committee is restricted to data on the trading relationship that exists between the European Union (EU), the United Kingdom (UK), and Russia and an overview of CBI member views on the action the EU has taken in response to the annexation of Crimea in March and subsequent events. Because of commercial sensitivities, our submission deliberately does not name specific companies. Instead, it should be considered representative of the views of our membership on this issue in general terms.

3. The key points we would like to communicate to the committee are that:

   a. Russia is an important trading partner for the EU as a whole and the UK individually
   
   b. Our members recognise the need for economic sanctions

   c. However, policy makers should be aware that there has been a commercial impact on British business resulting from the crisis

   d. Close dialogue between business and government as the situation develops is critical.

Russia is an important trading partner for the EU as a whole and the UK individually

4. In 2013 the EU was Russia’s number one trading partner, accounting for almost 41% of all trade. Statistics released this month show that the EU has retained this status in the first period of 2014 (January – August) with a total trade turnover of $263.3bn for the period, although this is down 3.2% compared to the same period in 2013. It should be noted that these figures will not account for the full effect of sanctions imposed post-August, so it is likely that there will be further downward movement in these numbers during the second half of 2014. However, even if this is the case, it is clear that the trading relationship between the EU as a whole and Russia is and will remain hugely significant to both sides.
5. A number of Europe’s largest economies continue to have significant bilateral trade with Russia, with the Netherlands ($52.1bn); Germany ($46.7bn); and Italy ($34.3bn) reporting the largest trade volumes in the first half of 2014\(^5\). Russia is also an important trading partner for the UK individually. The most recent figures show that UK foreign direct investment stock in Russia is worth just over £6bn with Russian investment in the UK at around £1.2bn. The UK is twelfth on the list of exporting countries, with around 2.5 percent of the total, just over £5bn. Motor vehicles, electrical machinery, nuclear technology, pharmaceuticals, aircraft and tractor spare parts are in greatest demand. In total there are over 600 British companies with a physical presence in Russia and approximately 5,800 UK traders exported goods to Russia in 2013\(^6\). In 2012 the CBI partnered with UK Trade & Investment (UKTI) to take a group of 25 British Medium-Sized Businesses (MSBs) from a range of sectors including manufacturing, construction, design and agriculture, to Russia to help boost commercial links even further. As the UK works towards its ambition of doubling exports by 2020, it is important that long-standing commercial relationships British companies have developed with Russia are protected as far as is possible. Business accepts that some commercial impact is inevitable when sanctions are imposed, but as the British government considers its policy response going forward, British commercial interests in Russia should be a key consideration.

**Our members recognise the need for economic sanctions**

6. CBI members recognise that it was essential for the British government, working with international partners, to respond to the illegal occupation of Crimea quickly and assertively. Our members believe that the imposition of economic sanctions was an appropriate way of doing this. Our members also recognise that the potential cost to business of inaction would likely have been significant too. CBI members want to see a diplomatic, peaceful resolution to the current crisis and are supportive of the British Government’s efforts to achieve that outcome.

7. Our members have particularly welcomed the EU acting as one and in close cooperation with the United States, which is both an important demonstration of unity and helps to reduce the complexity of compliance for companies operating in both markets. This unified response must be maintained as the situation develops and it is essential that there is a consistent approach to the implementation of sanctions. It is also vital that key trading partners outside of the EU and US are engaged, particularly on issues such as “back-filling”, which refers to the situation where companies from outside the EU and US may win contracts that have been lost or vacated by EU and/or US firms. This is a particular concern of our members.

8. As the situation develops our members believe that the following guiding principles should be followed if further sanctions are considered:

   a. Seek consistency and cooperation from key international partners

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\(^5\) All statistics taken from Rosstat statistical release, 20th October 2014

\(^6\) BIS statistics, 2013
b. Be as targeted as possible with respect to individuals and entities

c. Design sanctions that can be ratcheted for increasing impact if behaviour is not modified

d. To the extent possible, provide advance nature of the sanctions and consider preparing an advance impact assessment based in part on front-end input from various industries through trade associations, including the CBI

e. Design sanctions that can be unwound quickly if events warrant.

**However, policy makers should be aware that there has been a commercial impact on British business resulting from the crisis**

9. The situation in Ukraine and subsequent policy response by the EU and United States has had a commercial impact on British companies with business interests in Ukraine and Russia. The impact can be disaggregated to refer to: (a) companies directly impacted by sanctions via restrictions they place on their business operations in Ukraine and/or Russia; (b) companies impacted by Russian ‘retaliatory’ sanctions on the import of agricultural products; and (c) the indirect impact on business of the current crisis, resulting from the impact of sanctions on the Russian economy and heightened geopolitical risk in the region.

10. The CBI does not have permission from its members to cite specific cases where companies have been impacted in each of these areas. We have also decided not to provide a detailed analysis of the extent of the commercial impact in each area as this question does not fall within the remit of the committee. What follows below is an overall assessment of the impact on business in each of the areas specified.

11. Firstly, our assessment is that the impact on British companies directly affected by the EU sanctions on Russia has been limited. We have heard some specific examples where member companies, particularly in the dual use sector, have been impacted very severely, and the measures imposed on the energy and financial sector have closed certain opportunities to British and other EU companies. However, overall our members believe that the sanctions have so far been carefully designed to limit the impact on British companies while maximising the impact on the Russian economy.

12. Second, on the Russian ‘retaliatory’ sanction of banning the import of agricultural goods from the EU, though this has had a significant direct impact on other EU countries, particularly in Eastern Europe, the impact in the UK has been limited. Britain exports a relatively small amount of agricultural products to Russia – in 2013 our largest exports were £5.4m of cheese and £1.4m of poultry meat – both accounting for less than 1% of total trade. However, we note that there has been an indirect impact resulting from the stockpiling of some agricultural products in EU countries as a result of

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7 Statistics from the Department of Environment, Food and Rural Affairs (DEFRA), 2012 statistical release
the Russian import ban, which has put a downward pressure on commodity prices across the EU as a whole, with a consequent impact on British companies and their suppliers exposed to these commodity markets.

13. Third and most importantly, our members report that the broader climate of uncertainty that the current situation in Ukraine and Russia has caused is having a significant commercial impact on existing business and future investment decisions. The committee will be aware of a number of recent public trading statements from publically listed companies that have cited geopolitical tensions in Ukraine and Russia as a contributing factor to downgrading performance forecasts for 2015. It is absolutely essential that the government considers this broader impact on business as further action is considered. It is not sufficient to consider only the impact on companies directly impacted by the sanctions themselves. Businesses’ fundamental interest is in ending the crisis and delivering a peaceful outcome which provides certainty and stability in the region.

Close dialogue between business and government as the situation develops is critical

14. In order to achieve this it is vital government maintains an open dialogue with the business community as this situation develops. Our members believe that government has done this effectively so far, working with the CBI and other business associations.

29 October 2014
TUESDAY 9 SEPTEMBER 2014

Members present

Lord Tugendhat (Chairman)
Baroness Billingham
Baroness Coussins
Lord Foulkes of Cumnock
Lord Lamont of Lerwick
Lord Maclennan of Rogart
Lord Radice
Earl of Sandwich
Lord Trimble

Examination of Witnesses

Mr Neil Crompton, Deputy Political Director, FCO, Mr Hugo Shorter, Head of EU Directorate (External), FCO, and Mr Chris Barton, Director of International Affairs, Trade Policy & Export Control, BIS

Q52 The Chairman: Good morning, gentlemen. Thank you very much for coming before us. As you know, this is an on-the-record session, and it is part of our inquiry into EU-Russia relations. I am duty bound, I gather, to draw your attention to the list of declared interests, which will be available to witnesses and members of the public attending the meeting.

We have, as you can imagine, quite a lot of questions to ask you. I ask you to be brief. If you think that we are getting too bogged down in something and that it would be easier to send written evidence after the meeting, that might well be the best thing to do. I should like to get through as many questions as possible, but I do not want to find that we have to be too shallow. Written evidence in support might be the best.

Perhaps I may kick off and ask you a very straightforward question: can you offer us an update on recent events in eastern Ukraine and what you think the next steps are to resolve
Neil Crompton, Hugo Shorter and Chris Barton—Oral evidence (QQ 52-66)

the conflict and stabilise the situation? Obviously, we have all read the newspapers, so we have a rough idea of what is going on, but can you cast any light on the significance of what is happening?

You need not all answer the same question, but if you want to add to what one of your colleagues has said, please do. Mr Crompton.

Neil Crompton: To give you a brief reprise since we were last here, Lord Chairman, we have had a turbulent few months. During the summer, of course, we had the shooting down of the MH17 incident, which paradoxically, we hoped, might lead to a diplomatic breakthrough. I think President Putin realised that the separatists had got out of his control. There was then a sharp deterioration of the situation on the ground, which led to the incursion of regular Russian troops into eastern Ukraine, we believe. That has been accompanied by a period of intense diplomacy since the D-Day commemorations in Normandy, led primarily by the German Government, working very closely with allies, with President Poroshenko, to try to broker the terms of a political process, initially a ceasefire between Russia and Ukraine, and then to set the stage for a bigger discussion about how to resolve the crisis permanently. We had a breakthrough last week on Friday when President Poroshenko announced that he had agreed a 12-point plan with President Putin to try to stabilise the situation in the east, a key component of which was the announcement of a ceasefire. That ceasefire is, according to our analysis, broadly holding, and discussions are continuing between Russia and Ukraine, supported by the OSCE and allies. So we are hopeful that we are now in a de-escalatory phase of the conflict and that we can begin to try to find a diplomatic solution to the problems.

The Chairman: I know that there has been a breach, but do you regard this ceasefire as being for real, as distinct from something timed to coincide with the NATO summit and then for play to resume?

Neil Crompton: We do regard it as real, because it emerged from a period of discreet and serious diplomacy, primarily between President Poroshenko and President Putin. We think that they have the elements of an understanding, and the EU and other allies are trying to facilitate that. Whether or not it represents a permanent solution, I do not know. A lot of people have died in eastern Ukraine over the past few weeks and tensions are very high, but we as diplomats are trying to make it work.

Q53 Lord Lamont of Lerwick: In the lead-up to the crisis, what mistakes, if any, were made by the EU and what lessons can be learnt, in particular about mechanisms for conflict prevention and conflict resolution for the future? What is the basis for relations between Russia and Ukraine?

Neil Crompton: We had part of this discussion when we gave informal evidence before. Reflecting on that discussion, for the EU we have come to three reflections. First, for the last period we have largely regarded President Putin as a partner and someone the EU could work with in many different ways. I think that the notion of him as a partner has been challenged. The conventional wisdom was that Russia regarded the expansion of NATO as an existential threat to its interests but was less concerned about the extension of EU influence. The events of the past few months have shown that Russia regards the extension of EU influence as a very serious threat to its own sphere of influence. We are still trying to absorb that lesson in how we respond.
**Lord Lamont of Lerwick:** On that point, that is exactly what Tony Brenton said to us; he said that there was a lack of pure, simple thinking about how the Russians would react at that stage. He said that the Russians have been very clear, right from the very beginning, about what they want as regards Ukraine. They want two things, the first which is no route into NATO, and he said that they regard EU membership as a route into NATO.

**Neil Crompton:** The association agreement was a long time in gestation. The EU member states and Ukraine began negotiations on an association agreement in 2007. That agreement enjoyed cross-party support in Ukraine. Russia was fully aware of that. Russia went through a long period in which it did not make a major issue of Ukraine’s signature of the association agreement. It began to come to prominence last year in the Russia/EU dialogue. We knew that it was a source of concern to them. We expected Russia to apply some economic pressure on Ukraine. We need to separate in our own minds the two slightly different things here. There was the conclusion of the EU association agreement with Ukraine. Then there was the political crisis in Ukraine triggered by Yanukovych’s flip-flop on EU membership and Russian intervention. It was the political crisis in Ukraine, rather than the EU association agreement, which triggered Russian interference in eastern Ukraine.

Chris Barton: I will just add a couple of points if I may. Answering this from the perspective of the DCFTA, first it is important for us to recognise that ultimately it is not for Russia to determine how Ukraine decides to position itself with trade agreements with the EU. We must first of all recognise Ukraine’s right, which it exercised, to decide to enter negotiations with the EU on a DCFTA. Secondly, I emphasise that it is not a surprise, as has already been noted. It has been talked about for a long time. It was talked about from 1994 when the objective of the FTA was first discussed. While some issues have been raised by Russia, it had not raised specific concerns about what it would like to see different in any free trade agreement. Over recent months, since its level of opposition has been clear, the EU has been very open in discussion and open to discussion with Russia about its concerns, while recognising Ukraine’s sovereign rights. A further point I would emphasise is that it was not the trigger for the recent problems, as has again been noted. It was actually the decision not to sign the DCFTA rather than to sign it which triggered the most recent issues in Ukraine.

**Lord Lamont of Lerwick:** Do you think we have taken enough account of what the nature of Ukraine really is? We had a paper before the Committee from Václav Klaus, the former President of the Czech Republic, in which he said that Ukraine is essentially a non-historical state cursed with a fundamental identity problem from day one and that it has no historical tradition of statehood: the independent Ukrainian state did not exist before 1991. He goes on to argue that it is really two countries, or one-third and two-thirds, and that, according to him, more than one-third of the population is ethnic Russian. According to other estimates I have seen, it is more like 20%. Really it is a country with no cohesion that has been singularly unsuccessful. Its economic record has been even worse than that of Belarus, and there is a fundamental split in the country. Paradoxically, the wealth-producing part of the country is the Russian part, which is between 20% and 30% of the population.

**Neil Crompton:** There is an understanding of some of those elements, but Ukraine is not the only country to have emerged from the post-Soviet orbit that did not really exist as an independent state, so it is not unique in that respect. Our view is that it is a sovereign state free to make its own choices. I think everyone recognises that there are very difficult economic challenges in Ukraine which the Ukrainians first and foremost have to address. We have decided that it is in our interests to try to help through an association agreement.
You commented, Lord Lamont, on the ethnic composition of the state, which we all know, but our understanding is that there are Russians spread throughout many countries in eastern Europe and their first loyalty is to the state in which they live. They also have an affiliation with Russia, but that is clearly part of the political challenge that we face and that President Poroshenko faces. Trying to address concerns about the rights of Russian minorities in Ukraine forms an important part of President Poroshenko’s peace plan.

**Lord Foulkes of Cumnock:** Following on from Lord Lamont’s question, do you think we are being sensitive enough here and in the European Union generally to Russia’s concerns about the far right in Ukraine?

**Neil Crompton:** Yes. We believe Russian’s concerns about the far right in Ukraine have greatly exaggerated the nature of the problem in Ukraine.

**Lord Foulkes of Cumnock:** Deliberately?

**Neil Crompton:** There is a very concerted Russian propaganda effort backed up by a very sophisticated Russian state propaganda machine to portray the political turbulence in Ukraine as the result of right-wing activists. Events on the ground, experience and contact with many of those in the Maidan were very different. These people essentially wanted what most people in Europe want, which is the rule of law, good governance, economic structures and association with the rest of Europe.

**Q54 Lord Lamont of Lerwick:** The EU commissioner for human rights wrote a series of reports on Estonia, Latvia and Lithuania. While he or she—I cannot remember—said that a lot of progress had been made, there were still significant disadvantages for Russians in those countries. When he gave evidence to this Committee, Sir Tony Brenton said that he thought the EU and that the FCO had not done enough on that issue. I put down a Parliamentary Question about it and was told that we had never raised the issue.

**Neil Crompton:** That is a good point, Lord Lamont. We need to take that away and reflect on it. It will be interesting to see what the Committee concludes, having heard the evidence from lots of Russian experts.

**The Chairman:** Coming back to Lord Lamont’s original question, why do you think the 21 February power-sharing agreement collapsed? Could the EU have done more to support it?

**Hugo Shorter:** The result of that agreement was the departure of President Yanukovych within a couple of days of the signature. Why he left is a matter for conjecture, I think, but presumably he felt that his safety was no longer guaranteed in the situation on the ground. Could the EU have done more to support it? That is again a matter for conjecture, but it seems to me that President Yanukovych’s departure was related to events on the ground in Kiev more than anything else. Despite what some Russian propaganda has suggested, the EU did not have control or even major influence over the events on the ground in Kiev.

**Q55 Lord Trimble:** Turning to Ukraine’s future, have we been doing enough to help the Ukrainians stabilise their economy and political system in order to develop effectively in the future?

**Chris Barton:** To start off with the trade side, the association agreement and the DCFTA are a key element of what we want to do to support Ukraine. It is part of a larger package, but it is potentially a very significant step in terms of its immediate impacts. The tariff reductions will
provide a good boost to the economy of Ukraine; we estimate over $1 billion a year. There is also the longer-term impact of opening up to trade. Indeed, the DCFTA is more than just a standard trade agreement; it will also involve the adoption of a range of the EU acquis and will, we think, play a very important role in helping Ukraine develop in a positive direction.

**Lord Trimble:** What budgetary support are we giving them? Do the current Ukrainian Government have enough money to run the country?

**Neil Crompton:** There is a significant IMF programme, a £17 billion package in all, of which I believe £4.6 billion has been disbursed. The next round of disbursement will take place in the next few months. We believe that is enough but that is under review. We are conscious of some of the economic costs of the conflict and the loss of revenue and GDP from eastern Ukraine, which one of the members referred to as essentially the heart of the economy, which have obviously affected IMF assumptions. International financial institutions are keeping that under close review.

**Lord Trimble:** Something hugely important to both those factors is corruption. I remember seeing months ago, before the crisis, a report in which businessmen were saying that the level of corruption in Ukraine was even greater than the level of corruption in Russia. Against that background, there is a serious danger of the aid we are giving being stolen. If that happens, it will be a real disaster. What are we doing on that front? What can be done?

**Hugo Shorter:** The association agreement that we have now signed with Ukraine contains a number of provisions to help Ukraine strengthen the rule of law and attack the problem of corruption. Obviously, that requires the good will of the people in power in Ukraine. The Government have made a commitment there. That now needs to be followed up across the system.

**Lord Trimble:** That sounds like something that you have put for the record in order to show that you have made an effort rather than something on the ground.

**Neil Crompton:** Everyone recognises that this is a huge problem in Ukraine, including the Ukrainians. Part of the political convulsion that has taken place in Ukraine is about the way it is governed; the Maidan uprising was essentially a rejection of the way that Ukraine had been governed. It is pretty old fashioned to say so in the UK, but it is quite striking to go to Maidan and see people with European Union flags talking openly about their desire to be governed in a way that most European countries are—by the rule of law, in which corruption is a minor rather than a major problem—and a desire for accountability and transparency. That is part of the appeal of President Poroshenko and the new political leadership in Ukraine. Working through that problem, as you probably know better than I do, will take a long time, but through the EU instruments of association agreement we have a powerful tool and leverage to help them with that. The same is true of the IMF, which, of course, applies conditionality to money that it provides to many countries around the world where corruption is a problem.

**Q56 BaronessBillingham:** In direct contrast to the dramatic conflict between Russia and the Ukraine, the annexation of Crimea would appear to be a fait accompli, so we need to look anew at the situation there. The question is: is Crimea going to be under Russian control for the long term? What are the plans for the settlement of Crimea’s current political status? The EU has an export ban on Crimean goods. Does the EU intend for this to continue for the duration of the illegal annexation, and is this genuinely a sustainable policy?
Neil Crompton: The honest answer to your question, Baroness Billingham, is that we do not know how this will end. We regard the annexation of Crimea as illegal. That is our position. It is also the view of 99 countries in the UN General Assembly. Clearly we could not get a resolution through the Security Council because Russia is a member. Our ability to think long term about the future of Crimea has been affected by the day-to-day preoccupation with the situation in eastern Ukraine. Ultimately, Ukraine and Russia are going to have to address the issue. Our policy is one of support for the principle of territorial integrity, and sanctions will be applied to try to increase the cost to Russia of its policy. Where we will be in six months’ or a year’s time, we do not yet know. The Government will maintain a position of principled support for Ukraine’s sovereignty and territorial integrity.

Chris Barton: I will make a couple of points about the trade side. There are two key ways in which we are trying to not recognise the annexation of Crimea. The first is the ban on exports—to which you referred—of goods from Crimea that do not have a Ukrainian certificate of origin. We are also putting a ban on investments in new energy, telecoms and transport infrastructure, with the intention of not making it easier for Russia to integrate Crimea into its economy—and there are certainly no proposals to row back from that at the moment.

Baroness Billingham: For the general public, the perception is that this is a done deal, and that we are rowing back and not raising issues very strongly at the moment, with no indication of how strongly we shall be raising these issues in future.

Neil Crompton: I think we will continue to raise them very strongly. There is a meeting in Brussels this week to consider how to deepen sanctions on Crimea and in a sense complicate Russia’s annexation of it. We believe that it is proving to be an economic burden on Russia, which is having to invest a great deal of money there. So there are economic costs for Russia. I often hear experts on Russia drawing analogies with the Soviet occupation of the Baltic states. We adopted a principled policy there; we never recognised the occupation of Estonia, Latvia and Lithuania for the entire duration of the Soviet Union. That does not necessarily solve the problem, but it is a policy response.

The Chairman: Lord Trimble, Lord Lamont and Lord Maclennan all wish to come in on this question.

QS7 Lord Trimble: I will look at a few points in detail about Crimea. There is no land connection at present between Crimea and Russia. I believe that Crimea is dependent on electricity from Ukraine; it does not have enough domestic sources of electricity. It is also dependent on the Ukraine for other matters. I have heard water being mentioned; I am not sure if that is the case. That would seem to indicate that there are still powerful tools in the hands of the Kiev Government, provided that the Russians do not establish a land link. They are not going to build a bridge across the Kerch—that is simply out of the question—but the danger is that their military adventurism will get them as far as a land bridge. Without getting a land connection with Crimea, the Russians will have great difficulty in sustaining their position there: am I right about that?

Neil Crompton: Yes.

Lord Trimble: Why did you not say so?

Neil Crompton: I was not trying to ignore your point.
Lord Trimble: I mean, why did that not come out in your initial presentation, because it is a hugely important fact, is it not?

Neil Crompton: It is an important fact. The occupation of Crimea has, in a sense, given President Putin in his own eyes a political boost at home, but it has presented him with a number of practical problems. Sustaining the occupation will be costly because of some of the factors that you have just mentioned.

Lord Lamont of Lerwick: Surely a question that we have, in the interests of living with our neighbours in the world, is: “Are Crimea and its future a vital interest of Russia?”. As I understand it, it was President Yanukovych who renewed the lease on the base there. He was then deposed. Then there was talk that the extension of the lease might be reversed. Surely the base there is of vital interest. It is all very well to say that they could develop another base elsewhere on the Black Sea, but that would be a very big investment. If you are talking about the Black Sea, you are talking about Russia’s access to the south, to the Mediterranean and to a warm port. They have no access to those things without that. Therefore was the threat to the lease not a real fear in Russian minds regarding a real, vital interest of theirs?

Neil Crompton: Some of that predates my work on this file. I can triple-check facts on this, but I think my answer to your question would be that that was an issue that Moscow was very capable of pursuing diplomatically with Kiev but instead it chose to resort to, essentially, military occupation in a way that we regard as completely unacceptable. I think everyone in Ukraine understands that Crimea is of strategic importance to Russia, but there was no proper discussion about it.

Q58 Lord Radice: This is about the European Council decision to ratchet up the economic sanctions on 30 August. What form are these likely to take and what is the likely trigger for the EU to take these further steps? How serious a set of sanctions are they, and are they just sitting there or are they actually going to be acted on?

Chris Barton: On the substance of the sanctions, you will be aware of the sanction package that was agreed—or rather came into force—at the beginning of August, which essentially covered three key areas: finance, military and dual-use products, and high-tech energy exports. In essence, the most recent sanctions are an enhancement of those sanctions. On the finance side there are some new restrictions shortening the maturity dates for relevant bonds that are caught and extending some of the finance restrictions to some oil and arms companies. On the dual-use side there is now a ban on a certain list of Russian arms companies that will not be able to receive any dual-use products, even if they were meant to be for commercial purposes. On the energy side, the new sanctions extend the provisions to some of the services associated with some of the high-tech support that we might otherwise have given in the oil sector. So those are being tightened, and I believe that there are a few extra names for the tier 1 and tier 2 sanctions, which were about the asset freezes and the travel bans. That is the package of sanctions in broad terms.

Lord Radice: What about the implementation?

Chris Barton: There have been discussions in Brussels and my understanding is that they will be implemented imminently, although I do not know the precise date.
Lord Radice: This is an associated question: to what extent has there been a flight of capital from the Russian economy following the events that we have seen over the past there or four months?

Chris Barton: The overall economic impact on Russia of these sanctions is of course something that we have been interested in. It is hard to come up with a precise figure, and indeed some of them will have a long-term impact, but I believe that Fitch has estimated that sanctions have caused international reserves to fall from about $470 billion to $450 billion by the end of this year, and that if they were kept in place they would cause those reserves to fall to $400 billion by end 2015, which would be in total a reduction of about $70 billion in their reserves by end 2015. We have seen the price of Russian debt fall by over 20%. The rouble has sunk to a record 16 year low against the dollar, and we also understand that sanctioned banks have been turning to the Government and asking for support of over $4 billion. There are also reports that Rosneft, the major energy company, has asked for help to pay off a $40 billion debt, so is it clearly having some impact. It is difficult to put a precise figure on that, partly because there are other things going on at the same time; in some of our discussion with the financial sector, they said that they were already seeing some of the slowdown in business even before any sanctions were put in place, though the sanctions clearly take that to a new level. As I say, some of the impacts of the sanctions, particularly the energy high-tech ones, are likely to have more of a long-term slow-burn impact than an immediate one.

Lord Radice: What about Russian retaliation?

Chris Barton: They have retaliated already on the agricultural side. The total value of the EU food exports that are affected is about £4.5 billion, which will mainly affect Lithuania, Poland and Germany. For the UK as a whole it has had a relatively smaller impact on our agricultural sector, though there are particular elements of that sector that will be more severely hit, so it is having an impact.

The Chairman: I am sorry, I skipped Lord Foulkes, so I feel I owe him the first supplementary.

Lord Radice: My apologies, it was my fault.

Lord Foulkes of Cumnock: Not at all. I was just going to follow on from what Lord Radice said. What effect are these sanctions having? Are the Russians saying, “Oh dear, you’re right, Europe, we’ll back down”, or are they digging in harder?

Chris Barton: Clearly, they have not yet had the effect of completely reversing Russian policy.

Lord Foulkes of Cumnock: But you do not expect them to, do you?

Chris Barton: They are part of an overall approach. Sanctions in themselves are unlikely to be the sole means of reaching a solution here, but we think that they can play an important role.

Q59 Lord Foulkes of Cumnock: I read today that the next retaliation is that they are going to stop western flights over their airspace—a huge airspace. That is going to be devastating, is it not?

Chris Barton: There have been reports of that, with Prime Minister Medvedev speaking about the potential for doing that. There has been a range of speculation in the media about
other sorts of retaliation that Russia could make. Certainly, we have to see how this develops, but there is the risk of retaliatory action, which would have an economic impact.

**Lord Foulkes of Cumnock:** As far as the Foreign Office is concerned, do you really think that this is going to get them to change their mind?

**Neil Crompton:** We all understand that the sanctions are a slow-burn tool; they never have immediate impact. Essentially, one purpose of sanctions is to try to change the cost-benefit equation for Governments with whom we are dealing. That is what we tried to do on Iran for many years. In the case of Russia, we have an increasingly narrow regime which the Kremlin dominates, which depends on the support of a group of oligarchs and very senior businessmen, whose interests we are now actively targeting. We have quite a lot of evidence that that group of people are very concerned.

**Lord Foulkes of Cumnock:** Are they putting pressure on the Kremlin?

**Neil Crompton:** We believe they are.

**Lord Foulkes of Cumnock:** Do you have evidence that they are?

**Neil Crompton:** Yes—and we know what people tell us. We see the evidence in the markets that Chris has talked about, of pressures and so on. Do we think that this will lead to an overnight change? Possibly not. It is part of a wider policy and one of the tools that we have available to us, giving reassurance to our allies. Deterrence through NATO is another tool that we have. It is designed to change the cost-benefit equation. Every time the EU has applied sanctions over the past few months, on the day before Russia has made some diplomatic gesture in an effort to avoid further sanctions, which suggests to us that they have some impact on their calculations.

**Q60 The Chairman:** I have Lord Lamont, Baroness Billingham and Earl Sandwich wanting to ask supplementaries, but I shall also ask one myself. Are there signs that some of the member states are a bit reluctant to go on to the next stage? Do you think that we have reached the limits of the unity within the member states? Austria, I believe, and one or two others were creating difficulties.

**Neil Crompton:** Agreeing sanctions is always very difficult, as they involve core economic interests of countries. Europe’s economic independence with Russia has grown considerably over the past 10 and 20 years, which is a good thing and actually increases the leverage that we have through sanctions. Getting to the first step on sanctions was very difficult. Some of this preceded my time on this file. It has actually become easier over the past couple of months, which is partly because President Putin’s behaviour has become so brazen, in a sense, and partly because of the MH17 incident, in which 11 European countries lost large numbers of citizens, particularly the Dutch. That very much changed the politics of Russia within European Governments. As Chris has said, we have applied some significant sectoral sanctions through the European Council. Securing those and securing agreement to the latest round of additional sanctions was very easy. People recognise that there is a strategic challenge to Europe through President Putin’s behaviour, and that it requires a strategic response.

**Chris Barton:** I would just add, if I may, after the earlier discussion about some of the costs for us in some of the risks of retaliation, that that reflects why these are very difficult discussions. It recognises that the sanctions, of course, give us pain as well as Russia. There is
a difficult discussion that has to be gone through to make sure that you are designing the best way in which to minimise the impact on us, maximising the leverage on Russia, and to ensure that there is a proportionate effect across the EU. That is why it is always a difficult discussion.

**Lord Lamont of Lerwick:** I think you have partly answered my question on the two-way cost of sanctions. The cost of sanctions does seem to be quite severe on Germany; they already seem to be having an effect on the German economy, which is having an effect on other countries in the eurozone, which is in quite a precarious situation.

**Chris Barton:** Different bits of the sanctions regime are likely to have more impact on different economies, and to have to greater or lesser extent an economic impact. For example, the energy impacts are likely to be more slow burn. With the arms sanctions, the economic impact is not the only reason to do that; it does not seem to be appropriate to be supplying to the military if it is involved in activities that it should not be involved in. Some financial impacts are likely to be greater on economies that have a greater financial sector. So, yes, there is a complicated picture, which will vary over time, but overall the aim is to try to make it balance.

**Baroness Billingham:** You talked about the perception of our allies. I got back from the United States yesterday morning, which is why I am a bit doopy today. I have to admit that I was more interested in Federer than in Putin. But the fact remains that when you turn your television on on any channel in the United States, to CNN or, worse still, Fox, and hear about the actions of the EU and our reaction to what is going on vis-à-vis Russia, it is mockery. They cannot believe the incompetence and the impotence. How strong are you making our case to our allies? We need those allies to back up what we are doing.

**Chris Barton:** From the trade side again, there is very close co-ordination between the EU, us, and the United States and G7 counterparts. There is a lot of similarity between the measures that are being taken; although they are not 100% the same, we try to co-ordinate them as far as possible. There is a very clear consensus among the G7 that we all recognise the need to work together, so it has been a good example of very close integration. Of course, we come back again to the differential impacts; different economies have different levels of exposure and leverage in Russia, so the impacts can vary. But there is a deliberately very close alignment between what we and the US are doing.

**Neil Crompton:** I worked in Washington for four years, and if you watch Fox or CNN it is a perennial feature that the European Union is portrayed as soft and clumsy. But I do not think that is the view of the US Administration, not least because they worked out that, on those differential impacts, Europeans are seven times more exposed to the Russian economy, which gives them seven times more leverage. The smart people in the think-tank circuit and the Administration understand that. Unfortunately, they do not always appear on Fox news.

**Q61 Earl of Sandwich:** My question is to Mr Barton. We have talked about implementation, since Lord Radice asked you about that. You are obviously implementing sanctions. We are hearing about a cosy relationship with the EU, but what is actually going on in the monitoring section of the EU? Is it all done there? Are you expanding staff to monitor? To take the example of the bridge into Crimea, there must be people on the ground who can inform you through business channels. What is our role in relation to the EU monitoring process?
**Chris Barton:** I can answer that in two ways. First, in terms of having awareness of what is going on on the ground and the impacts on business, we are in regular discussion with the business sector to understand the impact of what is happening and what the potential impact of further measures might be. From the BIS perspective, the area that we are primarily involved in is through the export licensing system. If anyone wanted to export in one of the areas caught by sanctions, where — there is clearly a complete prohibition — they cannot get a licence at all. If there is any room for discussion, they would have to go through the export licensing system, so we have a whole mechanism that covers the export of military, dual-use and specifically sanctioned products. That is our prime way of implementing that from here.

**Earl of Sandwich:** I come back to the question asked by Baroness Billingham: the position of the UK in all this. Mr Crompton, I think it was you who said that we were sitting waiting for a diplomatic solution. That seems to be our position the whole time: we are not in the front line, we are waiting for something else to happen. Do we have a more pragmatic British line than our neighbours, and can that be demonstrated in bilateral economic and diplomatic relations, because it is said that we are just not as visible as we should be? How do we ensure that our views are heard?

**Neil Crompton:** I suppose I would say this, but that is not a characterisation that I recognise sitting inside in the Foreign Office. International diplomacy has been largely led by Chancellor Merkel. We strongly support that. Germany is the western European country with the strongest economic and political influence with Moscow and Ukraine, so we support her efforts on that. She is a natural interlocutor with Putin. She understands Russian and he understands German, which helps to facilitate the process. We have been very supportive of her efforts in that, but we have been very active. Within the European Union and the G7, we have made much of the intellectual case for the sort of sanctions we believe will have an impact on Russia, and we have done a lot of the diplomatic lobbying to get the European Union in behind them. We have been very active in the United Nations, where this country was instrumental in securing the General Assembly resolution on Crimea. We were the country that was active in the wake of MH17 in condemning the shooting down of the plane. I think that we have also been active through NATO, not least through our hosting of the summit last week.

Who is doing most of the talking to Poroshenko and President Putin? That is Chancellor Merkel, unusually — normally it would be the US President — but David Cameron has been active in that, as have our Foreign Secretaries, both William Hague and Philip Hammond, so we have been active, particularly in Europe.

**Baroness Coussins:** Most of my question has been annexed by other people.

**The Chairman:** Is this a supplementary or a main question?

**Baroness Coussins:** I was going to ask which member states were the key drivers in formulating and shaping EU policy.

**The Chairman:** Just before you do that, then, as it is the next question, I think that Lord Lamont has a supplementary to put.

**Lord Lamont of Lerwick:** Following on from what Baroness Billingham said, I remembered what our former ambassador, Sir Tony Brenton, said about the EU. He said that the EU was good at trade but, he said, “the whole approach to trade is slightly utopian. It believes in vast
documents signed by both sides. When I was ambassador in Moscow, I dealt with a thing called the four common spaces—ghastly, it was. I shocked my staff by actually reading it. It was full of wishy-washy good intentions, nothing substantive. It is fair to say that the Russians do not take the EU seriously as a diplomatic actor”.

**Neil Crompton:** I think that they take EU sanctions seriously. Hugo, I ask the European correspondent to reply.

**Hugo Shorter:** Thank you, Mr Crompton.

**The Chairman:** I think your response is clear.

**Q62 Baroness Coussins:** I wondered whether there is anything further that you could say to help us understand which other member states, apart from Germany and the UK, which you have mentioned, are playing an active role in driving policy about Russia—not just about sanctions but about other prospective elements of policy that could include military intervention and the long-term approach to Russia. What are the key areas of disagreement between member states on this, and where does the UK sit?

**Neil Crompton:** We discussed last time that there have always been different views—understandably, between 28 countries—on how you deal with a country such as Russia. Generally, the closer you live to Russia, the more you tend to take a very realist view of Russia, if you like. Those people have lived under the shadow of Russia’s history. The further away you live from Russia, whether to the west or the south, the more relaxed you are about Russia. I would not say that there is a faultline, but a natural complexion of views has been there.

Britain, France and Germany have sat in the middle of that spectrum, and we have all been very active during this crisis. France has been associated with the Normandy process with Chancellor Merkel—part of the diplomatic process with the Russians and Ukraine. Other countries have been very active. Poland has been very active through Foreign Minister Sikorski. Carl Bildt in Sweden has been one of those calling, in a sense, for a reappraisal of Europe’s relations with Russia.

The dust has not yet settled, but I think the MH17 incident has changed the politics of Russia within Europe. I do not think many European countries would now describe President Putin as a partner. We have not yet settled on a new term for him. The debate about how we deal with Russia in the long-term is not yet joined, because we are preoccupied with the immediate crisis in Ukraine, but those are the issues that we are looking at. Does that answer your question? Hugo, I do not know whether you can add a bit more.

**Q63 Lord R adjective:** You mentioned Poland. I should declare my interest, because I am married to a Pole. Do you think that the appointment of Donald Tusk as President of the Council will have an impact on the EU position? What will its impact be on Poland, because he has been a very influential Prime Minister?

**Hugo Shorter:** I think that the role of President of the Council, of all the senior jobs, is the one whose essence is to find common ground between member states that may have divergent positions. That will be the role that he will have to continue to pursue. The same is true of Federica Mogherini, the new high representative.
The fact is that member states’ positions and the action of member states such as the UK will remain determinant in establishing the EU’s position as time goes on—I am not saying anything that you do not know here. Whether Tusk’s personal views will shift the EU view perceptibly in one direction or another remains to be seen, but this is an issue on which all member states have strong views and considerable interests. If he is able to find common ground between those, that is in itself a major achievement, without trying to add to that a reflection of his own personal agenda. I think he will focus on being a balanced and impartial President of the Council.

To add to what Neil Crompton was saying, the EU still has ahead of it the process of reappraising EU-Russia relations in the round. It has become currency to say that President Putin is no longer a strategic partner of the EU and that Russia is no longer a strategic partner of the EU, but what he is and what the relationship with the EU should be in the years ahead is something that will need to be discussed after Donald Tusk and Federica Mogherini are in place.

**Q64 Lord Foulkes of Cumnock:** I was going to ask another question from the order paper. We heard the quotation from Lord Lamont about the European Union not being highly respected in the Kremlin, but I want to go back to how we decide what the United Kingdom’s policy should be on Russia. Presumably, each department takes a different approach to that. BIS will be worried about the effect on United Kingdom industry; mackerel producers are having problems and there are lots of others. The Foreign Office will look at it in one way, the Treasury in another, the MoD in another and so on. How do you co-ordinate the policy and how is it formulated? How do you decide? Who is the main actor or the main department that takes those decisions?

**Neil Crompton:** You are right: there are many different actors around Whitehall. That reflects the breadth and complexity of Russia and the extraordinary depth of the economic relationship. It is sort of co-ordinated through the National Security Council structures, which bring all the departments together. We meet regularly as officials from across Whitehall, once or twice a week, either in the Cabinet Office or the FCO, to work through the issues of the day. These are brought forward to Ministers through the National Security Council. We have the Prime Minister or Foreign Secretary chairing, and then the Chancellor and Ministers from the economic departments, and other ministries with a concern, who work through these issues and come to a common view of how to deal with this, both with sanctions—

**Lord Foulkes of Cumnock:** Have you strengthened in each department the people dealing with this? Has it gone up the agenda?

**Neil Crompton:** I can speak for the Foreign Office. ECAD, which is the Foreign Office directorate that deals with this, has essentially had a 25% uplift in staff—an additional 13 staff—to deal with Ukraine and Russia, a response to the immediate demands of Ukraine in the public eye and recognising that Russia is a challenge we will be dealing with for many years to come. Chris, you might be able to give a view on how it looks from another perspective.

**Chris Barton:** From a BIS perspective, I absolutely recognise the picture that has been painted by Neil Crompton. Underneath that, there is a lot of close working on all sorts of different aspects of the policy. I have alluded to the export control work that is run out of
BIS, but we work extremely closely with Foreign Office and DECC colleagues on the relevant decisions on export licensing. At official level, there is a lot of close interaction. That is one way in which we link up. The same is true of trade policy, another area I look after. BIS leads on trade policy, but by its very nature a large range of departments will have close interests, including the Cabinet Office. There is a lot of day-to-day connection between departments; it is very live.

In terms of the resourcing, we were talking late last year and early this year about whether we needed to think more about Russia from a trade perspective. It was felt that there were some things to think about but that it was not a very major priority. Clearly, events have completely transformed that, and Russian issues are now number one on my priority list. It has very much escalated up the department's priorities too.

Lord Foulkes of Cumnock: You have worried me by saying that it is being dealt with by the National Security Council. When I was on the Joint Committee on the National Security Strategy, we were sceptical about the way in which the National Security Council deals with so many things now. If you take the discussions that we have had, we have Lord Lamont putting forward an argument that the best way to deal with them might be some sort of rapprochement: “Let's talk to them and try to understand them and find a way forward”. Then we have the hardliners who say, “No, no, the only way of dealing with them is to impose harder sanctions to bring them to their senses”, and so on. How is that kind of debate reflected? Ministers presumably take part in that debate.

Neil Crompton: Decisions are self-evidently taken by Ministers. In any policy there will be tensions. Historically, perhaps, what the FCO thinks is a good idea is not necessarily approved of by other government departments. The purpose of the National Security Council is to create a forum in which all Ministers can come together, recognising in a globalised world that promoting our interests overseas and dealing with security challenges is probably more important than the role of domestic departments. I am not just saying this because I am on the record. I have dealt with many crises over the past 14 years, but this is probably the most complex in terms of the number of different actors we are dealing with around Whitehall and our FCO network. All these meetings take place with input from Washington and our embassies in Moscow, Kiev or Brussels by VTC. The co-ordination has probably been the most cohesive. Where there are differences between departments they are brought together at the National Security Council and are brokered around the ministerial table, which I suppose has probably replaced the role of what used to be the foreign affairs committee in the Cabinet. Lord Lamont would be more expert on that than I am.

Chris Barton: I know that the name is “National Security Council”, but it includes the economic departments. We interpret “security” in a broad sense, reflecting a range of our interests and activities in this area.

Earl of Sandwich: We are also going to need an independent Scottish voice in the European Union to be able to stand up to the Russians.

The Chairman: I turn to a Scotsman and ask Lord Maclennan whether he would like to ask the next question.

Q65 Lord Maclennan of Rogart: Is the kind of settlement you have described within the National Security Council going on within the EU, particularly with respect to neighbourhood
policies and at least with partnership policies? Are we contemplating our navel or are we actually engaging with the other 27 member countries of the EU in putting together a policy that might make the Russians take the EU seriously? We have heard from many of our witnesses, including a former ambassador, that sanctions are a complete waste of space and will have no serious effect. We need to know what positive steps are being taken with the European partnership and how they are being taken with respect to eastern Europe.

**Hugo Shorter:** Well, I think most member states would accept that the experience of the past year or so shows that we need to review how the eastern partnership policy works and our overall approach. The eastern partnership policy is part of a broader policy called the European Neighbourhood Policy, which also has a southern neighbourhood component. Needless to say, it is a pretty complex policy, covering as it does 16 different countries in two extraordinarily different regions. As I say, there is a view that that needs to be reviewed. It has been in place for a number of years, both to the east and to the south.

Its impact has been limited, I think it is fair to say. It certainly could have greater impact in pursuing EU interests. Russia is not part of the eastern partnership but it is obviously very interested in what we do. One of the ways in which we need to review the eastern partnership and the European Neighbourhood Policy more generally is how that set of EU policies relates to the views and interests of third countries. How do the views and interests of countries like Saudi Arabia, the United Arab Emirates, Qatar or Iran relate to the EU’s policy in the south? In the East, how do we engage with Russia on what we are doing with the eastern partnership? Again, like the EU/Russia relationship, this consideration is going to happen under the new Commission and the new high representative. This is not something that can be done in a few weeks, and certainly not in the closing weeks of the current incumbents being in those jobs.

**Lord Maclellan of Rogart:** You said that this policy needed review. If it is to have any impact on the problems that we face with Russia, surely it cannot be put together entirely by the new Commission. We ought to know where other member countries stand on these issues.

**Hugo Shorter:** Yes, absolutely. There is a dual process. There is a lessons-learnt review of what the EU has done in recent years and the money that it has spent. Then there is a process to develop an adjusted and updated set of policies. In the Foreign Office in London we have set a process in place to make up our own mind on how we think the European Neighbourhood Policy has or has not achieved its objectives. We have consulted other government departments and outside players. We are in the process of discussions with other member states, and the Government will come to a formal view in the weeks ahead as to how the European Neighbourhood Policy should develop. But in Brussels, the way the system works is that you need to get a review launched so that an updated policy can then be developed on the back of that review. That has not yet happened, and I do not anticipate it happening until we have new people in the Commission and the EEAS.

**Q66 The Chairman:** The next two questions are of a rather different nature. In view of time, perhaps it would be helpful if you would provide a written answer. These are questions dealing with how the UK intends to support the Commission’s efforts to combat corruption and its efforts to create a more balanced local energy market within the EU. Does the UK support the Commission’s efforts to suspend the South Stream project until there is full compliance with EU legislation? Also, there is the extent of the EU’s role in seeking to ensure
that Russia lives up to her international commitments in multilateral institutions such as the Council of Europe, the OECD, the WTO and international financial institutions. Those are quite complicated questions and it would be difficult to cast light on them orally, so perhaps you could give us a paper on that.

There is one concluding question I would like to ask: perhaps you could give me some thoughts on how the EU can build a relationship with Russia that is not focused solely on President Putin. Do you believe that there is a liberal opposition that has ties to member states, and what in your view are the best practices among member states in offering support to Russian civil society?

*Neil Crompton:* That is a very good question on which to conclude. We may send you some written thoughts on this. For a long time, both with the Soviet Union and Russia, western countries have tried to have as broad-based a relationship as possible. We have a relationship not solely with President Putin but with the Russian Government as well. What experience has taught us over the past 10 or 20 years is that some of the contacts with the bureaucracy have become immensely useful because power has become concentrated in the Kremlin. We in the Government believe that we need to keep those channels open, keep talking and keep the dialogue going. We think that it is important, both as an issue of principle and because we believe that it will encourage long-term change, to keep open channels to others. We have provided a lot of support to NGOs and civil society activists. The reality is that that space has become much harder—there has been a very significant crackdown on political space in Russia—and we are still adjusting to how we can do that. Part of the debate that is taking place within the European Union is how we can do this: how we can get messages into Russia.

Part of the debate is also about how the European Union can improve its communications effort in an area where we are dealing with a very powerful Russian state-controlled TV system broadcasting 24/7 not just into parts of Europe but competing with Fox News and our own channels, and presenting news in a very partisan way. We need to rediscover some old information techniques. Our friends in central Europe have some good ideas on this. I will take that away and perhaps offer you some thoughts on what we have done in the past. As to where we head from here, again I would be very interested to hear from your Committee because I know that some people around the table have thought a great deal about this.

*Chris Barton:* I would add that there is a link with the other two questions that we will be writing to you on, because some of the measures on integrating Russia more formally into international commitments, ensuring that they are followed up, dealing with anti-corruption and so on, are part of the bigger story.

*The Chairman:* Gentlemen, thank you very much. We look forward to your written papers. If there are any other observations that you wish to make as a result of thinking about the questions that you were asked and the answers you have given, or if there are any points that with hindsight you feel you would like to clarify or add to, please do not hesitate to do so.
Evidence Session No. 9  Questions 134 - 153

TUESDAY 28 OCTOBER 2014

Members present
Lord Tugendhat (Chairman)
Baroness Billingham
Lord Lamont of Lerwick
Lord Maclellan of Rogart

Examination of Witnesses

Mr Jean-Luc Demarty, Director-General, DG Trade, and Mr Luc Pierre Devigne, Head of Unit, DG Trade

Q134 The Chairman: Thank you very much for coming. As I think you appreciate, this is an inquiry we are doing on the EU and Russia and their relationship. This is a formal meeting, so we have a note taker. If there is anything that you wish to say off the record, make it clear and we will respect that. If, when we have finished, there are points on which you would like to send in a written memorandum, please do. I will kick off. As it happens, we have just been with the Russian ambassador, who made a great deal of the fact that the DCFTA with Ukraine would have had a very detrimental impact on Ukrainian trade with Russia. He argued that it would have been perfectly possible to structure an FTA that would not have a detrimental effect on trade with Russia, but that the European Union had not been listening to Russian concerns. Can I put that to you?

Mr Jean-Luc Demarty: Thank you very much for the question, my Lord. First, the Commission has engaged in a consultation process with Russia since November 2013 on the economic effects of the EU.

Lord Lamont of Lerwick: Sorry, which year?

Mr Jean-Luc Demarty: November 2013. Sorry for my French accent. It was on the economic effect of the EU-Ukraine DCFTA on Russia’s economy. We have already provided all these explanations to Russia at many meetings.
Jean-Luc Demarty and Luc Pierre Devigne—Oral evidence (QQ 134-153)

Secondly, the Commission circulated technical documents to the member states in the Trade Policy Committee and also in the Eastern Europe, South Caucasus and Central Asia Working Group—COEST—of the Council of the European Union. Those documents were about Russian concerns and our explanations alongside these technical meetings with Russia. For example, the document shared with the Council’s Trade Policy Committee on 17 June 2014 is a good summary of the Russian concerns and our replies to them.

Thirdly, on the economic impact of the DCFTA on Russia’s economy, the DCFTA implies a gradual development of a level playing field in the Ukrainian market. That means that EU and Russian products would compete on equal terms. For Russia this is to a certain extent a source of loss, because at the moment it has free access to the Ukrainian market while most of the EU goods are paying duties. But the EU fundamentally disagrees with such a zero-sum view of the situation. In our view, competition makes economic actors more efficient and contributes to the better economic performance and competitiveness of all.

The DCFTA implies also the respect of EU competition rules, including in the awarding of subsidies. Russia deplores the fact that the EU rules and their implementation would restrict the ability for Russian groups present in Ukraine to receive generous state funding. While the EU accepts that under specific strict conditions subsidies, especially those that do not distort trade, have a role to play, it disagrees with Russia about the desirability of large-scale governmental intervention to artificially change the terms of competition.

Russia has basically a problem with putting all the economic actors in the market on an equal footing. With the DCFTA, Russian companies will have to compete with EU companies on an equal footing. That is what Russia means by detrimental impact on its economy. But it is quite the opposite, because Ukraine-Russia-EU operations will benefit from the DCFTA. A number of Ukraine-based companies are owned by Russian investors. They will benefit from the DCFTA, as they will have access to the EU market. So Russian exporters to Ukraine will be able to export also to the EU, thanks to the DCFTA and the legal approximation. The EU legal requirements and standards due to the legal approximation from the DCFTA will have to be respected by Ukrainian producers, but the implementation is very flexible. The DCFTA foresees progressive timetables for the implementation of these new requirements of up to five or eight years, according to the sector. These timetables are indicative; once the DCFTA is in place, they can still be adjusted and extended if necessary.

Another argument from Russia is the displacement of Ukrainian goods by imports from the EU, but this is unlikely. These products are priced differently, which means that EU products are in general more expensive. At this stage, the purchasing power of Ukrainian consumers will restrict their ability to switch to higher priced EU products. In addition, certain sensitive sectors—for example, the Ukrainian automotive sector—will benefit from a transition regime that gives time to local industries to adapt to more competition.

Regarding alleged floods of Ukraine’s goods into Russia and dumping, Ukrainian products will not become under-priced and directed to Russian markets due to the DCFTA. If a given product is not competitive in the domestic market—for example, in Ukraine—it is unlikely that the same product will be competitive in the Russian market. In the case of surging exports or dumping by Ukrainian companies on the Russian market, the CIS FTA permits the use of safeguarding measures and anti-dumping procedures, just as is the case today.

Lastly, we have to recall that we are in an FTA, not in a customs union with Ukraine, so Russian argumentation would negate the capacity to have FTAs with different partners. That
is the logic of their position. It is clear that it is something that is not possible to accept as a matter of principle.

Q135 Lord Lamont of Lerwick: Could I ask a follow-up? Thank you very much. That was a very full answer and it is very good that we have it on the record. Just to be clear, because we have discussed this with the Russian ambassador, he was talking about standards rather than the other factors you mentioned. The two examples he gave were of helicopter engines and the standards they would have to meet; he was making the point that there were a lot of defence manufacturers in Ukraine and that the specifications were so different that they would be displaced out of the market. The second was veterinary regulations as applied to agricultural produce. I suppose your answer to both of those would be time—you would say that these were happening only gradually.

Mr Jean-Luc Demarty: It is not only time. It is clear that, on the Russian arguments, the only elements which would require some consideration are the arguments on standards. But we have to recall that the Russians are also complaining on tariffs. They were asking to remove, to exclude from the deal some 2,400 tariff lines. That is what they were asking for, which is not very serious. On standards, it is clear that time is also part of the solution. It would also make sense for Russia to try in the medium-to-long term to converge with EU standards. It is something that would make sense, and that is something we were looking at in the new agreement, although now the negotiation has been suspended on 6 March. It is clear that we can also look at other solutions. It is not because Ukraine has to respect the EU standard in order to export to the EU that Ukraine cannot continue to produce products for the Russian market at Russian standards; it is quite different. Also, it does not prevent during the transition period, as I have mentioned, to have the Russian products still being exported to Ukrainian markets. Again, in the medium-to-long term, there are solutions in some convergence between Russia and the EU. Last, but not least, I have to record that defence is not part of the agreement. Anyway, there is not even any scope to discuss that.

I have not answered your SPS questions.

Lord Lamont of Lerwick: I cannot be more specific. All I recall is that the ambassador talked about veterinary products.

Baroness Billingham: It was about swine flu.

Mr Jean-Luc Demarty: That is a very interesting question.

Lord Lamont of Lerwick: But as to the helicopters, it is a good answer to say that defence is exempt, but they might say, “Actually, there may be civilian versions of what were formerly military helicopters”. The standards that were originally designed for defence could still be a barrier.

Mr Jean-Luc Demarty: When Ukraine will be in total convergence—

Lord Lamont of Lerwick: After eight years.

Mr Jean-Luc Demarty: After five to eight years and, again, if they are serious in their preoccupation, these things can be discussed. It is something that does not require any modification of the DCFTA. This flexibility is also part of the DCFTA on standards.
Q136 Baroness Billingham: Changing tack, can I ask how you would account for the differentiated Russian response to the Ukrainian DCFTA on the one hand and the Moldovan and Georgian DCFTAs on the other?

Mr Jean-Luc Demarty: Initially, Russia complained in the same way over the DCFTAs for Ukraine, Moldova and Georgia. The consultation process that started in November 2013 initially covered all these agreements. Now the DCFTA with Moldova and Georgia has been ratified and started to be provisionally applied. This is not the case for Ukraine’s DCFTA, which has been ratified and, as you know, its provisional application will start only on 1 January 2016. Still Russia has started bilateral consultation with Moldova and Georgia on their respective DCFTAs. So Russia has even requested recently to extend these consultations to the EU, as is the case for Ukraine.

I would like also to come back, if I may, on your question on the SPS issue, which is very important. Russia is a member of the WTO but is not applying correctly the SPS WTO rules. We have launched against Russia—perhaps there will be questions on this—several dispute settlement cases.

Lord Lamont of Lerwick: What is SPS?

Mr Jean-Luc Demarty: Sanitary and phytosanitary—food safety—issues.

Q137 Baroness Billingham: What is the justification for taking that attitude? You said that Russia is taking a different attitude.

Mr Jean-Luc Demarty: As regards Russia, for example on this question of swine fever, mentioned by Lord Lamont of Lerwick, the paradox is that there has been uncontrolled spread of African swine fever in Russia and probably in Ukraine because it was totally out of control in Russia; and Russia has exported marginally through wild boars to Poland and Lithuania this African swine fever, and after that has closed its borders to EU products. It is really a bit surreal.

Q138 The Chairman: A criticism that has been made of the Commission—I do not mean just in the past day in Brussels but in our earlier evidence—is that you were dealing with all these technical subjects and you did not appreciate the strategic and political implications of them from a Russian point of view, that you were deaf to the concerns of the Russians. A point that I do not understand is: were you hearing from the embassies in Moscow—the British, French or German embassies; all these large and well staffed missions in Moscow—that there were problems on the Russian side with any of these things? If there is criticism of the Commission, why were the member states not warning of Russian concerns?

Mr Jean-Luc Demarty: The problem on that is that Russia has signalled concerns very late, after the conclusion of the DCFTA and association agreement negotiation. So Russia did not show at that moment any preoccupation. As to the signals sent by Russia, even when we launched the Eastern Partnership it was offered to Russia, which Russia declined. It never passed on any message about its preoccupation on the DCFTA with Ukraine, Moldova or Georgia. It came very late, just before the Vilnius summit in 2013. Everything was already done.

Q139 The Chairman: Do you think this is because it thought the Ukrainians would not sign, that the President of Ukraine would not do so in the event?
Mr Jean-Luc Demarty: I think that probably at that moment they did not anticipate that the negotiation would be concluded. First, former President Yanukovych came to Brussels very fast to confirm his interest in the conclusion of the DCFTA with the EU, in spite of Ukraine’s close ties with Russia. Secondly, perhaps the Russians have misunderstood the incompatibility between being a member of a Russian customs union and concluding an FTA. By definition, when you are a member of a customs union, the EU being a customs union—at the beginning it was only a customs union—you are not able to conclude individually FTAs with others because you have to respect the common customs tariff. That is perhaps what Russia misunderstood, but I am a bit sceptical because they are clever and these are basic rules. It is clear that when the Russians have created their Eurasian customs union in 2009 it created a new environment, but this was not mentioned by the Russians as preventing Ukraine concluding a DCFTA.

Lord Lamont of Lerwick: But you are talking about Europe as the customs union initially.

Mr Jean-Luc Demarty: No, I was mentioning Europe as an example of a customs union but I am now talking about the Eurasian customs union and about the incompatibility of Ukraine being at the same time a member of the Eurasian customs union and concluding a DCFTA with the EU, except if the Eurasian customs union would be ready to conclude at the same moment and on identical, or quasi-identical terms, an FTA with the EU.

Q140 Lord Maclellan of Rogart: I gather that the bilateral discussions with Ukraine were widened into trilateral discussions as a result of the outgoing Mr Barroso’s decision and that the implementation has been postponed until the end of 2015. Is there still a considerable agenda of matters to be discussed between now and the implementation of the DCFTA with Ukraine? Is the trilateral forum working effectively to meet the Russian concerns?

Mr Jean-Luc Demarty: First, the trilateral discussions will address the negative and positive impact of the DCFTA on the Russian economy. We believe that the negative effect will be minor, if any. The trilateral discussions are ongoing for one year. We remain open to discussing Russian’s concerns once more.

Lord Maclellan of Rogart: Have they listed them yet?

Mr Jean-Luc Demarty: Yes, they have mentioned some preoccupations. For example, they are asking for a renegotiation of the DCFTA which, in our view, is not possible. They are asking for an exclusion of some 2,400 tariff lines—their exclusion, rather than long transition periods—which would be a negation of the DFCTA and would not be WTO compliant because it would no longer be an FTA under those conditions. The agreement of 12 September 2014 is the result of a ministerial level meeting the same day and provides for the continuation of the trilateral discussions. The trilateral discussions will continue at technical level. We have addressed SPS, TBT and customs issues and are ready to go on if Russia wishes to discuss concerns in this field.

Q141 Lord Maclellan of Rogart: Do you have the impression that the Russian concerns will be answered?

Mr Jean-Luc Demarty: The question is, as I have tried to explain, that we do not understand the Russian concerns as they were expressed because, by definition, when you are concluding an FTA with a partner, there will be the elimination of tariffs and, as I have already explained, there will probably be some effects: more competition for Russian
products and some positive effects because of more competition. If you look at the global effect, if you are eliminating and excluding 25% of the tariffs lines—a massive trade in the deal—it is basically another way to ask that the DCFTA is not implemented. It will be put in the bin and the FTA will not be WTO compliant. Basically, it is likely that Russian concerns are more political than really commercial, even if they are presented as commercial.

**Lord Maclennan of Rogart:** Are you able to give an example of that political aspect?

**Mr Luc Pierre Devigne:** It is very unlikely that there are genuine commercial concerns looking at trade flows, because if you look at Russian trade, the vast majority is raw materials and has not much to do with the trade in manufactured goods with Ukraine.

Secondly, Russia, like any WTO member, has a full range of commercial safeguard measures, such as duties in case of dumping and safeguards in case of a surge of imports, but for that it first requires the fact that there is dumping or a surge of imports. Quite the contrary has happened because Ukraine’s trade with Russia is declining. Its exports to Russia are declining. The best example is probably what happened in August 2013 when, by definition, there was no DCFTA in place. Russia, during August, took a blockade measure and justified it publicly by saying, “This is what Ukraine should expect if it concludes the association agreement with the EU”. That has not much to do with commercial concerns but has a lot more to do with commercial pressure for political motives.

**Mr Jean-Luc Demarty:** Basically, the DCFTA between the EU and Ukraine is compatible, in spite of what the Russians have said, with the CIS FTA between Russia and Ukraine and is not compatible with Ukraine becoming a member of the Eurasian customs union.

**Q142 Lord Lamont of Lerwick:** Following on from that engagement with the customs union, when the Eurasian customs union is fully up and running and managed by the commission in Moscow, will Brussels negotiate on a customs matter with the new union or will it insist on bilateral negotiations with Kazakhstan, Belarus, Armenia, Tajikistan et cetera?

**Mr Jean-Luc Demarty:** First, it is far too early to think about developing trade relations between the EU and the customs union, which will become the Eurasian economic union as at 1 January 2015. The situation in east Ukraine and Crimea does not allow for sanctions to disappear tomorrow.

Secondly, the European Union decided to suspend negotiations with Russia about a new agreement on 6 March 2014; thus moving on with the customs union is not likely. Let me recall four conditions required before we could develop a further relationship with the customs union or the EU. It is clear that we have an interest, and Russia should have an interest to develop pacific and commercial economic relations with the EU, but in order to do that there must be no attempt to prevent those countries which have concluded the DCFTA with the EU implementing them. That is the first condition. The customs union and its members, particularly Kazakhstan would have to be members of the WTO because if you have concluded a trade agreement or an FTA with a customs union—let us say that in the long term it is part of the customs union—when it is not part of the WTO, you have no recourse if they are applying non-WTO-compliant rules and you have absolutely no possibility of suing them. You have no dispute settlement in this case.

Thirdly, customs union members should fully respect their commitments in the framework of the WTO. This is certainly not the case with Russia which is the only customs union
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member also in the WTO. There is already an unprecedented number of cases against Russia, in particular for a recently acceded member.

Fourthly, even if those two conditions are met, both the EU and the customs union would need to credibly demonstrate a clear willingness and capacity to commit to the stabilisation of their trade relations. It would mean that, if in the medium or long term Russia became more co-operative and showed an interest in developing its trade relationship with us going in the direction of an FTA, it would necessitate that the ambition Russia showed would correspond to an FTA, which means something which is covering substantially all trade in terms of a WTO definition. We are far from there.

Q143 Lord Lamont of Lerwick: There is the next question, I suppose, which is: although the Eurasian customs union still has to get up and going, has it had a material impact on European trade? Presumably it cannot yet have had a material impact on European trade with Russia, Belarus and Kazakhstan. To put it another way: do you believe that the development of Eurasian structures in theory in future will undermine EU trade with the region?

Mr Jean-Luc Demarty: First, the extent of trade has not dramatically changed in the past year since the creation of the customs union. It was announced in June 2009 and formally created only in 2010. However, the expansion of the customs union to new members causing them to align their current tariffs to those of the customs unions—initially to the Russian ones, which were relatively high—basically will not obstruct transaction development. Also, you have to have in mind that in the Russian perspective the Eurasian customs union is also a political construction. It is quite clear that other members of the customs union, in particular Kazakhstan, are interested in the economic perspective of the customs union, but not necessarily in the political perspective.

Lord Lamont of Lerwick: Oh, I see, it is a sort of two-stage thing. I had not grasped that. I follow it now. The economic union is the Asian union developed wider.

Mr Jean-Luc Demarty: Yes. There is also another element. Kazakhstan had lower tariffs and the higher tariffs in the customs union are complicating Kazakhstan’s accession to the WTO. We are deeply in favour of Kazakhstan’s accession to the WTO. For the moment, it is complicated to get there. It is a big Catch-22. On the one hand, in order to formalise its relationship with the customs union Kazakhstan should be a member of the WTO, but Russia is not making efforts to facilitate that—rather, the contrary.

Q144 The Chairman: You were saying earlier—it is well known—that Russia is not very compliant in WTO matters. This is perhaps not your field but it has been reported that the Commission is building a competition case against Gazprom. Are you able to comment on that?

Mr Jean-Luc Demarty: I can only comment that I am Director-General for Trade and not Director-General for Competition.

The Chairman: None the less, were the Commission to build a case against Gazprom, I think that would affect not only DG Competition.

Mr Jean-Luc Demarty: Yes, I am not saying that. I am saying that I am not commenting on issues which are not in my field of competence, at least in official hearings.
Q145 The Chairman: Could I move on, then? In view of the difficulties in dealing with Russia—I am thinking not just of the present situation but the WTO and everything else—do you think it would be helpful, looking to the future, to have a set of rules and criteria governing EU trade with Russia? Should we look on EU trade with Russia in a different context from trade with other partners?

Mr Jean-Luc Demarty: Basically, the EU has always been open to develop economic and trade relations with Russia. We made different offers in particular to negotiate this new agreement, which was not only a preferential agreement in terms of tariff, but in particular to see if we could go further with Russia in terms of regulatory convergence. That is important because today tariffs are not the only obstacle to trade; there is also regulatory divergence. Constantly, we have been quite open to that. We have had twelve rounds with Russia on that but there was absolutely no appetite from Russia to move. In spite of that, it is clear that, as has been mentioned, there have been different movements such as on the “Lisbon to Vladivostok” approach. However, if we are not clear about what is the ambition and objective, this cannot be a substitute for a step-by-step approach between the EU and Russia. It is quite clear that, for the moment, Russia has a problem with competitiveness outside energy, and it is certainly not right to develop an FTA approach with this country.

Q146 Lord Lamont of Lerwick: Are there many infringements of WTO rules by Russia? You referred to them, but is it a massive number? The picture you are painting is of a dinosaur economy that really is having massive problems adjusting to the regime of the WTO and really it is not up to this.

Mr Jean-Luc Demarty: It is quite clear that the paradox is that Russia acceded to the WTO in 2012.

Lord Lamont of Lerwick: When you say it took so many years to negotiate, that was partly because America stopped it, of course.

Mr Jean-Luc Demarty: But what do you mean? Sorry, I miss your point.

Q147 Lord Lamont of Lerwick: America did not want Russia in the WTO for while.

Mr Jean-Luc Demarty: No, because my impression is that every member had its style of negotiation. My impression was not that the United States was preventing Russia from being a member. If that was the case, Russia would not have acceded—let us be clear on that. The plan, as we understood it, was that Russia should accede to the WTO in order to modernise its economy, like China. Even if there are also problems there, it is not disputable that China has modernised strongly its economy. While at the moment Russia has acceded to the WTO, it has taken measures that were going even backwards, were not WTO compliant and were even worse in terms of trade impediments for its partners before the accession. There are many examples. There is the recycling fee on cars—now that measure has been changed—which was a way to put into question the tariff concession Russia made on cars. There was the pork ban, as already mentioned, and also the anti-dumping duties on light-commercial vehicles. Those three cases are now in the WTO and there are also other potential ones I will not quote but they are well known. There are very numerous cases of bad Russian behaviour. Personally, I have never seen, after a recent accession, a member being in such breach with the WTO rules and with such broad scope.
Q148 The Chairman: On the basis of your experience, which is obviously very deep, what do you think Russia would like to achieve in relation to Ukraine, Moldova and the other former Soviet states? Is it simply to keep them out of the European net, as it were, or do you think they have a further strategic objective?

Mr Jean-Luc Demarty: Frankly, I am going outside trade issues. I have certainly my opinion, but it would be out of my field of competence.

Q149 Baroness Billingham: In 2010, Prime Minister Putin suggested—we have all used this phrase time and time again—the creation of a free trade area from Lisbon to Vladivostok with enhanced co-operation in research, technology and industrial co-operation. Professor Guriev agreed that this could be a positive project. However, the EU does not seem to have been particularly active or interested in taking that up. Would you agree? If not, why not?

Mr Jean-Luc Demarty: I think that there are speeches on the one hand and acts on the other. Russia mentioned this project while stopping all attempts to create such a common economic space.

Baroness Billingham: That is a very cynical view, if I might say so.

Mr Jean-Luc Demarty: No it is not a cynical view, that is the reality. As I explained, we have tried to negotiate this new agreement with Russia over years and years. Such a common economic space would mean common rules for all the countries and economic actors in this area. That means that Russian companies will have to compete on an equal footing with all the other economic actors in this area, which Russia is not ready to do. That would mean that Russia would respect the same competition rules as the other countries of the area, which would mean restricting to a large extent its generous subsidies without clear and objective criteria.

The EU has demonstrated its commitment to offer such an economic space with: first, the Eastern Partnership; secondly, announcing bilateral trade relations with the countries interested, Ukraine, Moldova and Georgia; an upgraded PCA with Kazakhstan—you will recall that we have just concluded the partnership co-operation agreement with Kazakhstan, for which President Nazarbayev was here in Brussels a few weeks ago; further negotiations with Armenia, Azerbaijan and even Belarus; and by negotiating this new agreement with Russia since 2008, which is now suspended, and by encouraging the accession to the WTO of countries of the region like Kazakhstan. So I do not think it is a cynical view. It is a constructive view. For me the cynical view is when you are on the one hand presenting bold projects but without any concrete content for the moment.

Baroness Billingham: Okay, I withdraw the cynical bit.

Mr Jean-Luc Demarty: Thank you.

Q150 Baroness Billingham: I would like to ask you about what the first steps should be taken to rebuilding and resetting EU-Russia relations. Clearly, there is a great gap and we need to move toward that.

Mr Jean-Luc Demarty: I think again it is much broader than trade. On trade, the picture is very clear. I am not responsible for EU foreign policy, but it is clear that on trade I have mentioned the possible avenues, and we could be constructive with Russia. Outside trade, I have no comments to make on the record.
Q151 Lord Lamont of Lerwick: Can I ask a question? I have found what you said extremely persuasive—this idea that the Russian economy in one sense may be going slightly backwards with oligarchisation; it is not becoming a modern capitalist economy but is dominated by vested interests. At the same time, it is now a member of the WTO and it has this building up of masses of cases and complaints. That, as a restraint on the economy, must be having some influence on the direction of the Russian economy. Over time, the continued membership of the WTO must exercise a shaping influence, one would have thought, on the Russian economy.

Mr Jean-Luc Demarty: That is what we were thinking when all of us were negotiating in the WTO. On Russia’s accession, as I have explained, it was the expected plan that Russia would use the WTO membership to modernise its economy. I suppose that in Russia there are also some divergent views within the Russian system. There are people who are more or less in favour of a market economy, but it is quite clear that in a moment of deep tension with its neighbours, probably these voices are more difficult to listen to.

Q152 The Chairman: You have been talking about Russia’s non-compliance in the WTO. The culture of Ukraine is very similar to the culture of Russia—they were both brought up, as it were, in the same school. Had we been able to sign a free trade agreement with Ukraine, do you think that Ukraine would in fact have been capable of observing the rules of a free trade area in the normally accepted sense of that word?

Mr Jean-Luc Demarty: I think in DCFTA, as I have already explained, you have two components. You have the classic tariff components, which are something at point of origin, and which is something that is relatively easy to implement, and you have the regulatory convergence, which takes more time—and for that it is clear that it will take a lot of time for Ukraine to converge better with the EU rules. About Ukraine not being compliant with the WTO, it is clear that we had a preoccupation at certain moments with Ukraine, but the measures we are preoccupied with have now been removed.

Q153 Lord Macalennan of Rogart: As we aspire to normalisation of relations with Russia, do you in trade have any topics on which you think it would be worthwhile engaging in dialogue with Russia at this present time?

Mr Jean-Luc Demarty: We remain open to dialogue with Russia.

Lord Macalennan of Rogart: Yes, but I am talking about initiatives from the EU.

Mr Jean-Luc Demarty: First, before dialoguing on trade with Russia, the geopolitical environment should favour that. We have shown that in spite of the geopolitical environment we were ready to continue to dialogue with Ukraine because there will be this trilateral process which will continue at technical level—it is part of the 12 September deal, so we have shown our capacity to do that. In a way, trade is certainly an important part of the solution, but I do not think that trade as such can solve the geopolitical problem, the meta-political tensions, which continue to exist with Russia. But I am confident that we have normally an interest in finding solutions on both sides, and I hope, as a conclusion, that good sense should prevail. I would also like to mention that this trade agreement with Ukraine was not something decided by obscure trade officials; it was an initiative that was taken with the unanimity of member states at a meta-political level.

Mr Luc Pierre Devigne: By the EU heads of state and government.
Mr Jean-Luc Demarty: Let us say it was a deep political initiative. As I am Director-General for Trade, with my colleagues, we have implemented the strategy that has been fixed.

The Chairman: Thank you very much indeed.
European Commission and the European External Action Service—Written evidence

The Commission and the European External Action Service (EEAS) welcome the House of Lords' inquiry into the relationship between the European Union (EU) and the Russian Federation and would like to provide the following response. In light of the House of Lords' questionnaire and its many interlinked questions, the Commission and the EEAS structured their contribution in four main parts. The first part deals with EU–Russia relations and is divided into three subchapters: a) political cooperation, b) trade relations and c) other areas of cooperation. The second part provides an overview of EU neighbourhood policy and Eastern Partnership. The third part highlights the EU support to Ukraine, including Foreign Affairs Council and European Council conclusions. Finally, the fourth and last part focuses on sanctions. The submission is followed by a short annex with the statements adopted by the EU and the G7 since the start of the crisis.

1. EU-Russia relations

1.1. Political cooperation

Russia is the EU's biggest neighbour and third largest trading partner, with Russian supplies of oil and gas making up a large percentage of its exports to Europe.

The current basis for cooperation is the 1994 Partnership and Co-operation Agreement (PCA).

Cooperation with Russia traditionally covered 4 policy areas- referred to as common spaces: economy & environment

freedom, security & justice

external security

research & education, including cultural aspects.

At the 2010 Rostov Summit, the EU and Russia also launched the Partnership for Modernisation, conceived as a focal point of mutual cooperation, reinforcing dialogue started under the common spaces. The Partnership deals with all aspects of modernisation - economic, technical (including standards and regulations) rule of law and functioning of the judiciary.

Negotiations on a new EU-Russia Agreement were launched at the 2008 Khanty-Mansiysk summit, with the objective to provide a more comprehensive framework for EU-Russia relations, reflecting the growth of cooperation since the early 1990s;
include substantive, legally binding commitments in all areas of the partnership, including political dialogue, freedom, security & justice, economic cooperation, research, education & culture, trade, investment and energy.

Such negotiations are currently suspended in line with the statement of 6 March 2014 by the EU Heads of State or Government.

Overall, the EU and Russia have a tradition of cooperation on a number of challenges of bilateral and international nature, including climate change, drug and human trafficking, organized crime, counter-terrorism, non-proliferation, the Middle East peace process, and Iran.

The EU and Russia also have a long track record of meetings at the highest political level (Summits). The 32nd EU-Russia Summit took place on 28 January 2014 in Brussels. The meeting - the last before the suspension of bilateral Summits - was an occasion for a candid exchange between leaders on the nature and direction of the EU-Russia strategic partnership.

A comprehensive factsheet on the EU-Russia relations prepared on the occasion of the last Summit is available here:


The statement by President Barroso following the EU-Russia Summit is available here:


The Presidency statement on EU-Russia Summit is available here:

Relevant documentation from the previous EU-Russia Summits is available here:
http://eeas.europa.eu/russia/summit_en.htm

Other general information on EU-Russia cooperation is available here:


The Russian Federation’s role in the Ukraine conflict has seriously affected EU-Russia relations. Consequently, the bilateral Summits, high level political dialogue and bilateral cooperation are on hold and sanctions have been adopted.

1.2. Trade relations

The Partnership and Cooperation Agreement between the EU and Russia is the framework defining the EU-Russia bilateral relations and disciplines the political and economic relations between the two parties. Since 22 August 2012 Russia joined the WTO which is now the main legally binding framework for the trade relationship.

Key elements:

Russia is the third largest trading partner of the EU while the EU represents the first trading partner of Russia.
Trade between the two economies showed steep growth rates until mid-2008 when the trend was interrupted by the economic crisis and unilateral protectionist measures adopted by Russia, which had a negative impact on EU-Russia trade. Since 2010 mutual trade has resumed its growth reaching record levels in 2012.

EU exports to Russia are dominated by machinery and transport equipment, chemicals, medicines and agricultural products.

EU imports from Russia are dominated by raw materials, in particular, oil (crude and refined) and gas. For these products, as well as for other important raw materials, Russia has committed in the WTO to freeze or reduce its export duties.

The EU is the most important investor in Russia. It is estimated that up to 75% of Foreign Direct Investment stocks in Russia come from EU Member States (including Cyprus).

Since it joined the WTO Russia has put in place a series of protectionist measures. Being the first trading partner of Russia, the EU was most affected economically by these measures.

The EU launched 3 WTO cases against Russia (recycling fee, pork meat and anti-dumping on light commercial vehicles) and others are under preparation. Despite intensive bilateral consultations, Russia maintained these measures.

Further information on EU-Russia trade relations can be found here: http://ec.europa.eu/trade/policy/countries-and-regions/countries/russia/

1.3. Other areas of cooperation

Energy

Environment and Climate Change

Higher Education and Youth
http://eeas.europa.eu/delegations/russia/eu_russia/fields_cooperation/higher_education/index_en.htm

Human Rights and Civil Society

International issues
EU neighbourhood policy/Eastern partnership

2.1. EU neighbourhood policy (ENP)

The European Neighbourhood Policy (ENP) was developed in 2004, with the objective of avoiding the emergence of new dividing lines between the enlarged EU and its neighbours and instead strengthening the prosperity, stability and security of all. It is based on the values of democracy, rule of law and respect of human rights. Through the ENP the EU works with its southern and eastern neighbours to achieve the closest possible political association and the greatest possible degree of economic integration.

The ENP is chiefly a bilateral policy between the EU and each partner country. It is further enriched and complemented by regional and multilateral co-operation initiatives: the Eastern Partnership (launched in Prague in May 2009) and the Euro-Mediterranean Partnership (EUROMED) (formerly known as the Barcelona Process, re-launched in Paris in July 2008 as the Union for the Mediterranean).
European Commission and the European External Action Service—Written evidence

The ENP framework is proposed to the 16 of EU's closest neighbours - Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, Palestine, Syria, Tunisia and Ukraine. 

Within the ENP the EU offers its neighbours a privileged relationship, building upon a mutual commitment to common values (democracy and human rights, rule of law, good governance, market economy principles and sustainable development). The level of ambition of the relationship depends on the extent to which these values are shared. The ENP includes political association and deeper economic integration, increased mobility and more people-to-people contacts.

In 2010-2011, the EU reviewed the ENP and put a strong focus on the promotion of deep and sustainable democracy, accompanied by inclusive economic development. Deep and sustainable democracy includes in particular free and fair elections, freedom of expression, of assembly and of association, judicial independence, fight against corruption and democratic control over the armed forces. The EU also stressed the role of civil society bringing about deep and sustainable democracy. The ENP is based on the "more for more" principle, under which the EU will develop stronger partnerships with those neighbours that make more progress towards democratic reform.

Partner countries agree with the EU an ENP Action Plan or Association Agenda [http://eeas.europa.eu/enp/documents/action-plans/index_en.htm](http://eeas.europa.eu/enp/documents/action-plans/index_en.htm) reflecting each partner's needs and capacities, as well as their and the EU's interests, including a commitment to democracy, human rights, rule of law, good governance, market economy principles and sustainable development.

More detailed information on the ENP is available here: [http://eeas.europa.eu/enp/index_en.htm](http://eeas.europa.eu/enp/index_en.htm)

2.2. Eastern Partnership

The Eastern Partnership is a policy initiative launched at the Prague Summit in May 2009, within the overall framework of the European Neighbourhood policy. It aims to deepen and strengthen relations between the European Union and its 6 Eastern neighbours: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

It strengthens bilateral relations between the EU and its Eastern European Partners representing the Eastern dimension of the European Neighbourhood Policy.

The main objective is to support political and socio-economic reforms in partner countries to:

- foster political association and further economic integration
- support mobility of citizens and visa liberalisation as a long term goal
- enhance sector cooperation
- support civil society
The Partnership is based on common values of liberty, democracy, respect for human rights and the rule of law.


The Partnership:
- promotes democracy and good governance
- strengthens energy security
- promotes sector reform and environment protection
- encourages people-to-people contacts
- supports economic and social development
- provides additional funding for projects to reduce social inequality and increase stability.

The Eastern Partnership follows two parallel tracks: bilateral and multilateral.

The bilateral dimension supports closer bilateral relations between EU and each Eastern partner country, through:
- Support to reforms in 3 main areas: good governance; rule of law and fundamental freedoms; sustainable economic and social development, trade and investment,
- Association Agreements and Deep and Comprehensive Free Trade Areas (DCFTA).

Ukraine, Georgia and Moldova signed the Association Agreements (including DCFTA) with the EU on 27 June 2014. Their respective Parliaments ratified these agreements in the course of the summer 2014. Relevant background information is available here: http://europa.eu/rapid/press-release_MEMO-14-430_en.htm

The multilateral dimension provides a new forum for exchange and cooperation, via:
- Thematic platforms to exchange best practices on issues of mutual interest: good governance, economic integration and growth, energy security, contacts between people,
- Flagship initiatives, which are regional cooperation projects in the fields of: energy, environment, response to disasters, border management, support to small businesses.
- Regional projects in other fields such as rule of law, police cooperation, transport, youth, cooperation between border regions of Eastern Partnership countries.

Partnership with civil society is also a key priority. Several initiatives were put in place to support civil society organisations in Eastern Partnership countries, such as: Civil Society Forum, Neighbourhood Civil Society Facility.

More detailed information on the Eastern Partnership is available here: http://eeas.europa.eu/eastern/index_en.htm
3. Support to Ukraine

The European Commission and the EEAS are determined to make sure that Ukraine has all the support it needs, in the short and long term, to undertake the political and economic reforms that are necessary to consolidate a democratic, independent, united and prosperous Ukraine.


In this context, several initiatives can be highlighted:

3.1. Support package for Ukraine

The Commission and the EEAS put forward concrete measures for the short and medium term to help stabilise the economic and financial situation in Ukraine, assist with the transition, encourage political and economic reforms and support inclusive development for the benefit of all Ukrainians. These measures were welcomed by the Heads of State and Government in March 2014. These measures combined could bring overall support of at least EUR 11 billion over the coming years from the EU budget and EU based international financial institutions (IFIs) in addition to the significant funding being provided by the IMF and World Bank. This engagement constitutes both a response to help stabilise the country as well as to support the reform programme and further enhance ownership by the Ukrainian authorities. While some of these measures can be carried out quickly, others will require further planning and preparation. For many of them, the urgent and active support of the Council and Parliament are necessary. Underpinning this approach is the ambition to help Ukraine fulfil the aspirations which have been clearly demonstrated by citizens and civil society in recent weeks in the unprecedented events in Kiev and throughout the country.

Additional details on the package for Ukraine are available here:


3.2. Support Group for Ukraine

A Support Group was set up within the European Commission to provide a focal point, structure, overview and guidance for the Commission’s work to support Ukraine. It is also intended to help mobilise Member States’ expertise and further enhance coordination with other donors and the International Financing Institutions. The Commissioner for enlargement and neighbourhood policy Stefan Füle has so far coordinated this Support Group, reporting to President Barroso and High Representative/Vice-President Catherine Ashton and drawing on the contributions of all relevant Commission portfolios. In the immediate short-term (until end 2014), the Support Group identifies and coordinates with the Ukrainian authorities, benefitting from input from the Member States, the technical assistance that they need to 1) stabilise the fragile financial, economic and political situation in Ukraine; 2) plan and implement reforms to boost growth and 3) identify reform priorities and advance the reforms necessary to ensure that immediate benefits can be obtained from the EU offer (Association Agreement and Visa Liberalisation Action Plan). In the medium term (from 2015), the goal of the Support Group will be to further support
Ukraine in the elaboration and implementation of comprehensive reform programmes. The work of the Support Group is guided by the "European agenda for reform", a document prepared with the Ukrainian authorities to match the EU's short- and mid-term support actions with Ukraine needs.


3.3. European Agenda for Reform

The European Agenda for Reform which has been developed jointly by the Ukrainian Government, on the one side, and the European Commission and the EEAS, on the other side, is a comprehensive road map of the Commission's and EEAS’s contribution to the paramount task of the development and fundamental transformation of Ukraine. The document combines Ukraine’s short- and medium-term needs and matches them with support actions from the EU side. It provides clear indications on specific steps, the timelines and points of contacts in the respective administrations. Both sides started to jointly build up the contents of the European Agenda on the occasion of the visit to Kyiv of a high level delegation from the European Commission and the EEAS headed by Commissioners Füle and Lewandowski, on 25-26 March 2014, with the support of the EU Delegation in Kyiv. Since that time the Agenda has evolved and become richer; more actions have been added and their implementation has progressed steadily.

Today, the European Agenda for Reform has grown into a credible roadmap, which is not only about the smooth delivery of the EU support package, but encompasses a wide-ranging set of measures that reflect the priorities of the Ukrainian Government and the expectations of the Ukrainian people. Its measures range from assistance to constitutional reform to cooperation on energy matters, from financial assistance by the EU to the unilateral opening of its markets for Ukrainian products, from the reform of the judiciary to the visa liberalisation process.

The implementation of the European Agenda for Reform is a joint effort of both sides and is coordinated, on the one hand, through the Support Group for Ukraine set up by the European Commission, and on the other hand the institution to be set up within the Government of Ukraine dealing with the process of political association and economic integration with the European Union.


3.4. Ukraine DCFTA

The Deep and Comprehensive Free Trade Area (DCFTA) is part of the Association Agreement (AA) between the EU and the Republic of Ukraine, one of EU's the most ambitious bilateral agreements yet. The DCFTA will offer Ukraine a framework for modernising its trade relations and for economic development by the opening of markets via the progressive removal of customs tariffs and quotas, and by an extensive harmonisation of laws, norms and regulations in various trade-related sectors, creating the conditions for aligning key
sectors of the Ukrainian economy to EU standards. The DCFTA consists of 15 Chapters, 14 annexes and 3 protocols.

Following the concerns expressed by Russia over the EU-Ukraine DCFTA, the EU engaged proactively in consultations starting with a first bilateral meeting with Russia in November 2013 and extending the process to Ukraine, at the request of Russia, since June 2014. At the trilateral ministerial meeting of 12 September the Commission expressed its readiness, in the event that Ukraine ratified the Association Agreement with the EU, to propose delaying until 31 December 2015 the provisional application of the DCFTA while continuing autonomous trade measures of the EU to the benefit of Ukraine during this period.

Details on the DCFTA with Ukraine are available here: http://trade.ec.europa.eu/doclib/docs/2013/april/tradoc_150981.pdf

4. Sanctions

The European Union is focusing its efforts on de-escalating the crisis in Ukraine. The EU calls on all sides to continue engaging in a meaningful and inclusive dialogue leading to a lasting solution; to protect the unity and territorial integrity of the country and to strive to ensure a stable, prosperous and democratic future for all Ukraine’s citizens. The EU has also proposed to step-up its support for Ukraine’s economic and political reforms.

An extraordinary meeting of the Council of the European Union on 3 March 2014 condemned the clear violation of Ukrainian sovereignty and territorial integrity by acts of aggression by the Russian armed forces as well as the authorisation given by the Federation Council of Russia on 1 March for the use of the armed forces on the territory of Ukraine. The EU called on Russia to immediately withdraw its armed forces to the areas of their permanent stationing, in accordance with the Agreement on the Status and Conditions of the Black Sea Fleet stationing on the territory of Ukraine of 1997.

In a statement of the Heads of State or Government following an extraordinary meeting on 6 March, the EU underlined that a solution to the crisis must be found through negotiations between the Governments of Ukraine and the Russian Federation, including through potential multilateral mechanisms. Having first suspended bilateral talks with the Russian Federation on visa matters and discussions on the New (EU-Russia) Agreement as well as preparations for participation in the G8 Summit in Sochi, the EU also set out a second stage of further measures in the absence of de-escalatory steps and additional far-reaching consequences for EU-Russia relations in case of further destabilisation of the situation in Ukraine.

In the absence of de-escalatory steps by the Russian Federation, on 17 March 2014 the EU imposed the first travel bans and asset freezes against Russian and Ukrainian officials following Russia's illegal annexation of Crimea. The EU strongly condemned Russia's unprovoked violation of Ukrainian sovereignty and territorial integrity. Other measures of different nature have followed since.

The EU believes a peaceful solution to the crisis should be found through negotiations between the Governments of Ukraine and the Russian Federation, including through potential multilateral mechanisms.
The EU has always stressed the reversibility and scalability of its restrictive measures. If the situation on the ground so warrants, the set of restrictive measures in force can be amended, suspended or repealed, in all or in part.

4.1. Diplomatic measures

Instead of the G8 summit in Sochi, a G7 meeting was held in Brussels on 4-5 June. EU countries also supported the suspension of negotiations over Russia's joining the OECD and the International Energy Agency.

The EU-Russia summit was cancelled and EU member states decided not to hold regular bilateral summits. Bilateral talks with Russia on visa matters as well as on the New Agreement between the EU and Russia were suspended. In addition, a re-assessment of EU-Russia cooperation programmes is currently ongoing with a view to suspending the implementation of EU bilateral and regional cooperation programmes. Projects dealing exclusively with cross-border cooperation and civil society will be maintained.

4.2. Restrictive measures (asset freezes and visa bans)

119 persons and 23 entities in total are under EU restrictions, including persons and entities responsible for actions against Ukraine's territorial integrity. This also includes entities in Crimea and Sevastopol whose ownership has been transferred contrary to Ukrainian law. Other persons have been listed for their close links to Russian decision makers.

Factsheet on EU restrictive measures

4.3. Restrictions for Crimea and Sevastopol

As the EU does not recognise the annexation of Crimea and Sevastopol, the following restrictions have been imposed.

The EU has adopted a prohibition on imports originating from Crimea and Sevastopol unless accompanied by a certificate of origin from the Ukrainian authorities. In addition, trade and investment restrictions are in place for the following sectors: infrastructure projects in transport, telecommunications and energy and in relation to the exploitation of oil gas and minerals. Key equipment for the same six sectors may not be exported to Crimea and Sevastopol; finance and insurance services related to such transactions must not be provided.

Information note to EU businesses operating and/or investing in Crimea/Sevastopol

4.4. Measures targeting sectoral cooperation and exchanges with Russia ("Economic" sanctions)

The following restrictive measures entered into force on 31 July 2014:

EU nationals and companies may no longer buy or sell new bonds, equity or similar financial instruments with a maturity exceeding 90 days, issued by major state-owned Russian banks, development banks, their subsidiaries outside the EU and those acting on their behalf or under their control. Services related to the issuing of such financial instruments, e.g. brokering, are also prohibited.
European Commission and the European External Action Service—Written evidence

An embargo is in place on the import and export of arms and related material from/to Russia. It covers all items on the EU common military list.

Exports of dual use goods and technology for military use or for a military end user are prohibited. All items in the EU list of dual use goods are included.

Exports of certain energy-related equipment and technology to Russia will be subject to prior authorisation by competent authorities of Member States. Export licences will be denied if products are destined for deep-water oil exploration and production, arctic oil exploration or production and shale oil projects in Russia.

As regards the second, third and fourth measures, an exemption is made for activities under pre-existing contracts.

Details on these measures are available here:


To know more about the capital markets restriction, please refer to this note: Information note on capital markets

The above restrictive measures were reinforced on 8 September (entry into force on 12 September). The main changes compared to the 31 July package are as follows:

Restrictions on Russia's access to EU capital markets have been strengthened. EU nationals and companies may no more provide loans to five major Russian state-owned banks. At the same time, trade in new bonds, equity or similar financial instruments with a maturity exceeding 30 days, issued by the same banks, has been prohibited. The same restrictions have been extended to three major Russian defence companies and three major energy companies. Providing services related to the issuing of the above financial instruments, e.g. brokering, is also included in the prohibition.

In addition, certain services necessary for deep water oil exploration and production, arctic oil exploration or production and shale oil projects in Russia may no more be supplied, for instance drilling, well testing or logging services.

At the same time, the ban on exp01ting dual use goods and technology for military use in Russia has been extended to also include a list of nine mixed defence companies that must not receive dual use goods from the EU.

24 persons are added to the list of those subject to a travel ban and an asset freeze. They comprise persons involved in actions against Ukraine's tetTitorial integrity, including the new leadership in Donbass, the government of Crimea as well as Russian decision-makers and oligarchs. This brings the total of persons subject to sanctions to 119 while 23 entities remain under asset freeze in the EU. Moreover, the legal basis has been widened to allow imposing asset freezes and travel bans on persons or entities conducting transactions with separatist groups in the Donbass region.

Reinforced restrictive measures against Russia

4.5. Measures concerning financial cooperation
On 16 July, the European Council requested the EIB to suspend the signature of new financing operations in the Russian Federation. European Union Member States will coordinate their positions within the EBRD Board of Directors with a view to also suspending financing of new operations.

The Council invited the Commission to re-assess EU-Russia cooperation programmes with a view to taking a decision, on a case by case basis, on the suspension of the implementation of EU bilateral and regional cooperation programmes. However, projects dealing exclusively with cross-border cooperation and civil society will be maintained.

29 October 14

More information on EU sanctions against Russia

ANNEX

Main EU and G7 statements on the Ukraine crisis (2014)

3 March Foreign Affairs Council conclusions

6 March meeting of the EV heads of State or Government

20 March European Council conclusions

24 March G7 statement

14 April Foreign Affairs Council conclusions

12 May Foreign Affairs Council conclusions

27 May meeting of the EV heads of State or Government

5 June G7 Brussels Summit Declaration

23 June Foreign Affairs Council conclusions
European Commission and the European External Action Service—Written evidence

27 June European Council conclusions

16 July European Council conclusion

22 July Foreign Affairs Council Conclusions

15 August Foreign Affairs Council conclusions

30 August European Council conclusions
Luis Felipe Fernández-de-la-Peña, Pierre Vimont and Gunnar Wiegand—Oral evidence (QQ 154-164)

Transcript to be found under Pierre Vimont
His Excellency Dr Ravaz Gachechiladze and Fyodor Lukyanov—Oral evidence (QQ 170-190)

Transcript to be found under Fyodor Lukyanov
The EU-Russia Relations: better to reengage

In considering relations between the Euro-Atlantic community and the Russia Federation, we should not commit the grave mistake of identifying an entire country with its leadership. Russia is not a monolithic nation and people have different perceptions, views and positions regarding both domestic and global politics. The Russians’ vision of the world and of the place their country should deserve in the international system might diverge from that elaborated by the Kremlin. It is therefore important to keep in mind that condemning the leadership of that country might be perceive as the blaming of or an entire nation. This is particularly true in Russia where foreign policy is one of the less controversial and divisive policies. Those who are unsympathetic toward Putin’s regime hardly assume a critical stance on the management of external relations. Patriotism, enthused by foreign ‘denigration’, helps overcoming political divisions and inhibits opposition.

In addition, on the basis of recent induced regime changes, the question of stability is not be underestimated in particular as far as a big size country as Russia is concerned. Nationality conflicts may still easily erupt there and overspill outside the national borders. Furthermore, Islamist proselytism of Russian Muslims has increased since the fighting against Assad began in Syria. These Muslim groups could be tempted to exploit any breach in the Russian system of power. After Putin’s invasion of Crimea, Islamist leaders called all Muslims to jihad against Russia. So, any move from the West should be assessed, among others, in terms of its effect on Russia’s stability.

The economic sanctions applied by the US and the EU in response to the Kremlin’s annexation of Crimea and to the acts of aggression by the Russian armed forces in the Ukrainian Eastern Southern regions are not ‘smart sanctions’. They will impact on the economy of the country and affect all Russians who are already suffering from the neat contraction of GDP. The weakening global price of oil and the US shale gas developments have additional negative implications. It is too risky hoping that a change in the political system of Russia can be set in motion from below as result of an increasing number of discontented citizens. Furthermore, transformations do not automatically result in democratic regimes especially in context where political culture is distant from the one developed in the West. On the contrary, economic backwards can rather cause a mounting nationalism and a ‘rally around the flag’ behaviour.

The sanctions have so far proved very costly also for the EU members (European companies have been comprehensively hostile, this might downgrade their attitude towards the EU) due to the deep economic interdependency (Russia has become the third trading partner of the EU and the EU is the first trading partner of Russia). Russia has already strengthened economic relations with China and a reversion of trade towards Beijing could be irreversible. But above all, sanctions will make it very difficult for the EU and the US to reengage Russia.
Assistant Professor Serena Giusti—Written evidence

The EU position towards Russia

Although the EU is supposedly entitled to project power toward its neighbourhood – motivated by the idea of spreading democracy and Europeanizing the closest outsiders – it should however consider more seriously the reactions of the other stakeholders in the region. The influence over the Post-Soviet space is one of the top priorities of Russia’s foreign policy, and the Kremlin has an ample spectrum of means (from soft to hard power) to strengthen its leverage in the region. As a result the region is subject to competitive and conflicting pressures.

At least to a certain extent, then, the consequences of the EU’s East-bound policies could be predicted – despite the sudden twist in Russia’s attitude – since both actors have been seeking to secure their influence in the area advancing the institutionalization of their infra-regional relations – though based on different sets of fundamental values – and the EU’s plan to reinforce its influence in the Eastern Neighborhood was in fact bound to collide with the counter-project sponsored by Moscow.

All this leads to the question if offering the Association Agreement to Ukraine in November 2013 was the right move at right time. Obviously, the EU offer was legitimate but some would argue that probably it was not politically reasonable knowing that Russia would have not digested it smoothly and that Ukraine was not only a divided country but also politically frail. This is not to justify Russia’s annexation of Crimea or its backing separatists in the Eastern Ukraine but to recall EU’s leadership on the costs of a choice. Did the EU expect such a turmoil in Ukraine? Had the EU a plan to face up an eventual military reaction by Russia? It is quite likely that the EU did not expected the Ukrainian refusal and the consequent changes. Until late 2013, Brussels had considered Ukraine as an example of its successful transformative power. That country-model should have been later emulated by the other Eastern Partnership ( EaP) states and thus it was supposed to spread EU standards and render the eastern EU rim stable, predictable and similar to the EU members.

Once the crisis pumped-up with the violent protests of Maidan square, the EU was entrapped in a sort of path dependency approach. Once more, the EU was reactive and not proactive and unable to disconnect decisions which are legitimate and aligned with the EaP’s goals from the consequences they might have produced. As the former Ukrainian President V. Yanukovich was removed from power, the EU returned in fact to its initial offer - the Association Agreement – without recalibrating its strategy.

The post-Maidan EU’s policy was the result of a ‘technocratic’ pathway already established by the institutions which acted in the vacuum of politics. The EU’s governments remained either unresponsive or divided on a common strategy. The EU reaction derived from inertia rather than from an accurate analysis of the situation. The EU’s bureaucracy overtook politics. The EU failed to come up with a strategy for Ukraine.

The proof is that the only real answer was the signature of the Association Agreement in two different phases. The Association Agreement is very demanding for a country still unsteady and in a deep economic crisis, where central government is not yet able to control the whole territory. Then again the question is: was the right moment for Ukraine to subscribe that controversial and challenging agreement?
Re-engaging

We believe that re-engaging Russia is the only root to take for avoiding post-Soviet space becomes a conflictual arena where the West and Russia antagonize. Confrontation is neither beneficial for the EU nor for the Kremlin. It is threatening the world order in a moment where those actors should rather coalesce to deal with a number of menaces. The EU is rightly pressing for a diplomatic solution in the Ukraine’s conflict.

The EU should also find other avenues to recuperate and revitalize the relationship with Moscow. In this perspective the reactivation of the Partnership for Modernization (PfM) launched during the Rostov-on-Don summit (May 31 - June 1, 2010) should be considered. The PfM was presented as a common modernization agenda to advance the EU and Russian economies and to bring their citizens closer. The PfM is primarily a flexible framework for prompting reforms, enhancing growth and raising competitiveness (among the priority areas: innovation, medium-sized enterprises; the alignment of technical regulations and standards, intellectual property rights). The implementation of the activities entails the involvement of various actors – institutional and private – with both an economic-financial craft and a political mission. In comparison with other programs of co-operation put forward by the EU, the PfM is more open to the involvement of informal actors and better suited to blurring the boundaries between the public and private spheres. The PfM is aimed at prompting a progressive convergence and homogenization between EU and Russia and a multilevel cooperation that instead has remained quite unexploited.

The PfM is based on an equal partnership, as Moscow has always pressed for, previously refusing for instance, to take part in the European Neighbourhood Policy. The partnership was based, on the one hand, on Russia’s desire for external investment and partnerships in order to accomplish its modernization mission and, on the other hand, on the EU’s hope of improving economic relations and creating better opportunities for European companies and, as a ‘non-deliberate’ outcome, of upgrading the quality of democracy in the country.

The so-called sectoral dialogues have been regarded as main tools for the accomplishment of the PfM, which will be implemented through a broad range of pioneering tools responding to an inductive and fluid approach encompassing the traditional means applied to other European programs. The logic of the PfM is to select platforms of collaboration within the areas of EU-Russian common spaces, meeting the interests of the actors involved, which generate multilevel-linkages and multi-issues cooperation. The tools of the PfM are not regulated by the principle of conditionality but rather inspired by the processes of learning and persuasion and co-ownership. This is forged on a lesson-drawing model that relies on a voluntary transfer based on a cost-benefit calculation that, by definition, does not include direct rewards from the EU, but only expected benefits deriving from the adoption of a set of rules, which is considered to be more efficient and beneficial. The soft tools of the PfM have the merit of engaging Russia formally (institutional actors) and informally (non-institutional actors) so that Russia does not fear external interference in its domestic politics. The PfM’s procedures make it possible to speed up negotiations that might otherwise stall if legally binding commitments were sought at a time when it is not convenient for negotiating parties to make major commitments at a certain point in time for political and/or economic reasons, but they still wish to negotiate something in good faith in the meantime and involve a larger number of different actors.
Assistant Professor Serena Giusti—Written evidence

We do believe that the PfM is a good template on how the EU-Russia relations can be improved. There are other topics worth to be considered for cooperation: pan-European security (see the Pan-European security plan proposed by President Medved in June 2008), the governance and management of the Arctic region (a “win-win” region, where international cooperation proved to be efficient in past years); the creation of a common Eurasian economic space, which would spread from Lisbon to Vladivostok.

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October 2014
Professor Sergei Guriev and His Excellency Andrii Kuzmenko—Oral evidence (QQ 67-86)

Transcript of oral evidence to be found under H.E. Ambassador Andrii Kuzmenko
Josef Janning, Dr Tom Casier and Dr Marat Terterov—Oral evidence (QQ 110-122)

Transcript to be found under Dr Tom Casier
Transcript to be found under Tracey McDermott
WEDNESDAY 19 NOVEMBER 2014

Members present
Lord Tugendhat (Chairman)
Baroness Billingham
Baroness Bonham-Carter of Yarnbury
Baroness Coussins
Lord Jopling
Lord Radice
Earl of Sandwich
Lord Teverson
Baroness Young of Hornsey

Examination of Witness

Mikhail Kasyanov, former Prime Minister of Russia and co-leader of the Republican Party of People’s Freedom (PARNAS party)

Q220  The Chairman: Good morning. Thank you very much for agreeing to appear before this Committee. We are most grateful to you. As I think you understand, but I will just say it so that everything is on the record, this is a formal meeting of the sub-committee and therefore what you say will be taken down, a transcript will be produced, and it will be a great help to us in preparing our report, which will appear in the new year. I think you are aware of some of the questions we are going to ask, but I am sure that there will be supplementary questions. I should point out that the interests that the members of the Committee have are all declared and on the record. I think from our conversation outside that you would like to start with a short statement, which will prepare the way for our questions, so may I hand the floor to you?

Mikhail Kasyanov: Good morning, ladies and gentlemen. Let me start by saying that 11 years ago, in 2003, Russia and the European Union announced their relations as a strategic partnership. At that time the Russian Government pursued a number of important
structural reforms, foreign investment came to Russia, and the Russian economy was on a sustainable growth trend of just 6-7% per year. We believed that soon we would have deeper relations between the European Union and Russia, but many things have happened since that time. In 2005, Mr Putin, President of Russia, decided to dramatically change both internal policy and external policy, and since that time relations between Russia, the European Union, and the West in general started to decline. By 2008, Mr Putin finalised building up a new model—so-called managed democracy and capitalism for friends, redistribution of property in a very intensive manner and human rights violations, which started to happen every day.

Moreover, in 2008 Mr Putin decided to test the waters, and the war in Georgia was a real flag, a real testimony, to judge how the West would react. It appeared to me that western society, the European Union, decided to switch back to business as usual. Despite the fact that the agreement—the so-called Sarkozy plan—was signed, the Russian Government did not implement a single point of that agreement. Still, the West closed its eyes to what Mr Putin did at that time, and that was like giving Mr Putin permission to perform in such a manner in the future.

The result is what we have today: annexation of Crimea, the escalation of tension, and in fact direct pressure and direct involvement in the military conflict in Ukraine. That is the result, but this time I can see western society and the European Union behaving a little differently—I would say satisfactorily differently. There is a transatlantic unity and strong positioning, and a principled attitude to the policies that Mr Putin is pursuing now. Of course, the destruction of European security is beyond imagination, and I would like to believe that we will continue to press the regime in such a manner.

**Q221 The Chairman:** Thank you, Mr Kasyanov. That is very clear. Can I build on your statement by asking you whether you think that the EU’s response to the crisis in the Ukraine has been sufficient to deter President Putin from further incursions in the Ukraine, Georgia, or elsewhere, and what steps you would suggest in order to progressively ease sanctions? First, has the EU done enough? Secondly, what actions by Mr Putin do you think would justify a reduction in the sanctions?

**Mikhail Kasyanov:** I would say, first, that the reaction of the European Union was in the right manner. “In the right manner” means that it was a principled evaluation of what happened: the annexation of Crimea and support of the separatist movement in eastern Ukraine. I do not think Mr Putin expected such a reaction, especially of the European Union and of some governments of European Union countries. He believed that he would separate interests and the United States would be isolated, maybe Great Britain too, but that some continental countries would perform as before—so-called realpolitik—and would close their eyes to all those humiliations.

But he was shocked by the unity position and strong attitude. There may not have been such a strong level of sanctions, which would have prevented him from further escalation, but he was shocked. But what happened later were immediate talks and the statements of different politicians that, “We do not want the sanctions”, and, “We are ready to lift the sanctions at any moment”. That was viewed by Mr Putin as weakness. After the so-called Normandy meetings, which Mr Putin was pleased with, he decided to go further with the escalation.
Therefore, right now, despite the fact that nobody wants declining relations or bad relations between Russia and the European Union, my recommendation would be to stay strongly on the values that unite us. The Russian constitution provides all the necessary platforms to be viewed like Great Britain and the European Union—countries of the same nature in terms of values, human rights priorities, and all those things—but the current Government do not want to implement these. There is the Russian constitution and all the international obligations—Russia is a member of the OSCE and a member of the Council of Europe—and the Russian government is bound to implement all these, but the Russian Government do not do anything.

There are violations of human rights taking place every day. That is why there is no room for compromise. In any case, any compromise with Mr Putin’s regime on Ukraine would be viewed as punishment of Ukrainian people. There is a question about what Ukrainian people did that they should be punished for. Therefore, I think there is no room at all. You should stay stronger; it will be moral support for opposition in Russia. We believe that Russia is a natural European state with the same priorities that all European countries have, and any compromise would be viewed as coming back to some kind of policy of sphere of influence and division of Europe for another circle. I do not think that is acceptable at all.

**Q222 Earl Sandwich**: Mr Kasyanov, as a former Finance Minister, I wonder if you could comment on the cost of the adventure in Crimea and eastern Ukraine on the economy? How serious is that?

**Mikhail Kasyanov**: The economic problems that the Russian government faces today are an inevitable result of the policy Mr Putin has pursued for the last eight to 10 years. As I said, he built up the model of what I call capitalism for friends: the redistribution of property, pressure on the private sector, establishing so-called state corporations, and subordination of all private businesses to the state corporations, which has destroyed the driving force of the economy. On top of this we now have sanctions, and targeted sanctions. Targeted sanctions are absolutely the correct explanation.

There are not sanctions against the Russian Federation; there are no sanctions against the Russian people. There are sanctions against individuals who are involved in the decision-making process and implementing the illegal decisions of Mr Putin. In the other direction there are so-called sectoral sanctions: sanctions against the instruments that are in Mr Putin’s hands—the instruments that allow him to continue to operate in this manner.

The result is that sanctions are accelerating the collapse of the model. The model already collapsed, because it does not produce economic growth; there has been no economic growth in Russia for a year already, and industrial output has not grown for two years. Now we see pressure on the balance of payments, and despite the fact that Russia has huge international reserves, in 10 months we have already lost US$90 billion in reserves, and the exchange rate of the national currency already fell by 50%. The oil price right now is at a level of 80, maybe 75. That is already unacceptable from the point of view of Mr Putin’s policy, because being a populist he increases government expenditure by 20% every year. Right now, the overall redistribution of wealth through the Government reached a level of 36%, which is much higher. When I left the Government I reduced government expenditure down to 29% of GDP, and now, again, they redistribute a lot. More than 50% of revenue of the federal budget is due to the sale of oil and gas. The Russian economy’s dependence on oil and gas prices has increased dramatically.
All the programmes that my government developed for developing different industries to diversify the economy were thrown out, because the oil price grew dramatically, and the whole policy was built on the oil price. Now the oil price has gone down, and the sanctions have already started to create problems for the oil and gas sector. Just to increase the physical volumes of exploration you need those technologies, and they are under sanction. Even keeping the level of existing exploration in the old exploration areas in Siberia needs equipment to keep this on the level, and that is also under sanctions. I expect a fall in the physical volume of oil exploration by 2% next year, and I think GDP will fall by 2% or maybe even 4%. That is an acceleration, and I would say that Mr Putin has two years to decide what to do. All those government reserves that were built on the basis of a mechanism established by my government will be exhausted within this period of time if the oil price stays as it is.

**Q223 Lord Jopling:** Mr Kasyanov, I want to go back to the original question which the Chairman put to you with regard to the possibility of Mr Putin deciding that following the Ukraine expedition he might be tempted to move into other places in a surrogate way, whether it be Moldova or the northern Baltic states, Estonia and Latvia, or further incursions above the ones that he has already made in Georgia. What do you think of the possibilities of us facing further situations like the Ukraine one in the future?

**Mikhail Kasyanov:** That depends on the position of the European Union, the United States and the whole civilised world. If Mr Putin’s policy were stopped now by having a strong united position, we would stop such intentions. Mr Putin is just testing the waters. Georgia was one example. If we do something similar to what happened after the war in Georgia, we can expect further aggression in other areas. Moldova is point number one, and maybe Nagorno-Karabakh, just creating tension and being peacekeepers or looking like peacekeepers. That is another frozen conflict. I think that would be next in line.

I do not think the Baltic states would be subject to this at the moment, but if Russia is allowed to perform in this way, we cannot exclude them. Of course, Ukraine and Moldova are not members of NATO, and there is no Article 5 that is applicable to them, but still, to understand that European security is untouchable should unite us in understanding what is going on. It is difficult to believe that in the 21st century such methods of settling your wishes or your ambitions could be viewed as decent.

**Q224 Baroness Billingham:** Good morning and welcome. There is recognition that Russia has a long-standing relationship of immense historic, cultural and strategic importance with the Ukraine. However, the EU is still continuing with its Association Agreement with Ukraine, albeit with a delayed timetable. Is this a course of action that you would recommend? How do you think that the EU and Russia’s competing priorities regarding Ukraine should be resolved?

**Mikhail Kasyanov:** The main problem here is an attitude to Russia and the vision of what Russia is about. Mr Putin, in his speeches and conversations with the West, would like to establish the vision that the Russian Federation is a continuation of the Soviet Union. He always says, “You promised not to have enlargement of NATO. You promised to lose that, and that, and that”. You should not listen to this. The Cold War finished, the Soviet Union disappeared, the Russian Federation, in accordance with the constitution, is a democratic state; it has nothing in common, in general, with the Soviet Union. The constitution,
adopted by the majority of the population, is devoted to Russia being a democratic state with a market economy and human rights priorities. In this case, all the talk about NATO enlargement and other things should be forgotten. These talks are not proof. When I was the Prime Minister in the years 2001 and 2002, I had a very good improvement of relations with NATO. After the tragedy of 9/11 in the United States and the anti-terror coalitions built up with Russia’s participation, we had very good relations. At that time I even made a public statement that I dreamt my country would be a fully-fledged member of NATO in the future. Mr Putin said at that time publicly that he did not exclude such a development, but what happened afterwards? Why did those values that were supposed to unite us disappear in the minds of the current regime?

That is why NATO in its nature is absolutely a friendly organisation, contrary to what Mr Putin is doing now. Therefore, talking about Ukraine, of course we have a lot of historical and cultural relations—I would not say relations, just common history. The right of the people of Ukraine to choose their future, whether entering the EU as a member of the EU, or at least association at this stage, is absolutely the decision of the people of Ukraine. Even to join NATO is also their decision. All kinds of agreements with Mr Putin and this regime, on the basis of neutralisation to take the right of the people of Ukraine to make their choice, would absolutely be some kind of compromise with the aggressor. I do not think that is appropriate.

Q225 Baroness Billingham: Mr Gorbachev a few days ago suggested that the way to take the heat out of this crisis was for the EU to remove the sanctions, and that would be a way forward. Do you think there is feasibility in that or do you think that that would do the trick?

Mikhail Kasyanov: No, I do not think that is feasible at all. Mr Gorbachev was President of the Soviet Union, and he continues to have a vision, and continues to believe that there is some kind of continuation and that all those commitments given to him at that time should be implemented. No, this state disappeared, and people became free, at least on paper. That is why he has the same vision in this regard as Mr Putin has. I do not think it is appropriate at all. Just compare the constitutions of the Soviet Union and the Russian Federation, and you will see no similarities at all.

Q226 Lord Jopling: I had intended to raise NATO expansion with you at a later stage this morning, but as it has come up now I want to be absolutely clear as to what the situation is, because some allegations have been made that undertakings were given after the collapse of the Soviet Union, that NATO gave an undertaking that it would not move eastwards into the former Soviet states, and that those undertakings have not been fulfilled, because a good many of the former Soviet states are now members of NATO. Mikhail Gorbachev has denied this. I have a report, which we have been given. He has said that no undertakings were given at that time.

Do you endorse that view: that NATO expansion has been contrary to undertakings given? It would help the Committee very much to know whether you think that those allegations made by Mr Putin and others are groundless?

Mikhail Kasyanov: I would like to develop what I have just said a bit more. If you believe that those undertakings or promises given to the Soviet Union are still valid, and Mr Gorbachev as the President of the Soviet Union is a political figure who has an influence or something, maybe you should keep that in mind. My vision is absolutely different; the
Soviet Union disappeared, and all those promises given to the totalitarian state disappeared. You could just give promises to a democratic state, the Russian Federation. That is our problem right now: that we have—I believe temporarily—a government who destroy the basic values of the constitution and the international obligations of the country, such as being a full member of the OSCE and the Council of Europe.

It is important to separate the regime and the Russian Federation with its people and the constitution. Mr Putin at least literally does not want to change the constitution, although he is changing it just in his favour, but the major position is still there. Moreover I dream that my country would lead deeper co-operation with the European Union and NATO. That is what I did when I was in power. That is the mission of the new state, the Russian Federation, but not just recalling Soviet Union promises and the features that existed when the totalitarian state existed. We should separate it out and not take those arguments as real.

**Q227 Baroness Coussins:** I would like to go back to the economy. You have already mentioned what is happening with oil and gas prices and the impact of that on Russian GDP. I would like to ask you more broadly what your prognosis is for the medium to long term for the Russian economy, and what the political implications for President Putin’s domestic and foreign policies would be. In fact, how do you consider that President Putin would respond to internal economic stresses? Is the Putin regime sustainable, and how can the EU prepare for a post-Putin period. That is quite a few questions in one go.

**Mikhail Kasyanov:** Thank you for those comprehensive questions. That is another discussion, but I would like to illuminate some features of that. First, let me start with the main motivation of the policy Mr Putin pursues now: the inevitable problems with the economy, when Mr Putin will not be able to increase pensions or salaries for public workers, just for the military and secret service, et cetera. Moreover, very soon he will not be able to even implement the current contractual obligations vis-à-vis society on that level, because for 10 years there were no reforms in Russia.

Why? Reform means risk; it means a risk of power. Mr Putin’s whole strategy is to eliminate any risks. Therefore, we do not have any single feature of a democratic state. We do not have an independent judiciary, we do not have free media, we do not have separation of powers, and, finally, we lost free and fair elections. We are now just an authoritarian state quietly moving to a totalitarian one. That is an important feature. That is why for Mr Putin it is important to switch people’s attention from internal problems and problems with the economy to the external. It is important for him to find an external enemy and to impose a mobilisation spirit on the society. That is usually what all authoritarian regimes do, but moreover he needs short wars and victories—the Georgian war is one of them. He wanted to have the same in Ukraine, and he faced the strong position of the European Union and the United States. That is what has stopped him at the moment.

Talking about the economy, the clock is already switched on. I think it will last for two years. During these two years, the reserves that the government have now will be exhausted, and during this time Mr Putin should choose whether to build up a quiet exit strategy for himself and his team or just to move the country further towards collapse and disaster. That is why we should stay stronger right now, because it is already the beginning of the end of this process.
In the situation that we have now, we should not expect any further expansion or escalation. Mr Putin right now should consider his power inside the country. I do not exclude that there will be further pressure on opposition and civil society, and human rights activists, just because that usually happens. Even some features of fascistic ideologies start to appear. Mr Putin and his people already wake up feelings of post-empire syndrome for the Russian people, and he cultivates this vision that we Russians are the best, et cetera. The whole world should be afraid of us simply because of our existence, or something like that. I am simplifying it a little, but that gives you an idea of how propaganda works.

Therefore, the social polls right now show support at 85%, but when people are on the phone to ordinary citizens and asking whether they support Putin’s policy in Ukraine, people are immediately recalling what was in the Soviet Union: it is better to be on the safe side, to say whatever they want—“Yes, we support”. As soon as Mr Putin is defeated on Ukraine, the whole popularity will start to disappear. We will see this 85% go down to, I would say, 20%. In fact, the popularity he has in Moscow—20%.

Q228 The Chairman: Do you think that if the EU had not pursued the Association Agreement with Ukraine, Mr Putin would have embarked on the present round of aggression? In other words, do you think that the EU provoked Mr Putin, or was Mr Putin planning to do this in any case?

Mikhail Kasyanov: In fact there are more features, or a combination of different elements. As I said, the main reason is just to have victories, to demonstrate internally the strength of the regime. Secondly, of course, for Mr Putin and his regime it would be absolutely unacceptable to have democratic success for a country like Ukraine. It is such an important part of Europe. It is such an important neighbour for us; Ukraine is the most important. If Ukraine is successful in pursuing democratic transformation and market economy transformation, which is far from a reality at the moment, it would work to the destruction of Mr Putin’s vision, and a different Slavic, or Russian, world, et cetera. Therefore, a positive example for him is unacceptable. That is why he does not want any success for Ukraine or Belarus.

Q229 Baroness Coussins: In the light of what you said earlier, could you comment on the very last part of my question, which is: how should the EU prepare for the post-Putin era, not just in terms of sanctions, as you have already made it very clear that you would support the maintenance of strong sanctions? Apart from that, are there any recommendations that you would have for the EU in terms of looking forward to an era post-Putin and how the EU should prepare for that?

Mikhail Kasyanov: I think we should keep in mind that Russia is temporarily not under the right regime. Therefore, all agreements that exist right now, including membership of the Council of Europe, membership of the OSCE and other agreements with the European Union, should wait for a better time. I think everything will become a normal trend—the deepening of co-operation, the future that all of us believe and dream about, because we believe our countries are part of European society in general. We were dreaming about an enlarged Europe, as we said in 2003, when we said, “We are strategic partners”, and now we have a common space starting from Lisbon up to Vladivostok, and we announced that we will be working for a free business zone for this area. These ideas were lost many years ago, but
that is what we dream, and I think that will be real as soon as this regime disappears and does not destroy the country. We will restore and build up further our relations.

**Q230 Lord Jopling:** Perhaps I could begin with just a comment on what you have just said. You were asked whether you thought that the Association Agreement with Ukraine had caused the incursion into Ukraine, but of course long before that Mr Putin had already done much the same thing in South Ossetia and Abkhazia. It seems that the Ukraine incursion is just an extension of what he did in Georgia, but I want to go back to the issue of sanctions. You have already talked a bit about that, and I wonder if you could tell us what you think the effective sanctions—existing or even future ones that have been threatened in the last week—will be on the situation in Russia of foreign investment, of expertise in technology, which Russia clearly needs. Do you think that the cost of this on Russia is likely to run counter to the long-term interests that we all have of developing a prosperous Russia?

**Mikhail Kasyanov:** As I said, I think in this situation that we have now, my party, and the democratic opposition of Russia in general, would support the level of economic sanctions, sectoral sanctions, as they are now. That is hardly bracing Mr Putin’s ability to operate. I would suggest increasing the list of individual sanctions. There are a lot of people, including so-called Members of Parliament who are not Members of Parliament but simply nominees of Mr Putin who occupy their seats in Parliament, just imitating that the Parliament exists. They voted aggressively to demonstrate their support of the policy, or other people who have a very close connection with Mr Putin. Further sanctions could go this way.

I would say that even from the psychological point of view that is important. If information comes that the European Union has adopted another list, another list two weeks after, then another, there is permanent emotional pressure on the regime. They have already started to feel weakness. Maybe you noticed that Mr Putin has already started to ask why the West reacted in such an inadequate manner to the joining of Crimea to Russia? He used those words: “inadequate manner”. He said, “We did exactly what the West did with Kosovo”. That is absolutely the wrong perception, and you can understand how these people operate with arguments, and how they are building up arguments that are based on lies. How can you get a normal argument and discussion on an international level? They already do not know what arguments to provide for you in conversations explaining their policy. That is what I am saying. All that pressure, especially from a united position. Just now at G20 in Australia it was demonstrated once again that the West is united in its principled position.

Sanctions, as I said, are targeted on absolutely important sectors, especially the financial sector, government-controlled banks and the oil and gas sector. I would not support general economic sanctions against investment, et cetera. Foreign investors have already stopped investing, understanding that the business climate is awful. Therefore, there is no need to put yourself in the position of being an enemy and against the country. That is already the environment. The opportunity is already closed for them to be there. Without a special commitment between the leaders of two countries it is not possible to have investment, because property rights are questioned every day.

Therefore, Mr Putin would like you to come up to him and have a personal commitment at the level of Prime Minister and himself, just to support one or other of the businesses, et cetera. The normal situation in which there is general freedom to undertake your business and entrepreneurial activity on the basis of laws that are clear and transparent and the application of them is absolutely normal is not the case in Russia. Therefore, there is no
need to extend the list of sectors to which the sanctions apply, but there is a need to stay strongly with what we already have.

**Q231 Lord Teverson:** Good morning, Mr Kasyanov. Previous witnesses before this Committee have informed us that the European Union must hold the line on its values and enforce its own rules. However, it is not clear how Moscow will respond, and Sergei Guriev dismissed these steps as second-order issues. How useful do you judge the efforts by the EU to enforce its rules and hold Russia to its international commitments, and how are the EU’s efforts likely to be perceived by Moscow?

**Mikhail Kasyanov:** I do not think that in this situation you should look just at different international commitments, try to save a few of them, and compromise on others. There should be a principled attitude. Whether this Government are ready to implement all international commitments, and we have no right to give Mr Putin a choice—“I would like to implement this kind of commitment, for instance, but I do not like that one”—is not even realpolitik, but closing your eyes to what is going on in Russia, such as issuing Mr Putin with a special ticket, “You, Mr Putin, can do whatever you want. If you like those commitments you have a right to implement them. We will be happy to have it. If you do not like them, we will just close our eyes.” I do not think this is the right attitude.

**Q232 Lord Teverson:** If I could take on the OSCE, which you mentioned yourself, it seems that, certainly when it came to South Ossetia and Abkhazia, as Lord Jopling mentioned, it was completely ignored and was not allowed to operate as it should. Is that organisation dead effectively because of Russian refusal to make it operate as it was supposed to?

**Mikhail Kasyanov:** The OSCE is an important instrument, absolutely, but more support should be given to those missions. For instance, now in Ukraine, the most important point is to implement the Minsk protocol commitment, which means border control by the OSCE. As soon as border control is established, which Mr Putin does not want to implement, this so-called separatist rebel republic would disappear within two months. The only reason they exist is through permanent support of weapons and other supplies from Russia, through the border. Every day NATO observers see this. Mr Putin does not want that. He even said, “I will never leave the leaders of these rebels alone, as the West wants”, but that is exactly the way.

The Minsk agreement, signed by Russia too, says that all elections should take place within the legislation of Ukraine, and Ukraine has territorial integrity, and we should respect that. Any attempt to destroy this should not be supported without attention, which is why it is important to continue insisting and drawing attention to Russia’s regime, and have a good argument that Russia is not implementing the agreement signed two months ago. That is important.

**Q233 Lord Radice:** I have a question about the EU, which is meant to be reviewing its policies in its neighbourhood, including its Eastern Partnership. From listening to you, in present circumstances, has the Eastern Partnership a role, particularly vis-à-vis Russia? You are saying that we should hold things as we are: hold sanctions together and not offer any olive branch of any sort to the present regime in Russia after the way it has behaved, if I could summarise what you have been telling us. Is that right?
Mikhail Kasyanov—Oral evidence (QQ 220-239)

Mikhail Kasyanov: Yes, that is right. As I said, I would like to believe that sooner or later Russia will re-establish its good relations, general relations, political relations, with the EU and will have a special agreement—I would not say an Association Agreement, but some kind of agreement at least. That is absolutely right. The economy is a little different because we have a different structure of economy, which is why all this internal legislation in the European Union is not quite applicable to Russia; it could be the European Union-plus in the future. In terms of the Eastern Neighbourhood, absolutely that is a programme for helping those countries to join the European Union, which is a good thing to do.

I think that is just a friendly attitude and friendly relations. There is the problem of post-Soviet Union syndrome, which Mr Putin would like to cultivate and continues to do so. The problem is him, and people around him; they believe that everything in this world is tradable, and that there are no actual values, just imitation. That is why they are a little nervous and looking for an appropriate price to come to some kind of trade where they can compromise on the commitment.

He is definitely angry. He does not believe that you are strong, just that you cannot see the appropriate price. He does not believe that you stand on principles. He does not believe that you are here sitting in the Parliament because you are representatives of the values this country, and the whole European Union, is based on. He thinks that is imitation for one or another case, one or another event. That is an important understanding, because the so-called KGB mentality is different to ordinary normal people; of course, secret service people should perform their role, but not rule the country.

Lord Radice: To sum up, “no deal with Putin” is basically what you are saying?

Mikhail Kasyanov: I think that is the case. For me it is evident. I already see you moving down this path, and I think that is right.

Q234 Lord Radice: One further question, which is just a matter of curiosity. During the G20 summit, Putin moved some Russian warships off the shores of Australia. What was that all about?

Mikhail Kasyanov: That is strange. I have no explanation for that. I think that is a feature of the old mentality. It puts a smile on the face of serious people, but he performs like during the Cold War and expects that it will have an influence on changing your decisions. I believe that it absolutely will not, and I would say it is not serious. It is an irresponsible, reckless policy that is not acceptable at all.

Q235 The Chairman: Putting aside Mr Putin—and you have made your position on Mr Putin very clear—do you think it is feasible and practical for countries such as Ukraine and other former states of the Soviet Union to have both a relationship with the EU and Association Agreements with the EU on the one hand, and to be part of the Russian Neighbourhood policy? Can they be members of both blocs, if you see what I mean?

Mikhail Kasyanov: Absolutely, in humanitarian terms, there is no doubt at all. Talking about the economy, there is also no problem with that. Even with just the so-called free trading zone for CIS countries, there is nothing wrong with the association with the European Union. If you have those partners and you have low tariffs, or no tariffs, continue to do this. That is why all the reasons provided by Mr Putin and his people—that we expect a flow of European Union goods through Ukraine’s territory to Russia—have absolutely no basis at all, because
you have your customs officers on the border. If you do not trust them and they produce fake certificates, that is a problem for your administration, but it is not interaction between nations and economies.

**Q236 Earl Sandwich:** From what you say, I think you would encourage the European Union to continue its enlargement policy, which is under discussion at the moment. I was grateful to hear that you mentioned Kosovo and Serbia. I just want to ask two more questions. One is on Serbia particularly. How do Russians—not Mr Putin—see the EU’s approach to Serbia, given that Serbia is looking two ways at the moment? The second example is Georgia. We had the Georgian Ambassador here, and he did not seem to think Russia was a real problem for the Association Agreement, which they are so keen about at the moment. Since he was here he has lost a Foreign Minister and a Defence Minister. Can you comment on that?

**Mikhail Kasyanov:** On Serbia, I think that is clear. Although the Serbian government are trying to consider two options, in fact there are not two options. For Serbia it is natural to be part of the European Union, and despite the fact that there is a great sympathy among Russian people and the Russian government to Serbia, it should not prevent the Serbian government making their own choice. It does not create, even for the current regime, any special nervousness or anger to stop them doing that.

Ukraine is a different case. That is why, for the reasons I have given you, the current regime’s treatment is absolutely different. With the Association Agreement, the humanitarian part is natural. All those countries are members of the Council of Europe, and the association is just deepening this and creating legislation on the basis of the legislation that exists in the European Union. That is a natural thing to do and is nothing to do with the problems created by the Russian government.

The economy is a different story, and that is what I said when I talked about the association of Ukraine and Belarus potentially in the future. For Putin, that creates an appropriate level of disturbance. Georgia is a different case, because mostly that was chosen by Mr Putin as an example to demonstrate the strength of his regime to you, and he was successful in that. His perception was wrong as a result of that, and he came to a wrong conclusion, but he demonstrated the strength of his power.

The Georgian government at the moment are not making an exact demonstration of their right choice; they are saying they would like to be a member of the European Union, so just let them go ahead with the Association Agreement. In fact, they have such a possibility. It is just a question of political will whether they will be capable of doing this. They are trying to find enemies of the previous governments inside the country. That is an internal issue, but it could be viewed in the future as the government of Georgia changing their path. We shall see. I do not see serious changes in their view. At least publicly they are saying, “We continue to be committed to further deep integration with the European Union”.

**Q237 Lord Jopling:** Can I ask you a further question about Georgia? If in the future Armenia decides to join the Eurasian Economic Community, which Mr Putin seems to want it to do, would you agree that one of the prizes that he might aspire to would be to control the pipeline that runs from Baku through Georgia, close to Armenia, to the Mediterranean? Could you foresee him manufacturing another of his incursions, following the ones we talked about earlier in Georgia, which might give him an ability to control that pipeline, or rather to
stop it operating as part of the developments if Georgia finds itself in the middle of a trade route between Armenia and Russia?

**Mikhail Kasyanov:** First we should understand—at least my understanding is—that we are not just talking about the empire ambitions of Mr Putin: his collection of different lands and connecting them with Russia. The main reason for him is to keep his power internally in the country. The main goal is public opinion and public support. If some kind of external operation comes with a successful result, that is okay, he can go further. If not, he stops and thinks how to operate further inside the country.

From the point of view of a powerful arm, this is the pipelines and gas supply to Europe, of course, and keeping these instruments in hand as an effective operation. The other pipeline from Azerbaijan, via Georgia to Turkey, would be an alternative that could destroy his ability to apply pressure. That is why Russian companies will press not to participate, even just to create problems for other companies that are involved in that. I do not think in the period that we have now that that is so sensitive, because other problems, like the oil price and sanctions against the industry in Russia, are more important. In general terms, of course, thinking about diversification of supply is an important thing, but the issue is not just whether this project is commercially viable; that is what all participants think about.

I think it is a normal project, and of course the ability of countries like Georgia and Azerbaijan to operate with the facility is absolutely an important point. I think all participants of the project should pay attention to that and help to make it a reliable infrastructure.

**Q238 The Chairman:** Could I ask you two questions about Ukraine itself? It was suggested to us by a previous witness that one reason why Ukraine has had such a poor record since establishing its independence is that it is such an artificial state. Western Ukraine was part of Poland before, part of the Austro-Hungarian Empire. Eastern Ukraine was part of the tsarist empire, and they have very different traditions: they pursue different forms of Christianity, and so forth. Do you think that Ukraine is a viable entity? Do you think that Ukraine would be able to pursue a successful political and economic policy on its own as an independent state?

**Mikhail Kasyanov:** My answer is, yes, absolutely. None of those arguments, such as different Christianity and other historical things, should be viewed as reasons in the 21st century. We have Ukraine as an independent state. The only serious problem they have is that during the last 20 years they did not pursue any reforms. That is why the economy is in an awful situation, much worse than in Russia. In Russia, despite the fact that we have rich national resources, we still have something that was built up as a result of reforms—at least the ones that my government pursued such as structural reforms, tax reforms, and land reforms, among other things. We have quite healthy state finances even now.

In Ukraine, through all those years, none of the governments have managed to pursue the necessary reforms. They still have redistribution through the government of more than 50% of GDP, which is absolutely unacceptable. I think only one country can afford this itself, Sweden, because historically, over the decades, that was built up. For Ukraine it is absolutely necessary to have a lot of serious structural reforms, which will be painful. Talking about the near future, I think Ukraine now has a chance, maybe the only or last chance, after the election of the President and the new Parliament, building a government
based on a democratic coalition. This is the chance for them to pursue reforms. They postponed the implementation of the Association Agreement, which means that in a period of less than one year they have to start reforming the economy, the society, and the general state institutions. If they do not do this, they will be closer to going around in the same circle again, and just interest by people, in the government, and all those changes will disappear, and there will be another disturbance there. The interests of western society to support such a government would disappear. That is what I would like to believe: that President Poroshenko and the new government would immediately design and announce reforms, and immediately start implementing the reforms that are absolutely necessary.

Those reforms could get great support from western society, because that is natural, and that is important to start moving the country towards prosperity. Of course, it is a long time before they join the European Union and its full features, but the choice the people of Ukraine made is already something. There is already a goal, and it was an important sign that the European Union already issued a general invitation to Ukraine to join the European Union in the future. Of course, it will be a long path: it could take 15 years, it could take 10 years, depending on the reforms and how speedily they implemented those promises and reform the economy and state institutions.

Q239 The Chairman: Lastly, the Russian unilateral annexation of Crimea is obviously unacceptable. If there was an absolutely free vote in Crimea, do you believe that the Crimeans would vote to stay with Russia or to stay with Ukraine?

Mikhail Kasyanov: I think you agree with me that such referendums mean nothing. Just take as an example your recent referendum in Scotland. It was announced a year and a half before the voting date, and all political parties and civil society groups had an opportunity to explain their reasons and counter-reasons for that potential choice. That was also done with the commitment of the central Government in accordance with legislation existing in the United Kingdom. What we have in Crimea is absolutely a different story. They announced the referendum in one month’s time, then just one week later they said that it would be in two weeks, not in one month.

The Chairman: I agree about the last referendum, but if there was a genuine referendum in Crimea, how do you think the Crimeans would vote?

Mikhail Kasyanov: First of all, if it is a referendum organised in normal circumstances in the normal way, that would be a completely different result. It would be maybe close to 50:50, but we cannot speculate and predict that now, because of the simple reason that it was done on the basis of creating artificial promises. If you vote now, tomorrow you have your pension increased three times. If you vote now, tomorrow your salary will be increased three times. Moreover, only approximately 30% of the population participated in that.

The other aspect is whether the people living in Crimea could undertake the right to have a sovereign vote. Maybe just Tatar people, who are native people there, have such a right in accordance with the United Nations charter, not the Russian population, which already has its state, and not even the Ukrainian population, which also has their state. Therefore, it is a very tricky point and a very sensitive issue, but of course the consideration should be given to all arguments. The first is territorial integrity, which the Russian Federation, the United Kingdom and the United States have committed to, signing a so-called Budapest Protocol on
that. These Governments and these countries are also responsible for the territorial integrity of Ukraine.

That is a new reality in the 21st century. Why should we destroy this reality guaranteed by the signatures of those states? What was the reason for doing this? I can remind you that the reason Mr Putin gave was the threat that the Russian-speaking population would be pressed and would somehow be under pressure and forced to speak Ukrainian rather than Russian. Those are just artificial arguments, and because of this militarists war and wait in Crimea.

That is an artificial thing. It is nothing to do with the example Mr Putin would like to compare with Kosovo. In Kosovo a referendum took place eight years after those events, not two weeks after. The people undertook their right to be independent, and all political groups had the rights to explore their views during those years. The international community controlled the situation and prevented tension and military developments there.

The Chairman: Mr Kasyanov, thank you very much indeed. We have kept you for over an hour, and you have been extremely frank and very clear. I think we are in no doubt about your views, and thank you very much indeed.

Mikhail Kasyanov: Thank you very much, and I hope you continue to take a principled position as a government.
Irina Kirillova MBE—Written evidence

This Submission relates to Q. 1 2 9 10 12.

The views covered incorporate opinions expressed in conversations with Russians and ethnic Russians with Ukrainian citizenship, from members of the intelligentsia to taxi drivers, in various parts of Russia, Moscow, Taganrog, the Crimea, as well as Russian students studying in Oxford, Cambridge, London, since the events on Kiev’s Maidan Square in February 2014. For their information they rely on the Russian media, Western media in the UK and on the Internet.

Originally there was great sympathy for the Maidan uprising. Former President Yanukovitch never had much support among ordinary Russians, he was viewed as greedy, corrupt, stupid and inefficient. The Russian media referred to him in barely veiled terms of contempt. That support rapidly diminished when Russian press correspondents in Kiev shewed the brutality meted out to the Kiev police Special Forces (the Berkut) by armed extreme nationalists, some of them militias of the Right Sector faction. Dismay and growing hostility were compounded by footage of what happened in Odessa on the 2nd May when the local trade unions’ headquarters, occupied by supporters of a growing devolutionary movement in eastern Ukraine (the Donbass region) was attacked with incendiary bombs and grenades and those trying to escape the raging fires through windows and doors were clubbed to death. Calls to the fire service from inside the building were not answered till nearly an hour later.

From the outset Russians have been puzzled by, as they see it, the one sided, exclusively pro-Ukrainian reporting in the EU of events in the Ukrainian troubles. Bewilderment has grown to indignation as the Western media appears to ignore the extensive and concerted destruction of civilian, infrastructure parts of bombarded cities by the Ukrainian air force. “You will not ensure the loyalty of your citizens by bombing their schools and hospitals and depriving them of water and electricity!” said one Anglophone Ukrainian Russian.

The original amused indifference to the “satelets” in the Donetsk and Lugansk regions has grown into sympathy for a region now openly referred to by its chosen 18th c. name Novorossia. “Why is Kosovo good and Crimea, Donetsk and Lugansk bad?” is a remark frequently heard. There is a widespread welcome and support for the OSCE teams in eastern Ukraine and indignation that no other Western organisation, such as the Red Cross has offered any humanitarian help to civilians in the affected war zone. The recent Human Rights Watch and UN HCR reports on what are defined as war crimes committed by the Ukrainian armed forces in the Donetsk region are warmly welcomed as much overdue Western recognition of the nature of the war. Official Ukrainian insistence on the alleged presence of Russian troops is dismissed when there is no confirmatory factual evidence, what is recognised is the presence of numbers of Russian military advisers, as there are USA military advisers on the Ukrainian side and admitted by western experts. There is widespread belief that if only Kiev had agreed to measures of greater autonomy for eastern Ukraine there would not have been the strong separatist movement now in evidence and no war. For the Donbass Russia is a closer and more familiar entity than the EU, viewed as an alien ‘West’.
What is perhaps not sufficiently realised in the EU and the West generally is how profoundly integrated the two nations we now refer to as Russians and Ukrainians have been for over three centuries, ever since the Cossack leader Bogdan Khmelnitsky negotiated the incorporation of Ukraine into Muscovy. Polish and generally Western influence remained stronger west of the Dnieper (particularly in what became the Ukrainian nationalist stronghold, western Ukraine or Galicia in the Austro-Hungarian Empire) and Russian influence east of the Dnieper.

Educated Russians have historically always considered themselves Europeans and an integral part of the European intellectual and cultural tradition. However the majority are now increasingly unhappy at two important trends: the increasing Western political animosity to Russia and Western “amoral social liberalism”. As a German political scientist, Alexander Rahr, once put it “Russia IS Europe, but NOT the West.” Russians do not usually view the EU as an integral whole and distinguish between the different component states according to their own historical relations with them. English culture is well known and loved but the Prime Minister’s repeated “rebukes” to Russia over Ukraine are viewed as a regrettable “constant attempt to please the USA”. France, historically an important and much admired cultural influence, is seen through the prism of a weak, unpopular president who “dances to the USA’s tune and cannot bring himself to hand over the [Mistral] helicopter carriers!” The southern members of the EU, Italy and Spain in particular are viewed as friendly to Russia but unable to resist the overall ‘sanctions pressure’. The ‘new’ eastern European and Baltic EU/NATO members fall into two groups: historically hostile Poland and the Baltic states are mistrusted as willing ‘platforms’ for bringing NATO to Russia’s borders, whereas Hungary, Slovakia and the Czech Republic are seen as ambivalent if not opposed to EU sanctions against Russia. They are seen as sharing a widespread Russian attitude: “Russia wants peace in the Ukraine and has sanctions slapped on it for its pains!” Polish attitudes, officially hawkish, are however seen as more complex. Russians will point to the fact that Ukraine is hardly a historically unitary state, a reference to when most of Ukraine formed part of a Polish-Lithuanian kingdom, and would “benefit from having Poland sort it out economically”.

The Ukrainian language is considered to be “corrupt Polish with demotic south Russian words thrown in.” Of all the EU members it is Germany which evokes the most complex Russian attitudes. Germany is greatly admired, particularly for its economic success. Until recently the German Chancellor was viewed as the wisest and most reasonable European leader in the matter of sanctions on Russia and Russians welcome the frequent telephone contacts President Putin and Chancellor Merkel are believed to be having, and applaud the two leaders’ expressed desire to see a peaceful solution to the conflict in Ukraine. Even when the Chancellor took a harsher line over Russia’s ‘annexation’ of Crimea (a term much resented and used only by anti-Putin dissidents) the Chancellor was not judged as harshly as President Obama or David Cameron, as “she had to maintain EU unity in the face of American pressure.” The hope is expressed that she will listen to German business, shut out of its lucrative Russian market by sanctions, and to former leaders such as Helmut Kohl, Hans-Dieter Genscher and Mikhail Gorbachev, all warning against the danger of a “new Cold war” and stressing the need to talk to Russia. The German Foreign Minister is viewed as being ‘a sanctioned counterweight’ to the harsher EU line adopted by the Chancellor.

Russians see Germany as the greatest hope in helping to achieve the prosperous, economically and politically stable, neutral (non NATO) Ukraine they wish to have as a
neighbour (Russia has not given formal recognition to the recent votes establishing the “peoples’ republics” of Donetsk and Lugansk, but ordinary Russians think Kiev has recognised them *de facto* by cutting off their gas, water and electricity)

No submission concerning Russia would be complete without mention of Russian attitudes to President Putin: the vast majority of Russians, even including a considerable number of the intelligentsia, since the outbreak of the conflict in Ukraine, admire the President. He has given them political stability, rising prosperity and a new, strong sense of self-respect. Apart from a small number of the liberal intelligentsia who felt uncomfortable with the ‘annexation’ of Crimea, the “return to Russia” of Crimea was immensely popular (Putin’s rating soared to over 80%) Khrushchev’s “giving away” of Crimea at an anniversary banquet was always deeply resented. President Putin is greatly respected as a leader who stands up to Western leaders’ attempts to “teach Russia” and “rebuke it when it misbehaves.” Even liberals who dislike him and what they see as his authoritarian rule, recognise that “he is very intelligent and so far has been a match for the West.” The more Western leaders and media commentators “teach” and “rebuke” him, the more Russians will rally round him and nationalist, anti EU and anti USA trends increase.

For Russia the EU is an immensely important and much favoured trading partner. Historically and culturally Russia feels that it is an integral part of Europe in every sense, though at present it feels increasingly alienated by EU/Western social liberalism and, as many see it, its rejection of “a morality based on its historical Christian roots”. It is irritated by constant Western criticism of its imperfect rule of law and corporate governance. The criticisms are seen as all too often justified, but the absence of any recognition of its attempts to strengthen and eventually perfect rule of law and corporate governance and stamp out corruption provoke irritation. Russians believe they will solve these deep seated problems, but will not heed “teaching” and “rebuking” by the West.

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20 November 2014
Václav Klaus and Sir Andrew Wood—Oral evidence (QQ 200-219)

Transcript to be found under Sir Andrew Wood
Transcript to be found under Ian Bond CVO
Executive Summary

This report briefly examines EU-Russia relations in the context of the eastern neighbourhood. It contends that both the EU and Russia’s ambitions for the eastern region have evolved into two competing region-building projects underpinned by differing strategies, norms, instruments, and actors. Although projecting competing rationalities, the two projects, until recently, had peacefully co-existed, working around conflicting issues of political norms and economic convergence, which were not necessarily seen as insurmountable for furthering regional cooperation. Their subsequent politicisation and securitisation, as a consequence of events in Ukraine, have rendered regional partnership currently incompatible, revealing a profound lack of understanding the region by both the EU and Russia; and the EU under-exploited capacity to work co-jointly with the Eurasian Union (and Russia) vis-a-vis the region. This report contends that the EU must make an effort to acknowledge and engage with the above actors in the region, in order to develop cooperative strategies, based on shared interests, international norms and compatible instruments for the advancement of economic and political convergence.

1. Setting the scene: de facto competing, de jure conflicting regional projects?

1.1 The EU’s approach towards the eastern neighbourhood has evolved to become an inclusive EU-centred regional policy

With the articulation of its ‘proximity policy’ in 2002, the EU registered its explicit interest towards the eastern region, but had no particular strategy or vision to support its intentions.8 The initial policy resembled more of a generalist security-predicated aid package, primarily intending to safeguard EU borders (Youngs 2009). Its subsequent reformulation into a European Neighbourhood Policy (ENP) rendered it a ‘wider-European’ focus with an overarching responsibility over the region underpinned by an ‘enlargement-light’ strategy (Commission 2004). However, with the launch of the Eastern Partnership Initiative (EaP) in 2009, the policy gradually acquired a more pronounced (and contested) region-building narrative (Commission 2009). At its core was the promotion of low-key technocratic strategies of engagement to codify an EU-centred agenda into a series of roadmaps and Associations’ requirements, with some profound implications for the wider region.9

The policy’s ‘regional’ framing was predicated on two fundamental principles of EU effective multilateral regionalism - externalisation of EU governance and the promotion of ‘European cohesiveness’, thus naturally prioritising the EU legal and economic acquis to ‘first and

8 Hence, the initial inclusion of Russia (subsequently rejected by the latter), and almost incidental of the Southern Caucasus. For more discussion see Korosteleva 2012; Delcour 2011

9 EU region-building policies de facto assume the primacy of economic inter-regional cooperation, without a prospect of EU membership for the willing partners
Professor Elena Korosteleva—Written evidence

foremost ... ensure that the benefits of the single European market based on free movements of goods and services, labour and capital, were as widely spread as possible’ (Ibid). As far as the European neighbourhood was concerned, as the Commission further argued, ‘the EU [specifically] wished to promote key concepts of EU regional policy such as open markets, respect for environment, participative democracy and partnership in the conception and implementation of its development policy’ (Commission 2014; emphasis added).

Having encountered much criticism from its own institutions and the region itself, by 2012 the ENP/EaP became reduced to ‘a set of instruments’\textsuperscript{10} to further the Eastern region’s internalisation of EU norms and regulations, supported by complex machinery of financial tools and inclusive of all levels of society. The instruments in particular evolved to reflect the EU’s manifold aspects of economic and legal acquis, as transcribed in individualised roadmaps (Commission 2012) and more recently, the EU Association Agreements, now signed with Ukraine, Moldova and Georgia. The anticipated impact of these agreements, as claimed, was to develop ‘capacity of the third countries to set strategies and prioritise convergence of their regional policies with those of the EU’ (European Commission 2014:7, emphasis added). The overall aim, as initially conceived, was to bolster the formation of a Neighbourhood Economic Community (Casier et al 2014), as part of the EU-centred inter-regionalist strategies.

As a region-building project, the policy by definition entails inclusion and exclusion (Delcour 2011), favouring conformity and isolating resistance, which also extends to Russia, who had originally refused to be part of the EU’s ENP, and presently has set to pursue a region-building strategy of its own.

1.2 From the start Russia has intended hegemonic region-building policies towards the eastern neighbourhood, while carefully observing EU actions in the region

Following the dissolution of the USSR, and the subsequent inter-state integration tendencies, especially in economic and humanitarian fields, in 2007 Russia, Belarus and Kazakhstan, at the latter’s initiative, inaugurated the Eurasian Customs Union (ECU), an (alternative) Russian-led, region-building project in the post-Soviet space (Eurasian Economic Commission 2013). The construction of the ECU and the forthcoming Economic Union (EEU) allegedly emulates the EU’s supranational structures (Karlyuk 2012) and has considerably moved apace from signing the initial treaty on the ECU Commission and Common Territory (2007), to establishing the ECU in 2011 and the new Eurasian Economic Commission in 2011, and a single economic space (SES) in 2012. The launch of the EEU is anticipated in 2015, with further expansion of its membership to prospectively include Armenia, Kyrgyzstan, Tajikistan, Turkey and Iran. Noting this fast-flowing regional integration, Vladimir Putin commented:

‘It took Europe 40 years to move from the European Coal and Steel Community to the full European Union. The establishment of the Customs Union and the Common Economic Space is proceeding at a much faster pace because we could draw on the experience of the EU and other regional associations. We see their strengths and weaknesses. And this is our obvious

\textsuperscript{10} From the author’s interviews with Commission officials in 2012
advantage since it means we are in a position to avoid mistakes and unnecessary bureaucratic superstructures’. 11

The key features of this alternative regional integration project include market harmonisation,12 and interest-driven multilateral partnerships often led by Russia, with the consentment of other signatories. Since its launch this regional project has not received adequate international recognition. At the same time, as Dragneva and Wolczuk contend, ‘unlike previous integration regimes, the ECU and SES provision have developed alongside Russia’s accession to the WTO in 2012, ... in future agreements to comply with the WTO regime, even in the case of non-WTO members, and for WTO law to prevail over any conflicting ECU provision’ (2014).

Russia’s special interests in fostering closer cooperation with its ‘near abroad’ have been de jure stipulated in its foreign policy strategies of 1993 and 1998, and reinforced further by pre-existing and increasing cooperation across the region. Hence, the AAs’ signature by Ukraine, Moldova and Georgia, presuming closer political, economic and legal integration with the EU, has led to adverse reaction by Russia, resulting in politicisation of two competing but not yet conflicting or incompatible region-building projects in the neighbourhood.

1.3 De facto regional competition: ‘shared’, ‘common’ or ‘no-man’s land’ neighbourhood?

The EaP and ECU region-building projects, by their design and objectives, do not seem dissimilar in their rhetorical projections by both the EU and Russia. At the same time the process of their realisation points to an enduring practice of tacit competition between the projects and recently articulated incompatibility of their respective economic components. This sense of rivalry between the two regional powers in the neighbourhood has been registered by public opinion13 as ‘ alarming’ and unconducive to the future sustainability of the region, and which, as the latest events in Ukraine illustrate, leads to the long-term instability and conflict in the neighbourhood, as well as the disruption of global order.

What are the seeming commonalities and differences between the projects, and could they co-exist?

First, both projects effectively target an overlapping zone of interest – the eastern neighbourhood – which, however, is framed in somewhat conflicting terms by the EU and Russia. In particular, the former refers to the region as ‘shared neighbourhood’, de facto extending the EU governance bias towards the region. Conversely, Russia, from the early 2000s has been methodically depicting the region as ‘common’ rather than ‘shared’, with


12 This is different to the EU’s unilateral convergence requirements for DCFTAs, but similar to the EU’s modus operandi with Switzerland, Canada, Norway etc. based on the conformity assessment principles. See http://ec.europa.eu/taxation_customs/customs/policy_issues/customs_security/aeo/mutual_recognition_agreement/index_en.htm

13 Opinion polls were conducted by the author in Belarus in 2013 and Moldova in 2014; findings have been corroborated by other survey sources. For more information visit http://www.kent.ac.uk/politics/gec/research/index.html
subtle but crucial difference which invokes an alternative meaning – of a no-man’s land – for the same region (Shishkina 2013). More importantly, these terms of reference have been significantly politicised in the Russian media adversely affecting perceptions as well as prospects for future cooperation across the region.

Second, both the EU and Russia claim to have an overlapping ‘grand vision’ for the region, especially in terms of their prospective inter-regional economic cooperation. The Commission, for example, contends: ‘Our vision is that these agreements should contribute in the long term to the eventual creation of a common economic space from Lisbon to Vladivostok, based on the WTO rules’ (Füle, 2013). In a similar manner, at the inception of the project Vladimir Putin, the then Prime Minister, insisted that ‘we suggest a powerful supranational association capable of becoming one of the poles in the modern world and serving as an efficient bridge between Europe and the dynamic Asia-Pacific region’.

Alongside other key players and regional structures, such as the European Union, the United States, China and APEC, the Eurasian Union will help ensure global sustainable development’ (2011). This overlapping ‘grand rhetoric’ of the EU and Russia, however, falls short when comes to its implementation, resembling more a tug-of-war than partnership for regional modernisation. While the EU demands convergence with its _acquis_, which is claimed to be incompatible with the ECU standards; Russia conversely, although envisaging a prospective application of the WTO rules to the ECU/EEU, operates more through compulsion and dependency arguments bearing the mark of the Soviet times.

Finally, both the EU and Russia clearly recognise each other’s presence and interests in the region, often stipulated in their respective official discourses. At the same time, in this acknowledgement of interests, they fail to understand, let alone to facilitate the need for interface and dialogue over and with the region. Instead, they continue their advancement of overlapping but disjoined projects in the region, which in 2013, owing to their highly politicised focus on economic integration (see section 2 for illustration), led to the eruption of conflict in Ukraine. While recognising the region’s historical complexity, the EU efforts in particular fall short of discernment and resemble more of an ‘ostrich’ approach in a blinkered pursuit of its technocratic governance. Even in 2013, in the midst of the emerging tensions in the wider region, the EU approach remained unaltered: while negotiating the divisive AA/DCFTA with Ukraine, the EU also had separate talks with Russia on a ‘new’ PCA agreement, to belatedly consider ‘provisions for greater convergence of the regulatory framework between the EU and Russia’, which however did not aim to defuse regional tensions caused by the alleged ‘incompatibility’ of the two economic projects, but rather ‘to generate stability and predictability for both Russian and EU companies’ (Füle 2013). The decision to finally triangulate the EU and Russia’s intensions with Ukraine came rather late in 2014, as a consequence of war and the negotiated ceasefire in Ukraine whereby the DCFTA implementation by the latter was agreed to be delayed by six months, on Russia’s demands (Council 2014). Furthermore the Commission has also proposed to establish official contacts with the Eurasian Union to start negotiations on harmonisation of respective FTAs between

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The battle of discourses: from competition to conflict

This section offers an illustration of how inflammable the unresolved discourses of competing and allegedly incompatible regional projects are; and how easily they can shift from their politicisation to the level of securitisation and war. The reverse process, that the region presently requires, is far more difficult to ensure.

**Interpretation of the 2013-14 tensions in the eastern region:**

Rhetorical pronouncements of major players could de facto form real action, which may disrupt or reinforce stability. Consequently, and precisely through utterance, by declaring essential aspects of their respective regional projects (trade agreements – DCFTA and ECU codes) incompatible, the relations between the EU and Russia immediately became politicised. This was initiated with the EU’s moderate but miscalculated campaign to accelerate or arguably compel Ukraine to a decision over the AA at the then forthcoming EaP summit in the autumn 2013: ‘It is crucial to define a vision for the coexistence and mutual enrichment of the regional projects as not to end up with two different sets of rules in the European Union economic space and in the Customs Union’ (Füle 2013). Russia’s authorities followed suit immediately by impressing the alternative choice on Presidents Yanukovich of Ukraine and Sargsyan of Armenia.16

The EU’s politicisation campaign intensified in the autumn 2013 responding to Russia’s growing pressure on the neighbourhood. Two regional projects were declared fully dichotomous and the expression of ‘choice’ and ‘allegiances’ was required from partner countries.

The consequences have been debilitating for the region and the status-quo of global order. While Ukraine refused to sign a deal with the EU at the Vilnius summit, it lost control over its own population, resulting in the Euromaidan protests and the ousting of President Yanukovich. From that moment, EU-Russia relations became fully securitised, following Russia’s invasion and annexation of Crimea, and its continued threat of intervention into eastern Ukraine. Securitisation also left the EU and the international system incapacitated. While drafting NATO troops to Ukraine’s western borders, with Russian troops stationed on high alert on Ukraine’s eastern border, the global actors lost control over a common strategy vis-à-vis Russia. Several months after Russia’s annexation of Crimea, highly securitised discourse between the EU and Russia continues to dominate the EaP landscape, while the region desperately awaits its diffusion and reconciliation.

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In light of the above developments, one would question the grand vision of the EU and Russia vis-à-vis their respective regional projects in the neighbourhood. Two particular manifestations become apparent.

First, in their Self-centred projections, both the EU and Russia have explicitly disregarded each other’s rationalities over the contested region. In particular, the EU focused on the default assumption that the exposure of Ukraine and others to the future benefits of the EU, and the promise of a ‘well-governed ring of friends’ (centred on the EU) would enable recipients to unequivocally legitimise the European course. This was clearly an error of judgement, not only in terms of the timing to harvest allegiances, but also, more essentially, in failing to factor Russia into the EU’s expansionist normative *modus operandi*.

Second, and most significantly, both powers evidently failed to understand the region itself and its historical urge for complementary rather than dichotomous relations with the wider Europe. As the following research findings\(^\text{17}\) indicate both powers yield similarly appealing offers in the eastern neighbourhood, which, instead of mobilising binary loyalties, foster an ambivalence of choice for the peoples in the region: in 2013/14 a healthy plurality (40 per cent on average) of the polled respondents across Belarus and Moldova indicated attractiveness of both regional projects. Furthermore, a temporal cross-regional comparison\(^\text{18}\) reveals that both powers appeal to the residents of the region, in their own, complementary way: while the EEU is seen as important for energy security and trade; the EaP and the EU have stronger clout in promoting functional government and effective sector-specific cooperation. Enforcing a dichotomous choice on the region, not yet ready for making these commitments through their internalised norms of behaviour, testifies to the profound lack of understanding the ‘Other’ – the partner countries – including their needs and aspirations. The error of judgement by the EU and the loss of control by Russia are, in an equal measure, the causalities of the decision-making process which occurred in the vacuum of correlated knowledge, resulting in unnecessary politicisation and subsequent securitisation of the contestable narratives, as the case of Ukraine has lately demonstrated.

The bigger question here, however, is whether and how the EU and Russia’s discourses could be defused and de-securitised in their rhetorical furnishings, to return to a zone of peaceful coexistence. As our comparative research findings indicate, the normative framing of discourses continues to conflict in a profound way but they are not necessarily insurmountable. Both powers profess and are associated with differing sets of values which in turn support and engineer different behavioural patterns and expectations. Notably, the EU is clearly identified as a liberal democratic model, premised on the values of democracy, human rights, market economic, and the lack of corruption; and the spatial analysis of 2009 and 2014 public associations indicated a relative endurance of this model in people’s mindsets’. At the same time, the ECU and Russia, in the respondents’ eyes, offer a mix of qualities, a hybrid case, which could be referred to as a social democratic model, but which could potentially approximate the EU especially along the values of market economy, stability, economic prosperity, and security, and at the same time retain its cultural

\(^{17}\) For more details see the 2013-14 research results available at: [http://www.kent.ac.uk/politics/gec/research/index.html](http://www.kent.ac.uk/politics/gec/research/index.html)

uniqueness. The 2014 findings indicate there is more proximity in these values than was publicly purported in the earlier days of the EaP, five years ago, which could avail some prospects for economic cooperation as optimal space if mutually agreed rules were to be considered.

Towards ‘depoliticisation’ of discourses in EU-Russia relations over the neighbourhood

In light of the above discussion, the following conclusion becomes apparent. The framing of political narratives (including ‘planting the flag’ over the region) is a sensitive matter, which requires sound analytical grounding and further contextualisation. Transmission of narratives, as has been illustrated on Ukraine, could be either disruptive or peace-making, paving the way either towards ‘frozen’ conflicts or conversely, to prospective normalisation and cooperation. It remains to be seen how the new negotiations over respective regional FTAs will proceed in defusing tensions between the EU and Russia over and across the region. At least, what could be ensured for now, as the new Commission being installed, is the needed focus on framing new discourses and a search for new forums to foster mutual cooperation, where the compatibility of both economic projects would be firmly on the agenda.

Three recommendations may be particularly note-worthy to define the future course of action:

First, a study of the EU modus operandi in the areas of mutual recognition and market harmonisation and its possible extension to the Eurasian Economic Union, in recognition of its regional presence, would be timely and advisable. The EU has developed an extensive experience of operating Mutual Recognition Agreements (MRAs) across its own territory and with third countries, which aim to benefit businesses by providing easier access to conformity assessment regulated by independent and mutually appointed bodies (CABs). Discussing the potential MRAs applications with the EaP and EEU members would assure reciprocation and recognition of regional geopolitical sensitivity for individual parties. Furthermore the EU should also draw lessons from its ongoing negotiations with Kazakhstan, an ECU member, on developing a new PCA.

Second, a study which does not only explain the benefits of the DCFTAs but also those of the EEU membership, and more importantly, that explores the pathways towards developing more synergies and prospective cooperation between the respective unions, would enable third parties to rationalise their own choice and articulate commitment to the project(s) as necessary.

Finally, a more discerning approach to the EaP partner countries is required from the EU, to understand their needs and prospective difficulties, and to send the right signal to the eastern neighbourhood, which seeks complementarity rather competition between

19 From the author’s informal discussions with new members of Commissioner Hahn’s cabinet


respective regional projects. Rather than competition, there has to be cooperation between these projects, if the ‘grand vision’ of the greater neighbours – for a pan-European single market, premised on the WTO rules – were to be achieved.

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21 October 2014

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His Excellency Andrii Kuzmenko and Professor Sergei Guriev—Oral evidence (QQ 67-86)

Evidence Session No. 5  Heard in Public  Questions 67 - 86

THURSDAY 16 OCTOBER 2014

Members present
Lord Tugendhat (Chairman)
Baroness Billingham
Baroness Bonham-Carter of Yarnbury
Baroness Coussins
Lord Foulkes of Cumnock
Baroness Henig
Lord Jopling
Lord Maclennan of Rogart
Lord Radice
Earl of Sandwich
Lord Trimble
Baroness Young of Hornsey

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Examination of Witness

Ambassador Andrii Kuzmenko, Ukrainian Acting Ambassador to the UK

Q67  The Chairman: Ambassador, thank you very much for coming before this Committee. It is very good of you to do so. We are very interested in what you have to say as the representative of the Ukrainian Government in London. As I think you appreciate, this is a formal, on-the-record evidence session. We will ask you questions, and if you feel at the end of this session that we have not covered everything or that on reflection there are further points you wish to make, please submit written evidence. If we feel that we have not reached the end of the road, as it were, we may also ask you for written evidence. If, as our inquiry progresses and you read the evidence of other people, you feel that you would like to comment on what other people say, we look forward to hearing from you.
As we agreed before you came in, I will kick off with the first question, and if you then turn it into a statement, that is fine. Could I please ask you first of all to update the Committee on recent events in eastern Ukraine and what you think the next steps are to resolve the conflict? What, in your view, is President Putin’s strategic plan for Ukraine? You are not his spokesman, but I am sure that you have a view on what President Putin is hoping to achieve. On that basis, what do you think the proper relationship should be between the two sides, Ukraine on the one hand and Russia on the other? Over to you.

**Ambassador Andrii Kuzmenko:** My Lords, I am really honoured to be here today. This is a great event and I hope that the information you will receive will be relevant and instrumental for you in your work. A very brief background, if I may. After the Revolution of Dignity, we had the annexation of Crimea by the Russians. Afterwards, in just weeks the turbulent events started in the eastern part of Ukraine, namely in the Donetsk and Lugansk regions, inspired, fed, paid and equipped by the Russians. We unfortunately failed to solve the issue by political means since the opposite side was acting under conditions of hybrid war, with the methods of a terrorist organisation equipped with modern armaments received from the Russian Federation.

We started the military counteraction and we were quite successful in liberating our territory from the occupiers—from the Russian mercenaries and the Russian military specialists, let us say—until the end of August, when, understanding that Ukraine would soon be very successful and would clean up the territories, the Russians sent their regular troops. It was the feet of Russian soldiers directly on Ukrainian territory. That was proved by the international organisations—by NATO, by the EU, by the OSCE—by the means of monitoring.

At that stage, we decided to find a solution by diplomatic means. The negotiations of the so-called contact group were held in Minsk in Belarus. We actually met more than once in this group. Two documents were signed—the Minsk agreement and the Minsk protocol—with a huge set of political and military measures based upon the peaceful plan of President Poroshenko. It was done to avoid casualties among civilians; to avoid further destruction and devastation of the infrastructure of the territory, which is outside Ukrainian control now, unfortunately; and to help start a peaceful settlement under democratic, transparent European procedures in the territory of the occupied regions.

I would like to say immediately that Putin’s proposed term “Novorossiya”, or “New Russia”, which was waved on the slogans, has nothing to do with the reality, since the occupied territories are not even the full Lugansk and Donetsk oblasts: they are just a small part of these territories—up to 3% of the Ukrainian national territory. That is why all their attempts to show this as the failure of the Ukrainian state are nothing but propaganda, since we have successfully stopped the Russian military machine, the terrorists and the Russian mercenaries. This is the main result of what we have now.

Later on I will tell you in detail about the Minsk agreement and the state of play, since this is the key element in the peaceful settlement, but I will just respond to your direct question: what are the next steps? Today and tomorrow there will be meetings in Milan. The President of Ukraine, Mr Poroshenko, will meet world leaders and there will be a multilateral meeting with Mr Putin under the presidency of Italian Prime Minister Renzi. We Ukrainians are using each and every possibility for making dialogue with the Russians. Unfortunately, the promises we received are far from being implemented. In recent days, there was
information that the Russians had started the withdrawal of their troops from the territories adjacent to the Ukrainian border and from Ukrainian territory itself. Unfortunately, under the official NATO statement of General Bradshaw, we could not confirm finally whether this was a withdrawal or a rotation of their people.

As far as Mr Putin is concerned, it is very difficult to understand what this leader of this big country had in mind thinking about the annexation of Ukrainian territory and the direct military aggression. We have not formally declared war, but under the assessment of the Russian non-governmental organisation Cargo 200—this is the military nickname that is used for military victims—up to 4,000 military personnel on the Russian side have been killed in military action in the territory of Ukraine. This country is doing its best to hide this information from society by way of secret funerals and the prosecution of people who are trying to tell the truth about it, including the beating of the British correspondent from the BBC who was trying to make a documentary about it. Crimea was definitely only a small part of the big plan. Apparently, although we cannot guarantee it, Mr Putin’s best idea and intention—and this was proved later more than once by the statements by his narrow circle—was to reincarnate the Russian empire at least as the border of the former Soviet Union. For that reason Ukraine is definitely something the Kremlin needed. Even in terms of logistics it was necessary after the Crimean annexation if not to take all the territory of Ukraine then to have a ground corridor to that, with further probable plans for Transnistria and entrance to certain Balkan country territories. This is the perception, the understanding and the result of the analysis of the logic of the events we see.

Now, as I said, the Ukrainian army and Ukrainian volunteers have stopped this military machine and 70% of the territory of Donetsk and Lugansk oblasts are free: just 30% of the territories are under their control.

**The Chairman:** Ambassador, I am getting a little worried, because there are lots of other questions.

**Ambassador Andrii Kuzmenko:** Yes. Sorry.

**Q68 Lord Macleannan of Rogart:** Thank you, Ambassador. The lead-up to the crisis in Ukraine and Crimea has provoked a letter, published in the Financial Times, from the ambassador of Russia to the United Kingdom, Dr Yakovenko, suggesting that they object in the first place to “the secretive method of the EU in dealing with Ukraine”. Could you give us some indication of what steps might have been taken by the EU that could have helped to ease that tension? When did the Russians raise their concerns about the Association Agreement? Do you think that relations during the period of negotiation on the Association Agreement could have been better handled?

**Ambassador Andrii Kuzmenko:** Thank you for your question. First of all, it is an absolutely disgusting statement that we were making our business with the EU in secret. Everything was open for the public, for all the countries; all the results and all the reports were in the media. It was the decision of a sovereign state to isolate, to be a part of Europe and to choose a European future. No one country, no one leader, has the right to stop or to neglect that decision taken in a democratic way.

The first concerns from the Russian side started when they realised that the signing of the Association Agreement was real. The summit in Vilnius was the expected and planned date for the signing of that document, but a lot was done to prevent Ukraine from signing before
the tragic event that we were talking about and that we will be talking about later on. There were a number of different “wars”—a customs war, a gas war, a milk war, a meat war, cheese war, a chocolate war—and the Russians started against Ukraine with the solemn purpose of pursuing us to postpone and then refuse European integration. During the time of Mr Yanukovych, they succeeded in principle at the administrative and the governmental level, since the nation was not in agreement. That was the reason for the protests, since no one could deprive the nation of its sovereign choice.

What further steps have we taken? We have ratified the Association Agreement. Up to half a dozen European nations have already also ratified this document, in spite of the enormous pressure of the Russians. We and the European Union clearly stated that the text of the Association Agreement will not be changed, since this document is already signed. Some of the states have ratified it, and this is the sovereign will of Ukraine on the one hand and the European Union countries on the other. For Ukraine, the Association Agreement is a road map of reforms. Despite this difficult time of war, we are very keen on its implementation and we are doing our best to adopt legislation, make economic reforms and fight corruption. The scope of obligations in this agreement is equal somehow to those that were set forth in the agreements for future membership of certain countries in the Baltic region and central Europe at the beginning of the 2000s. For us it is important, and we will go on this way.

**Q69  Lord Jopling:** Ambassador, a good deal of negotiation goes on through the trilateral process. I wondered, to begin with, whether you would just like to tell us briefly how satisfied you are with the trilateral process. Do you think it is legitimate? Do you think it is a good way of dealing with the problems? Having said that, the implementation of the Deep and Comprehensive Free Trade Agreement has been postponed, as you will know, until December of next year. Do you think that is sensible? President Barroso—and I quote some of his words, if I can find them—has said that further consultations would be sensible to address concerns raised by Russia as to the “perceived negative impacts on the Russian economy” of the DCFTA. Do you think there is ground there? Do you think it might be possible to make progress by trying to address negative impacts on the Russian economy?

**Ambassador Andrii Kuzmenko:** My Lord, thank you very much for your question. First of all, we are ready to address all the concerns of the Russian neighbours. We are listening to them and we are trying to do our best to provide them with full information. The trilateral process is a very good instrument to explain to the Russians that the majority of their negative expectations, worries and concerns about the Association Agreement are groundless. Moreover, Russia will receive a lot of positives when Ukraine starts the full-scale implementation of the Association Agreement, including the FTA, since it will be the precondition for deepening ties between the Russian economy and the economy of the European Union with the use of Ukrainian partners, Ukrainian possibilities and the traditional ties that we have.

With regard to the decision to postpone the FTA, the Russians are reluctant to hear us and still pose their concerns, but that was the compromise reached in the trilateral format in deep consultations with the European side also, and we understand that these should calm them down. It was a compromise, unfortunately. We are living where we are. However, one more time, all the negative expectations of the Russians, which mainly have a propaganda nature, are groundless. The EU economy is much stronger than the economy of
Ukraine and the ties of the Russian economy with the united economy of the European Union will be nothing but beneficial, first of all, for the Russian side. It is obvious.

Lord Jopling: You say that the Russian concerns are “groundless”—that was the phrase you used—but Barroso has suggested that it would be useful to try to find ways of dealing with the Russians’ perceived negative impacts. Do you think that is a sensible approach?

Ambassador Andrii Kuzmenko: First of all, to my knowledge at least, we have not received the full picture of possible negative impact to the Russian economy. There are a lot of slogans and a lot of speculation on that issue. This is our part of the deal: to explain, to provide them with the information, and, as in the case of the DCFTA, even to make certain compromises. The soonest entering into force of the Association Agreement, including the DCFTA, will be just for the benefit of all the countries of the continent, including Russia.

Lord Jopling: However, you say that you have not yet received the Russian concerns. If you have not received them, surely when you do it is worth seeing what can be done to alleviate them.

Ambassador Andrii Kuzmenko: My Lord, we have this trilateral mechanism. The consultations are under way. That mechanism is a platform to meet those concerns—to explain to the Russians the grounds of our actions and the groundlessness of their concern. Moreover, it is our sovereign right to choose the way of our further development, and it is the obligation of a European country to keep a tie with all its partners and to try to do its best in economic terms.

Q70 Baroness Coussins: Good morning. What retaliatory steps has Russia taken against the Ukraine economy? Could you describe those? Also, could you say what your assessment is of the Commission’s efforts to hold Russia to WTO commitments through the dispute-settlement process? Do you think that these efforts are likely to change Russian behaviour at all?

Ambassador Andrii Kuzmenko: Thank you for your question. I will start with probably the easiest and shortest part. The Commission’s efforts at WTO dispute settlement are useful as part of wider long-term comprehensive measures. These measures will certainly bring results in a couple of years, but we should understand that we need results right now. The history of the economic trade war is a very long one, and this continues, which is most sensible for us. We have had our gas supply from Russia cut off. This is very big trouble for an economy that historically and traditionally depended 100% on Russian gas and the Russian energy supply. Meanwhile, we continue to pump the gas for European suppliers and customers, and we are doing that reliably on a daily basis despite the fact that we are deprived of the use of that gas.

In other economic measures, there is a long list of sanctions targeted against Ukrainian goods—Ukrainian agriculture goods first of all, which are a traditional component of the Russian food market. We are seeking other markets and other customers for our goods, and in principle we have succeeded in changing the balance and in finding alternative markets for them.

Q71 Lord Trimble: I want to turn to the question of Crimea and the plans for settlement of Crimea’s political status. Do you think that the EU’s policy maintaining the principle of non-recognition is sustainable? How do you think this issue can be handled?
Ambassador Andrii Kuzmenko: My Lord, thank you for your question. For us and for the European states, the political status of Crimea is settled. This is a temporarily occupied territory of Ukraine. The Russian annexation of Crimea is not recognised and we strongly believe that it will never be recognised. We are grateful to the United Kingdom, the European Union and our partners and friends for their consistent and constructive support of Ukraine in this issue, but we should also think about the population of the Crimean peninsula, since the annexation brought to the territory a lot of controversial and messy—if I may say—processes and events. First of all, this territory has started to face massive human rights violations based on the violation of the national rights of the Crimean Tatars and Ukrainians living there. In fact, the Ukrainian language is mainly prohibited there, despite the political declarations that it will be the sole language. We are witnessing fires of Ukrainian books in the courtyards of schools. We are witnessing the banning of Crimean Tatars’ national or political body, the Mejlis. We are witnessing the kidnapping and even killing of Crimean Tatars, a nation that supports Ukraine and did not recognise the occupation. Meanwhile, winter is coming, but Crimea has no other electricity supplies except from the Ukrainian territory. It receives 75% of its electricity and 75% to 80% of its gas from Ukraine, as well as food. Traditionally Ukraine was the region’s breadbasket. Now the shelves at the shops are semi-empty. There is no variety of goods, just basic ones. Ukraine still supplies gas and water, which is more important, to Crimea, including natural gas, despite the shortage that we have, since we know that our people are living there and that sooner or later Crimea will be back to Ukraine.

The Chairman: You are continuing to supply it, are you?

Ambassador Andrii Kuzmenko: We are continuing to supply.

The Chairman: In what currency are you paid?

Ambassador Andrii Kuzmenko: There is not much information about the payments. It is difficult to say whether the obligations for payment of those gas, electricity and water bills are fulfilled. To my knowledge—I would like to emphasise “to my knowledge”—they are not up to date in paying and there are big arrears. However, that is to my knowledge.

The Chairman: You are continuing to supply gas and electricity.

Ambassador Andrii Kuzmenko: We are continuing to supply.

The Chairman: And the Russians are continuing to supply—

Ambassador Andrii Kuzmenko: The Russians have no technical means to supply.

The Chairman: No, but the Russians are continuing to supply gas to Ukraine.

Ambassador Andrii Kuzmenko: No.

The Chairman: Have the Russians cut off gas?

Ambassador Andrii Kuzmenko: As I said previously, the Russians cut off the gas supply to Ukraine in April or May. We are living on our own resources and we are living with the gas received from some European countries. Despite that, we still supply Crimea and we still supply Donetsk and Lugansk—territories that are outside our control—and, of course, they pay nothing.
Lord Trimble: With regard to those supplies to Donetsk, Lugansk and Crimea, are you still supplying at the same level as before these incidents occurred, or is the supply going at a lower level?

Ambassador Andrii Kuzmenko: It is difficult for me to respond on this issue. The level of supply is probably smaller, since a lot of enterprises, especially in the Donetsk and Lugansk regions, are stopped right now, but the population has gas, water and electricity—at least where the respective infrastructure objects have not been destroyed.

The Chairman: Are you still able to pursue the development of your onshore and offshore shale gas fields, or is the occupation of the Crimea putting a stop to that?

Ambassador Andrii Kuzmenko: My Lord, thank you for your question. We are still working in the western part of Ukraine on the deposits of shale gas. In the eastern part of Ukraine, by coincidence probably, the territories with deposits of shale gas were the very centre of the terrorist uprising, if I may say, but we did not cancel our plans. We are expecting a peaceful solution for the region and we hope it will continue later on.

Q72 Lord Foulkes of Cumnock: It is nice to see you, Ambassador. Imagine yourself sitting in Moscow rather than Kiev and looking from a Russian point of view. You have lost the Soviet Union. You see the former satellite countries joining the European Union. Then you see the European Union creeping further forward and taking in countries—or wanting to take in countries—that were part of the Soviet Union itself. You can see why they get nervous about their influence. Do you think that the European Union might review its Neighbourhood Policy—our Eastern Partnership programme? I keep asking this: do you think we should say, “Where is the eastern boundary of Europe?” We have not defined it and there is an assumption that we can keep going on and on expanding into what I would think is Asia rather than Europe—at least, it is certainly not Europe. Maybe as far as Ukraine, Moldova and Georgia are concerned there could be joint collaborative arrangements between the European Union and Russia so that they are not part of Russia’s influence or our influence but we have a joint concern for them. Should we not review that in some way?

Ambassador Andrii Kuzmenko: Thank you for your question, my Lord. It is difficult to imagine that I am in Moscow, but coming back to the European Neighbourhood Policy, this is a rather powerful instrument, which helped to conclude the Association Agreements with Ukraine, Georgia and Moldova. This is the historical achievement; it proved its efficiency. It could also be a good framework for countries such as Belarus and Azerbaijan for their proximity to Europe. Of course, we—Ukraine—and other countries, like Moldova and Georgia, that have already signed Association Agreements are not a backyard of Russia, and we have our own sovereign rights. This is the issue to be solved and to be decided by the EU.

We would like to emphasise one more time that all their concerns, especially about the move of NATO towards Ukraine, are groundless. In fact, since 2010, Ukraine’s non-bloc and neutral status has been fixed at legislative level. Now we feel growing and stronger sentiments towards collective systems of defence, but this is not, of course, the Tashkent treaty.

Where is the border? For us it is clear enough that Ukraine is covered by the border of Europe. We are a European nation; we have a European destiny and a European future.
Lord Foulkes of Cumnock: I know it is difficult for you to put yourself in the shoes of a Russian, but can you see why they might be concerned that the influence of the European Union is extending? Maybe after Ukraine there would be ambitions to involve as members other countries further east, and that might be worrying them also.

Ambassador Andrii Kuzmenko: Now I will respond to your question about what I think should be done if I were in the Kremlin. All these worries and all these problems have arisen in Russia due to the economic and political weakness of that country. Now we are facing $82 per barrel of Brent oil, which is a terrible fall-down for the Russian economy. If I were in the Kremlin, I would concentrate my attempts on modernising the economy, on the growth and modernisation of democratic institutions, and on civil society as a guarantor. All of Europe is leading; some countries are in the European Union, some countries are in NATO, and they do not have concerns since they have strong economies, strong democratic societies, and strong institutions and civil society. Probably the reason for everything was just the lack of modern understanding of the processes in the world, and the decision to act in the 21st century with the instruments not even of the 20th century but the 19th century.

Q73 Baroness Henig: Good morning, Ambassador. Can I shift the focus slightly toward the Eurasian Economic Union and ask what, in Kiev’s view, would be the best way for the members of the EU to structure a relationship between the EU and the Eurasian Economic Union? I take your point that you are not Russia’s backyard; you are in a way a hinge between these two great arrangements. I wonder, therefore, how you would see this developing.

Ambassador Andrii Kuzmenko: Coming back to this Eurasian Union problem, this is the geopolitical project of President Putin. As a matter of fact, the relations within this Eurasian Union are the relations of one huge country supporting its smaller dependent countries in the interest of the big one. How do we develop relations between the EU and the Eurasian Union? In fact, it will be the relations between Russia and the EU mainly. It will not be the best idea to develop these relations against the situation that we have in Ukraine—and not only in Ukraine, given the tribalisation still in the territories of frozen conflicts where the Russians are trying to exert influence.

The Chairman: In the light of your answers to Lord Foulkes and Baroness Henig, could I ask you: does Ukraine have an ambition to join NATO?

Ambassador Andrii Kuzmenko: The Government have submitted to the Verkhovna Rada—to Parliament—a draft bill to annul the previous decision on non-bloc and neutral status. It is rather premature to speak about Ukrainian membership of NATO. We are close partners to the organisation and the only non-allied country taking part in all the missions of the alliance. Meanwhile, the sentiment among the Ukrainian population is growing, and some reliable polls already have demonstrated that up to 52% are in favour of joining NATO in the future; 34% are against, which is rather big; and the rest have not decided yet. But at this very moment, we are not pushing the issue of membership. It should be the decision of the nation, and at this moment it is premature to take it.

Lord Jopling: Ambassador, you might just like to reconsider the comment you made a moment ago. You were saying that Ukraine was the only non-aligned country that takes part in NATO activities.
**Ambassador Andrii Kuzmenko:** In all NATO activities. We have been involved in all the missions, including in Afghanistan.

**Lord Jopling:** I missed the word “all”. There are certainly others.

**Q74 Earl of Sandwich:** Mr Kuzmenko, coming back to Lord Foulkes’ question to some extent, you will be aware that the Commission is about to appoint a new Commissioner for enlargement. In fact, this has now been confirmed. At the same time, there is a new policy from the President that we will not be having an enlargement policy. There is some contradiction in my mind about that. I would very much appreciate your view from the Ukraine point of view on what is the likely scenario in the European Union if we are moving back to consolidation instead of enlargement. This may have consequences for the association agreement itself and further delay the whole enterprise.

**Ambassador Andrii Kuzmenko:** First of all, the decision to move to consolidation versus enlargement falls within the direct responsibility of Brussels, and it is difficult for countries seeking association to command that. However, as in the case of NATO, we are not pushing for membership now. We have signed and are keen to implement the Association Agreement. The fundamental project and programme for the reforms is a very important tool in the modernisation of Ukraine, and when the so-called criteria are reached there, we will probably bring up the issue of our possible membership. In fact, Mr Poroshenko, the President of Ukraine, stated that we should be ready economically, politically and democratically to submit the application for membership for the year 2020, but before that we will concentrate our efforts on modernising all the areas of our life. This is on the way. Despite the military conflict in certain territories of the Donetsk and Lugansk regions, we are very active in modernising the Ukrainian legislation. For example, just two days ago we passed a law on prosecution. This is a very long-standing issue, which the two previous Presidents failed to solve. We have adopted the package of anti-corruption law. It is very important for Ukrainian society. We have also adopted a long list of documents regarding the democratisation of our society. Among those is a law on lustration, which also helps us to clean up the Government and local authorities from the corrupted people who collaborated with the previous authorities to harm Ukraine.

**Q75 Baroness Young of Hornsey:** Ambassador, witnesses have told us that the EU should continue to engage with Russia. I am wondering what, from your point of view, the nature of that engagement should be. In what ways should the EU and member states engage with Russia? Do you think there needs to be a cooling-off period, given the recent turmoil? Do you think there are areas where the EU and Russia can have a really constructive dialogue?

**Ambassador Andrii Kuzmenko:** Dialogue is always better than countermeasures, but dialogue is possible only where the two sides are hearing the arguments and are trying to stick to the proposals and implement them. For the moment, vis-à-vis this situation in Ukraine, I think the best stance for the EU is a hard position vis-à-vis Russia—to continue the sanctions against Russia, which were not the kind of the remedy that we were happy to see. This was the means to stop the aggression against the Ukrainian territory. Now we see that these sanctions have started to work. They have had a calming effect on the Russian leadership, and it is probably not by chance that in the next few days we will have a meeting with Mr Putin in this format with the heads of the key EU states. This is probably the best way to deal with it. You, the European Union, should not, of course, leave Ukraine to deal
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with Russia alone. We need your economic and financial support, and we need your technical military support, which is very important for us since we are fighting not just for the territorial integrity or sovereignty of Ukraine but for the European values that we are adhering to. We are the only European country that has paid such a price just for its declared decision to become a future European state.

**Baroness Young of Hornsey:** You were saying that the sanctions are beginning to bite—to have an impact.

**Ambassador Andrii Kuzmenko:** Yes, they are.

**Baroness Young of Hornsey:** Do you not think there should be some form of dialogue that, as you say, requires all sides to participate? Do you not think there should be something alongside that? What should the nature of that be? What happens post-sanctions?

**Ambassador Andrii Kuzmenko:** It is very simple. In the negotiations with Russia about sanctions and tough economic and political co-operation, in our opinion the criteria have to be the full withdrawal of Russian troops from Ukrainian territory—including Crimea, which is Ukrainian—and the restoration of the previously existing order: restitutio in integrum, let us say. We will be ready and eager to co-operate with a friendly neighbouring country if that is the case, but the preconditions for that should be the restoration of the territorial integrity of Ukraine, the total withdrawal of troops, and the end of its aggressive policy based upon imperialistic desires to create a new empire.

**Q76 Lord Radice:** We have been talking about your relationship with Russia. Do you still consider that the 1994 Budapest Memorandum, which was signed by Russia, Britain, the US and Ukraine, whereby, as you will remember, Ukraine gave up its nuclear weapons and in return the signatories agreed to respect the independence and sovereignty of the existing borders of Ukraine, still holds? Do you still believe in that agreement?

**Ambassador Andrii Kuzmenko:** We still consider this agreement to be valid. Besides, Russia has direct obligations under it, and we are waiting for it to implement them. Meanwhile, we are interested in upgrading this document, since it is mainly of a political nature. It was a declaration rather than a legally binding document. That was probably the reality of the time it was signed, but this document is valid. This is a ground for negotiations and the framework for a respective platform of assistance to Ukraine.

If I may, I will say just a few words about the peaceful plans of President Poroshenko and the situation in Donetsk and Lugansk oblasts. It will be a very brief few words. The Minsk protocol and Minsk agreement were signed, and they provided for a ceasefire that is, in fact, unilateral. During this ceasefire, we have lost up to 60 of our men and officers from the more than 1,300 cases of artillery, gun, mortar and rocket fire that we have witnessed. One of the separatist leaders was brave enough to praise this ceasefire since during it they took 33 Ukrainian small towns and villages. Those are the words of that separatist leader. Among the conditions of the ceasefire and the political settlement was control of the border, which is not the reality for the moment; it is outside any type of control. The OSCE mission, in its existing numbers and shape, is not enough to provide control at the border. Nearly every day we are witnessing the entrance into Ukraine of new technology and new military munitions for separatists.

With regard to the ceasefire, it was said by the so-called leaders of those terrorist organisations, the Donetsk People’s Republic and the Lugansk People’s Republic, that the
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fire is from the groupings that are not under their control, but it is clear enough that even in such cases the responsibility is with the side that supplies, feeds and pays, which is Russia.

The release of prisoners of war was agreed under the principle of “all by all”. Unfortunately this has not happened. As of today, up to 500 Ukrainian prisoners of war are being held in extremely difficult, inhuman, conditions. We have witnessed torture; for example, one was brought back without a hand. It had been cut off, since there was a Ukrainian tattoo there. This is the kind of shameful war that we are seeing, but we still keep calm and carry on. We are responding to the fire only in cases where Ukrainian positions come under direct fire.

Moreover, the Russians kidnapped the Ukrainian pilot Nadiya Savchenko in their territory and, in the best tradition of the Brezhnev epoch, right now she is giving her evidence before a psychiatric commission. She is on trial in a court; she is accused of murders. The Ukrainian artist Sentsov from Crimea is also a prisoner of the Russian Federation, and this is more evidence of the human rights violations that we are witnessing and that we have to quit.

To conclude, Ukraine is motivated to restore its territorial integrity on the basis of democracy and human rights and the principles of European values. We are doing our best for that. It is a difficult time for us economically. I mentioned the gas supply being cut. It is very painful for us, but we are managing. This is the best proof that the thesis of some Moscow politologists about the failure of the state or the artificial state has failed. We are going towards our victory. We rely on our friends, allies and partners. We are seeking cooperation with Europe. We do not close the door for cooperation with Russia, but the precondition is the restitution in integrum of Ukrainian territory. Then we can start speaking. We also expect toughening sanctions, since this is the most reliable tool to halt the Russian aggression. If Ukraine fails, another country will appear in the near future, as in the case of Transnistria when it was Georgia, as in the case of Georgia when it was Crimea, and then, after the Crimean part of Ukraine, the Donetsk and Lugansk part of Ukraine. Who will be the next if we fail? That is why we will never fail.

The Chairman: Ambassador, thank you very much indeed. As I said at the beginning, if there is any additional point you wish to make or any further updates you wish to give us, please do, but I would like to thank you very much for the clarity of your answers. We realise this is a very difficult time for Ukraine and that you therefore are representing a country that is undergoing a great many problems. We are very grateful to you for coming before us.

Ambassador Andrii Kuzmenko: My Lord, thank you so much.

Examination of Witness

Professor Sergei Guriev, Professor of Economics, Sciences Po, Paris

Q77 The Chairman: Mr Guriev, thank you very much for coming before us. I do not think you were here at the start of the last session, so let me repeat what I said then. I think you are aware of it anyway. This is a formal session of the Committee. What you say, therefore, is going to be taken down and there will be a transcript. We will ask you questions, but if there is anything that you feel at the end of the session you would like to submit written evidence about or if you would like to enlarge your answers in written form, that is fine. We have an hour and we have another commitment after this, so we have to keep to the hour,
so to the extent that you can keep your answers brief, it will enable more questions to be asked.

Let me pitch in with the first question, and if you then wish to add a statement to that, you are very welcome to do so. The EU and US sanctions are designed to put pressure on the Kremlin by raising the cost of capital for the Russian elite, and for the private and state-owned enterprises. Do you think this has been effective, or do you think that it also strengthens support for Mr Putin? It is quite possible that the sanctions are working economically but are strengthening him politically. I wonder whether you could give a judgment on those two sides of the equation.

**Professor Guriev:** Thank you very much for inviting me. I will not waste your time with long answers; I will try to be very short. I think that sanctions have worked. It is naive to expect sanctions of this calibre to have a dramatic impact in the immediate term, but they are working against the Russian economic future. They will make an impact in the next two or three years, making sure that the Russian economy is hit and the Russian Government budget suffers over the next two or three years. At the same time, the sanctions, as you rightly said, are used by the Government as a reason to intensify propaganda and to call Russians to rally around the flag. Some of the countersanctions introduced by the Russian Government themselves, such as a food embargo against the US, Europe and certain other countries, have also hurt Russian consumers and the Russian economy, but the power of the Russian government media as well as the censorship and political repression going on in today’s Russia can convince Russians that even those sanctions should be blamed on the West as well. In that sense, yes, currently we see that the majority of the Russian public are convinced that Russia is a besieged fortress and there is a reason to rally around the flag and pay the cost.

At the same time, sanctions have worked already in the way that they have managed to change the calculus of the Russian elite. Those who say that Russia neglected the cost of the sanctions fail to see that while Crimea was taken by Russia and became part of Russia very quickly—within days of the referendum held in Crimea—Donetsk and Lugansk, even after holding a referendum, have not become part of Russia. Moreover, the Russian Government, who started with the sentiment that Ukraine has had a fascist coup, is now talking to the Ukrainian Government and the newly elected President and perceives him to be a legitimate counterpart in their negotiations.

We also see a ceasefire (with all the problems around this ceasefire). We see that the number of casualties is going down. I would not say that Russia is going to give back Crimea any time soon. I also expect that Russia will continue to destabilise the east of Ukraine, and yet the Russian Government have changed their stance, in the sense that Donetsk and Lugansk are not parts of Russia like Crimea is.

**Lord Trimble:** You were commenting on the impact of the sanctions. Would you have any view on the effect, although coincidental, of the very sharp reduction in the price of oil? What effect will that have on the public finances of Russia as distinct from the economy?

**Professor Guriev:** This is a very good question. The short answer is that the price of oil will hit Russian public finances, and this effect will be strongly reinforced by the sanctions. The long answer is that the Russian budget for the next three years is based on the price of oil of $100 per barrel. As you probably know, the price yesterday was more like $85 and today it is...
more like $83. Anything in the range of $80 to $85 per barrel directly implies that the Russian Government will face significant problems three years down the road. Not this year, not next year. The Russian Government has a Reserve Fund that now stands at 5% of GDP. There is another sovereign wealth fund—the so-called National Welfare Fund—which is also 5% of GDP but is already committed to infrastructure projects, to bailing out state banks and to helping companies that are suffering from the sanctions, so we should look only at the Reserve Fund. In that sense, the Russian Government is facing a problem.

The good news for the Russian economy is that the Russian Central Bank is committed to a floating exchange rate regime, so the rouble is taking the hit, which helps the Russian Government budget, as Russian government spending is denominated in roubles while half of the Russian budget is coming in oil and gas revenues. The weakening of the rouble will help the Russian Government to balance the books. However, that does not solve all the Government’s problems. Why? Because a cheaper rouble also means lower purchasing power for Russian consumers. We will see a decrease in the living standards of the Russian public, and the Russian Government will have to come up with certain—probably non-economic—solutions to convince Russians, as we discussed in the first question, that they are suffering economically for a good cause. How the Russian Government is going to address that is very hard to predict. If this year’s experience teaches us any lessons, we should expect more propaganda, more repression and maybe even further foreign policy adventures.

Lord Radice: You said “further adventures”. What do you have in mind?

Professor Guriev: There are many Russians around the world, and Mr Putin has declared that he wants to protect Russians. Living in Paris, I am safer than you living in London. Paris has few Russians to protect; London has many Russians to protect. Seriously, I do not know. Nobody expected what happened this year, and the next steps may be as unexpected.

Lord Radice: You were not thinking of the Baltic states or anything like that.

Professor Guriev: Many things were impossible before. I would say that many things that were impossible before are now possible. I would not say the probability is high, but if you asked me a year ago I would have said it would be impossible.

Lord Jopling: But you think that it is possible despite Article 5 of the NATO agreement.

Professor Guriev: We cannot rule out the following scenario. Even if there are NATO soldiers—non-Baltic-state soldiers—on the ground in the Baltic states but not in every town of the Baltic states, if Russian troops move in and occupy part of the Baltic states’ territory, we are not sure that NATO soldiers will shoot at Russian soldiers. There will be further negotiations and sanctions. This is the scenario that some people in Russia would consider. As Mr Putin reminded us yesterday, Russia is a nuclear power and hostilities with regard to a nuclear power may be problematic.

Q78 Lord Radice: You are an expert, are you not, on the relationship, and particularly the economic relationship, between the EU and Ukraine? The EU has committed €11.5 billion to support Ukraine. Is that enough? Are they delivering it? What do you think?

Professor Guriev: I am much less informed on the extent to which the funds are being disbursed and used. Ukraine is in a desperate economic situation; €11.5 billion is a substantial amount of money, something like 6% or 7% of Ukrainian GDP, which is a lot of
money for any country. A lot more will be clear when the next Parliament is formed after the elections, which Government is shaped and what reform programme will be put together. It is crucial that the Ukrainian economy succeeds, because disillusionment in economic reforms may be very quick and may result in reversal. We understand that it is not in the interests of the current Russian Government to have Ukraine succeeding on this trajectory and we should expect all kinds of actions from the Russian side to undermine this process. In that sense, I expect that in a normal situation, this package would probably be enough. If the EU wants to see an independent, democratic and prosperous Ukraine, I think the EU should prepare to think about further programmes of support in Ukraine. If Ukraine follows the course that it has announced—that it wants to become a part of Europe, broadly speaking—I think that is completely possible, but it faces a very powerful enemy for whom the stakes are very high. A successful Ukraine free of corruption is a big challenge to the regime in Moscow.

Lord Foulkes of Cumnock: I would like to go back very quickly to sanctions. You mentioned the large number of Russians here in London. Is there scope for more effective sanctions because of that?

Professor Guriev: The value and the advantage of the West is that the West sticks to its own values and laws. That is why I would always advise western governments to take the high road, as they would say, and not retaliate against family members. But if the UK enforced the Bribery Act 2010, that would already be a major step forward against people who make foreign-policy decisions in Russia. There are many Russians who live in London who may have benefitted from corruption in Russia. I do not want to mention names because I do not have evidence in front of me. In private I can share certain observations. I have journalist friends and certain experts who have tried to investigate certain things, and they suggest that there are certain people living in London who are very important in Russia and for the Russian regime who could have suffered from serious investigation under the Bribery Act.

Baroness Billingham: Since the EU committed the, as you say, enormous sum, comparatively, of €11.5 billion, the positions of the economies in the EU themselves have weakened. What sort of effect is this going to have in the future? Do you think there is any question of reneging, or do you think that Ukraine’s future is rather bleak?

Professor Guriev: That is a good question. Eventually it is for the voters of the member states, and I guess for the European Parliament, to decide on the priorities of the European Union and of the member states. The European economy is not in good shape, and sanctions against Russia and even countersanctions by Russia, although they have not had a dramatic effect, have had a negative effect on European growth perspectives. The sum of €11.5 billion is a huge sum for Ukraine; it is not a huge sum for Europe, but coming from France I see that every additional billion matters. Every additional billion may cost votes in a critical electoral district. We have seen that France is continuing with delivering battleships to Russia. France continues and suspends; every week brings different news, but it talks about delivering the battleships to Russia, with an amount at stake of about €1 billion. We see that every billion matters, exactly because we are talking about jobs and votes.

Q79 Lord Maclennan of Rogart: I would like to ask a historical question and a question about the present. The historical question is: do you believe that the EU could have assisted Russian economic development over the last 20 years? Did we falter or fail in that respect? The present question is: would a contribution to the strengthening of the economic position
of Russia be a significant contributor to the resolution of the political questions? Could we do it? What could we do if we were to attempt it?

**Professor Guriev:** It is very hard to speculate about what would have happened if the EU had done something else. It was a disappointment in Russia in the 1990s that the West did not help as much as it could or should have done. A Marshall-Plan-like initiative would probably have made a difference. It is hard to judge now. It is difficult to say how that would change the probability of a Government like today’s coming to power, but, yes, it was unfortunate that the EU did not commit more substantial resources to making sure that the economic shock of the 1990s was somehow mitigated.

To what extent Russia was prepared to co-operate with the EU is also not clear. Russia faced a major existential crisis, in the sense that, seeing the empire falling apart, Russia had a problem of identity, and at every moment of those last 20 years there would always be a political force that would be nostalgic about Soviet times, and this political force would always get a certain support from the Russian public. There was also an opportunity not just in the 1990s but in the 2000s, when Mr Putin was open to co-operation with the West. We saw some of that happening, for example, in co-operation with the US on the war on terror, especially in Afghanistan. We also saw some opportunities in the later 2000s.

At the end of the day, Russian political development is the business of Russia—it is the business of Russian voters. Eventually, Europe has promised and has offered “four common spaces”—integration of everything but institutions. In the later 2000s, Europe suggested the Partnership for Modernisation. That was not really happening. European foreign-policymakers apparently were busy with other things, which is understandable. Unfortunately, it is not the hostilities that insult the Russian Government but the neglect. That was also very clear in the mid-2000s, when the focus of US foreign policy was shifted elsewhere. For Russia, being a post-imperial country, being treated as a non-entity—as a non-important player—is an insult. If the EU in whatever capacity had been more active just in talking to the Russian Government, that could have created more space for dialogue. At the end of the day, all these things are speculations. The EU has not done anything illegitimate; if anything, there was an unfortunate lack of energy in engaging Russia. But all the offers were on the table and eventually it was, I guess, Russia’s choice not to take them.

**Q80 Baroness Henig:** You have already given us examples of how economic issues have influenced the foreign policy of President Putin—and, indeed, the close linkages between economic and political considerations. In the light of this, what is your assessment of President Putin’s strategic aims in the European neighbourhood?

**Professor Guriev:** We do not really know what Mr Putin thinks and wants. There is a theory that suggests that he wants to restore a certain kind of “Great Russia”, which would include what is the eastern neighbourhood for Europe (but for Russia, it would be the western neighbourhood). We all have heard then-President Medvedev saying that these countries are part of Russia’s sphere of privileged interest. I have heard very recently advisers to Mr Putin saying that neighbouring countries will have limited sovereignty whether they want it or not. That may be a strategic goal.

There is another theory that suggests that the main goal of a regime like this is survival. Under the previous social compact, the public was happy with this Government because they delivered economic growth, even though the public understood that the Government
was not democratic and was actually corrupt; the public still tolerated and actually supported this Government because economic growth was out there and everybody benefitted from it. This social compact is gone. The Russian economy is at best stagnating.

To offer a new source of legitimacy, the regime needs non-economic solutions. Bringing new countries into the sphere of interest, showing that Russia is an important country, showing there are greater things—than GDP per capita or economic growth or mortgages—tools for the regime to gain legitimacy and popularity and survive.

These two theories produce the same empirical predictions. It is very hard, judging by what we observe, to see whether Mr Putin is opportunistic or imperialistic. We do not know.

Q81 Lord Jopling: Let us turn back to Ukraine. President Putin has said that a Deep and Comprehensive Free Trade Agreement between the European Union and Ukraine would impact existing free trade agreements between Russia and Ukraine. How legitimate is that claim? Do you think that the European Union’s regulatory and technical standards could have a detrimental effect on Russian trade with neighbouring countries?

Turning from Ukraine over to the proposed Eurasian Economic Union, we have been told that that is incompatible with the DCFTA. Do you think that is a legitimate argument? Do you think that the European Union and the Eurasian Economic Union can exist and cooperate together? If so, how might that be done?

Professor Guriev: It is a complicated question. I would just give one simple answer with an example. Russia’s statement that a free trade area between Russia and Ukraine is not compatible with DCFTA is false. Canada is part of a free trade area with the US; Canada just negotiated a free trade agreement with the EU. There is nothing wrong with being a member of free trade areas with different partners. To what extent the DCFTA would be in the interests or against the interests of Russia is hard to judge. For certain interest groups in Russia, Ukraine joining the DCFTA would represent a problem; for certain businesses, more competition from European goods in Ukraine and Europe being a destination for Ukrainian export goods creates competition and therefore a cost. In the long run—and I think Mr Putin has said this many times himself—Russia is interested in a prosperous Ukraine, and it is in Russia’s national interest to have more trade and more growth in Ukraine. I fully subscribe to this view. Is the Eurasian Economic Union incompatible with the DCFTA? Of course not, exactly because of this issue. To what extent does a Eurasian Economic Union—or Customs Union, as it used to be called—want Ukraine to be part of it? We have seen and heard that Mr Putin himself and his Government always inviting Ukraine to join them and it was always an ambition to have not just Belarus, Kazakhstan and Armenia but also Ukraine. Compared with Belarus, Kazakhstan and Armenia together, Ukraine is a big market. Currently, as it stands, the Customs Union represents a political benefit for Russia, but it is not a strong economic benefit. It benefits Belarus and Kazakhstan, which gain access to the large Russian market, but not Russia. For Russia, Ukraine joining the Customs Union would justify the creation of the Customs Union.

Q82 Baroness Coussins: Good morning. We have heard from earlier witnesses to our inquiry that the EU is being, shall we say, less than diligent in observing and enforcing its own anti-corruption and anti-money-laundering legislation. I wonder what your assessment of that is. Also, what is your assessment of how the UK compares with other EU member
states in this regard? Do you think there might even be a role for the UK in gold-plating EU legislation?

Professor Guriev: The EU and the UK could have done a much better job. For example, right now there are many people on the sanctions lists who have assets abroad, which they own through chains of companies. Hearing about the intelligence capacities of the US but also of Europe, many people in the world are surprised that these things are not tracked down. At the moment, the West has a lot of other things to care about—it probably does not have resources to commit to investigating those things—but it is surprising that this is not happening. Again, I will not mention any names in public—I do not want to make statements that I do not have immediate evidence on—but there are many rumours that certain members of UK and London-based establishments have been involved in corruption and money-laundering. Should the UK gold-plate EU legislation? Yes. It is in this particular area we see exactly this issue: where many people who are connected to the Russian Government live in the UK, have assets in the UK and do business in the UK. It is up to the UK to enforce its own laws. The laws in place are already quite strong; they should just be enforced. It is not about gold-plating legislation; it is about gold-plating enforcement practice.

Q83 Baroness Young of Hornsey: Following on from that, you have just mentioned that there are British business men—and women, presumably—who are involved in some of these corrupt practices. I would be interested to know your assessment of how large a problem that is and whether you think that somehow by engaging with Russian companies, particularly state companies, by sitting on boards and so on there is a sense in which those people are being co-opted into a Russian model of operation. Do you think that is the case? How would you judge the impact on the European business environment of doing business with Russia? Clearly you do think there is a role for the EU to uphold best practice of governance and regulation, so what more could they be doing to make sure they implement those regulations?

Professor Guriev: The view that Russia has managed to corrupt the Western elite is not correct. There are pro-Russian lobbyists in all European capitals, but mostly these are about the legitimate business interests of those companies. I strongly believe that companies’ business, to the extent that they stick to the existing law, is to make money for their shareholders. This is what these companies do. This is why they ask for the removal of sanctions and for continued trade and investment with Russia. It is the job of politicians and law-enforcement authorities in European countries to enforce the existing laws and, if need be, to prosecute the companies that violate those laws. That has happened in the past. Certain western companies have been prosecuted for giving bribes to Russian government officials. Even in those cases, I should say, the Russian Government has not investigated those officials; these officials are doing very well, even though there are European Court decisions establishing the facts of bribery and corruption.

As for sitting on the boards of state companies, I would say that the number of cases is actually now very limited. Certain people, because of sanctions, because of the Ukrainian war and because of various issues related to integrity and the environment in those state companies, have quit the boards. In that sense, I would not overestimate the threat of the Western elite being corrupted by the Russian regime.
There are rumours that the Russian Government funds certain extreme parties in the European Union. I have not seen any evidence. Investigating this is extremely important and, if this comes out and these parties are damaged by that, I think that would be the best thing ever that Mr Putin has done for Europe.

However, generally I do not see any tangible evidence that the European elite is corrupted by the Russian regime. It is unfortunate that investigations are not as strict as they could have been. They should be stricter; there should be more resources devoted to investigations, but I do not see major political forces, especially those that run European countries, being corrupted.

**The Chairman:** You said earlier, if I heard you correctly, that you believe that companies are motivated by the interests of their shareholders—or, if you like, by earning profits—which is classical capitalist doctrine, but do you think that also applies to Russian companies? Are Russian companies not an instrument of the state rather than an instrument of their shareholders?

**Professor Guriev:** Generally I would say that state companies occasionally—and recently more often than not—follow orders of the Government. If the Government ask them to take decisions that are against shareholders’ interests but in the interests of the Government, state companies do that.

There are different kinds of state companies. Certain state companies have strong political connections with high-level officials, and only the very high-level officials are able to ask them to do something against their interests but in the interests of the political process within Russia. Certain companies are less politically connected and can be bossed around by low-level officials. However, in general, state companies are not independent of the Government and in many cases make decisions that a normal business, maximising shareholder value, would not. I can give you examples but probably in private.

**Q84 Baroness Bonham-Carter of Yarnbury:** There are a number of outstanding disputes between the EU and Russia at the WTO. Is the process to hold Russia to her WTO commitments effective and, indeed, is it a good process to be pursuing? Are they likely to change Russia’s behaviour in any way?

**Professor Guriev:** If we go back to the first disputes around imports of cars and so-called “utilisation duty”, Russia did not expect the extent to which the WTO is an effective mechanism. The WTO does not act quickly, but there is a certain degree of predictability about WTO dispute-settlement mechanisms. What Russia did was certainly against WTO rules and within months it was clear that the WTO would rule against Russia, and Russia withdrew. Well, it did not completely withdraw, but it reintroduced this utilisation duty on Russian carmakers as well.

**Baroness Bonham-Carter of Yarnbury:** So, it did change its behaviour.

**Professor Guriev:** It did change its behaviour; it complied with WTO rules, even without going all the way through WTO procedures, which would probably take a year and a half or two years. What is going on now compared with other things is completely minor. People ask questions like, “If Russia is not invited to the G8 or the G20, would that change Russian behaviour?” This is completely second or third order of magnitude compared with other things that are going on: sanctions, the oil price, war. These things are of a different order of magnitude. Would it help to reverse the Russian food embargo if Poland or the EU went to
the WTO and said it is illegal? Such a decision would probably be important, but I can see that Russia can blatantly violate the WTO rules in this current political and economic climate. Is the embargo against the EU, Australia, Norway and the United States illegal by WTO rules?

Baroness Bonham-Carter of Yarnbury: What about the Lithuanian ban? Is that still in place?

Professor Guriev: Of that I am not sure. Some of the bans Russia has introduced were based on the pretext of phytosanitary controls, but that is a completely different story compared with the food embargo that was introduced in August. This is a clear violation of WTO rules. Russia comes out with a simple decision saying, “From these countries we will not import food – but from those we will”, which is exactly against the multilateral nature of the WTO. As I said, I expect Russia is just violating WTO rules. After the dispute-settlement mechanism rules that it is wrong, Russia will continue to violate the rules, and then Russia will just accept further trade sanctions imposed by WTO members.

Will Russia be kicked out of the WTO? I do not think so. There are always a few countries that would vote for Russia, and a consensus organisation cannot kick out anybody. I think even Russia voting for itself staying in the WTO will be enough for it to stay in the WTO, because it is a consensus organisation.

Q85 Baroness Billingham: My question follows on from that of my colleague here. Trade is a significant aspect of the EU-Russian relationship. However, deep trade relations have not led to good political relations. Could the EU do more to improve our trade relations? Should the EU have better economic relations and perhaps outline a set of rules and criteria to govern our trade relations with Russia?

Professor Guriev: Trade is important for economic development and growth. Interdependence in economic relations eventually raises the cost of political conflict. Mr Putin has always understood that. Economic interdependence, especially energy interdependence, was always on the agenda of Mr Putin’s relations with the EU; it was actually the main item of the 2006 G8 summit that Mr Putin hosted. Why does that not work? First, it did work in the past: trade has made relations better. Relations could have been worse. Trade has made relations better than they could have been otherwise. Secondly, even though trade raises the cost of political conflict, we see leaders that still are happy to take this cost.

Baroness Billingham: Does not President Putin have a number of aces still in his hand that make him stronger and able to take a cavalier approach to these negotiations and relations? He is shrugging and saying, “Do what you like”.

Professor Guriev: I think the situation is quite the opposite. The Soviet Union was isolated and could do many things. It would have been very hard to threaten the Soviet Union with the sanctions that Russia is facing now. The same is now true of North Korea. What could we do to North Korea? For the Russian Government and for Russian consumers, these sanctions are painful. Even though some people say that Mr Putin can do whatever he wants, he is in a very unfortunate situation—him personally and his regime as well—exactly because of the reasons I mentioned at the beginning. I do not see an exit option for today’s Government. I do not see how, unless the oil price goes back to $140, this Government will be able to break even. In that sense, I am very sorry for the people running Russia now, especially for Mr Putin, because I do not see how they can get out of this. In the short run,
they can enjoy spending the reserves. Indeed, they have done very well building up these reserves in the previous years, and that was a very smart decision, but in the long run I would not envy Mr Putin. The fact that he says that he can do what he wants and Russia cannot be blackmailed or humiliated means either that he does not understand the numbers or that he pretends that things are better than they are. I think he does understand the numbers, and that is why Donetsk and Lugansk are not part of Russia.

Q86 The Chairman: Thank you very much, Mr Guriev. Can I ask a final question? Back in 2010, Mr Putin suggested the creation of a free trade area from Lisbon to Vladivostok, with enhanced co-operation in research and technology and enhanced industrial co-operation. Do you think the EU reacted sufficiently positively to that proposal? Do you think it would still be of interest to Moscow? Could it be a project for carrying forward in the long term a constructive relationship between the EU and Russia?

Professor Guriev: It is a very good idea. I do not think Russia should join the eurozone—all we know about optimal currency areas suggests that Russia should not be in the eurozone—but a free trade area is a completely different story. It is a great idea and it should be pursued. The EU has not reacted to this aggressively enough. The EU should have devoted more resources to this conversation. The EU was busy with other things in 2010. If you go back to 2010, many people were saying that the eurozone would not survive and so on, so in that sense it is understandable. Is it a vehicle for forward-looking constructive EU-Russia relations? Yes, but maybe not with this set of players in their offices. Right now, I do not see how sanctions can be removed completely. I do not see how, therefore, there will be a free trade area. In that sense, maybe with some other political leaders we will see a change but not now. In the long run, I think it should happen and it will happen.

The Chairman: Mr Guriev, we have covered a very great deal of ground and we have done it in slightly less than an hour, so I would like to thank you very much for that. I was told that you might wish to make a statement in private and, if you did, that we would ask the people behind you to leave. If you do, that would be fine, but if not I will thank you for what you have given us.

Professor Guriev: Let me say something, if I may. There was a question about Western companies doing business in Russia in the Russian way. I can just briefly say something in public about that. I would like to say in public that in general Western companies are doing business like they would do business in Europe or the US, and Western companies in Russia set examples of meritocratic and honest organisations. However, there are exceptions. Those exceptions have been prosecuted in the West in some cases, like Daimler and Siemens, but there is another exception that I would like to bring to your attention, which is not an English company but a continental European company: Yves Rocher, the cosmetics firm. This company is now helping the Russian Government to put a political opponent in jail. This company has initiated a criminal investigation against Mr Navalny, who is now under house arrest because of this case. We think that this company was threatened by Russian investigators and that, because of that threat, the company started that case. Later on, this company did an internal analysis and came up with an internal document that suggested that Mr Navalny and his brother, who has also been investigated, are not guilty of any wrongdoing, and yet this case continues and the company continues to be a party in the case, which is a clear case of political persecution in Russia. Examples like this undermine respect for Western businesses, and they should be made public and discussed.
Other than that, I would say that in general Western companies are a beacon of light in the business environment. That makes them less competitive, because Russian businesses that follow the Russian way of doing business and give bribes get better deals, but in the long run it is the only right way to do business, whether it is in the West or in Russia. Thank you.

The Chairman: Mr Guriev, thank you very much indeed.
TUESDAY 28 OCTOBER 2014

Members present

Lord Tugendhat (Chairman)
Baroness Billingham
Lord Lamont of Lerwick
Lord Maclellan of Rogart
Lord Trimble

Examination of Witnesses

Mr Alexander Graf Lambsdorff, MEP, Chairman of Executive Committee, European Endowment for Democracy, Dr Alastair Rabagliati, Director of Operations, European Endowment for Democracy, and Mr Peter Sondergaard, Director of Programmes, European Endowment for Democracy

Q123 The Chairman: First, thank you for agreeing to speak to us. You have brought your two supporters. If they wish to intervene, or you wish them to intervene, by all means do so. As we are not familiar with the European Endowment for Democracy, it would be a help if you could just say a brief word before we get on to the main business.

Mr Alexander Graf Lambsdorff: I will happily do this, and please let me introduce my colleagues: Peter Sondergaard is the director of programmes at the European Endowment for Democracy and Alastair Rabagliati is the director of operations. They are two senior members of staff. The executive director is currently in Kiev. That shows you where we are. As to the EED, it is essentially a joint initiative by EU member states and EU institutions, the Parliament and the Commission. It is an initiative based on what we knew about the National Endowment for Democracy in the United States, although the structures are quite different. At the outset, it was very much a Polish initiative, but I am happy to say that 14 EU member states are contributing to the funds of the EED and are actively involved. Some are
involved more through intellectual contributions than financial ones, but that is to be expected.

There is a three-tier structure. There is a board of governors, which has 43 members, comprised of representatives of all the EU member states and all the institutions, as well as nine Members of the European Parliament and three civil society representatives. Switzerland and the EAS are also there. Then there is the executive committee, which is where you can see how innovative this organisation is. While member states have been instrumental in setting it up, the expertise and the funding decisions are heavily influenced by civil society knowledge and expertise. On the executive committee, which meets about every two months to take the specific funding decisions, you have one MEP, which will be me, two representatives of member states, three civil society representatives and the executive director. It takes five votes for a decision to be taken, which means that anything we do will have to be checked between member states, the institutions and civil society—nobody can take a decision just like that. Then there is the third tier, the secretariat, which has 13 staff, led by the former Polish Deputy Foreign Minister, Jerzy Pomianowski. They do the operations on a daily basis in Brussels.

Q124 Lord Trimble: You are working in Kiev. Can you give us a picture of what you are doing in Kiev? I understand that you are not active in Russia. Can you explain why that happened?

Mr Alexander Graf Lambsdorff: The idea behind the EED at the outset was to create a complementary instrument to what we have in terms of the financial instruments of the European Union, particularly the European instrument for democracy and human rights. It was supposed to be more flexible and faster, but given its innovative character, there was a certain reluctance to staff and finance it on a large scale from the outset. Therefore in COREPER and the European Parliament there was a conviction that it was more reasonable to go for what I have called organic growth, meaning that we should prove ourselves and the worth of the EED in a limited number of countries under one heading, in this case the European neighbourhood, before moving beyond this initial mandate. That is essentially what has happened. We have been active in six countries of the eastern neighbourhood and nine countries of the southern neighbourhood. We are now currently discussing starting activities outside the neighbourhood after the initial reviews have come in and assessed the EED rather positively.

Lord Trimble: What actually are you doing? You are active in Ukraine. Can you give us a flavour of what you are doing there?

Mr Alexander Graf Lambsdorff: Yes. To give you a particular example, in Ukraine when there were the demonstrations on the Maidan there were media outlets that needed support quickly in order to be able to operate because of financial restrictions. They could apply very quickly and get a decision within less than a week. There were also civil society groups, blogs, newsletters and radio broadcasting that we supported. There was also support for initiatives that sprang out of the Euromaidan movement. There was also something quite unusual for the EED: rapid emergency relief for people who were injured in the demonstrations. This shows how flexible the instrument really is. When I use the word “instrument” I have to be careful: we are not an instrument under the financial regulation of the European Union, but we are a very rapid reaction funding mechanism, as in those cases. We have also worked with other groups in Ukraine. We worked on the reforms there with
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political groups or groups that were about to form political parties—things that the European institutions, or member states, for that matter, would be very hesitant to engage with.

Q125 Lord Lamont of Lerwick: Would you describe your work in Ukraine as campaigning or participating in politics in Ukraine?

Mr Alexander Graf Lambsdorff: The answer to that is a very clear no. That is one fundamental misunderstanding that exists in some circles, so I am glad you asked that question. Democracy support is not about picking winners in elections; it is not even about supporting campaigns or parties that run in an election. It is pluralistic, so we support people who are a civil society movement now who may later turn into a political party, but we do not support campaigns.

Lord Lamont of Lerwick: But you used the phrase “the Euromaidan movement”. Did I hear you correctly?

Mr Alexander Graf Lambsdorff: Yes.

Lord Lamont of Lerwick: What was that, exactly?

Mr Alexander Graf Lambsdorff: That was the reaction to the refusal by the then President Mr Yanukovych to sign the association agreement under Russian pressure. He refused to sign that agreement. I think it was on 29 November at Vilnius where the summit took place. Everybody expected that he was going to sign to anchor Ukraine in its path—its orientation—towards the West. The reaction to that non-signature—it was quite remarkable, if I may say that as an EU policy-maker—under an EU association agreement were the demonstrations that swept Mr Yanukovych away and led to the political upheaval that brought Mr Poroshenko to power and really changed Ukraine.

Q126 Baroness Billingham: As one of your predecessors in the European Parliament, and respecting the fact that the power of the European Parliament is now so much greater than it was during the time I was there, I would be very interested to know what the debates there are like on the European Endowment for Democracy, because that will give us an indication of whether there is a consensus or whether we are running into some problems here.

Mr Alexander Graf Lambsdorff: At the outset, there was no consensus on the European Endowment for Democracy. Looking at the different political groups in the Parliament, I think it is fair to say that by and large the European People’s Party was very supportive, as was the Liberal Group. There was some scepticism, particularly in the Socialist Group and the Greens. Working through the report on the EED—the plurality of the European Parliament was going to be represented on the board of governors—it has been possible to achieve a consensus on the process. Now we have Conservatives—in your context I should phrase that differently—Christian Democrats, Social Democrats, Liberals and Greens. I think that we will now actually get a Conservative vote from the ECR on the board of governors who follow the work of the EED. It is fair to say that at this point there is a consensus in the Parliament that the EED is a worthy initiative.

Q127 The Chairman: You have been very clear that it is not your role to support or to promote political parties, but are you in the business of promoting EU membership? When
Mr Alexander Graf Lambsdorff: There are two levels to that question. One is this: is it part of our mission to advocate for EU membership? Clearly, the answer is no. It is not in our statutes. Might we be identified by third parties as being supportive of Ukrainian membership down the road? Possibly, but I cannot speak for them because it is for the third parties to decide. But the level and the nature of the support that we give, particularly in the neighbourhood, is in line with quite a number of countries where membership is not even a category. Libya, Tunisia, Syria and Lebanon are countries that, even if they chose to apply, would not be eligible. Therefore this is not a criterion in our work.

Q128 Lord Lamont of Lerwick: Forgive me because I do not mean to sound hostile, but I am trying to understand this. Given that you are funded by a number of EU Governments and you have the support, as I understand it, of all the EU Governments, and you back something called the Euromaidan movement, would that not be seen as a highly politicised intervention on a subject on which the Ukrainian President had the freedom to make his own decision?

Mr Alexander Graf Lambsdorff: If it were to be seen in that way, it might generate some controversy. I agree with you on that. However, the Euromaidan was not seen to be a political party competing in an election. It was widely perceived—at least in this town and, I would dare to say, beyond Brussels—as a genuine civil movement that brought together very heterogeneous actors. As you know, there are some who have now translated their activities into a political party, such as Mr Vitali Klitschko, who is now the mayor of Kiev. He has formed the UDAR party. There were people who already had political structures, such as Mr Arseniy Yatsenyuk. There were people from the extreme right wing who provided the Russian propaganda machine with an easy way to attack them. But I would even dare to say that the majority of the people in the Euromaidan had never been active in a political party and are not active now. I would think that that would be the majority of them. So, yes, you can discuss whether this was politically sensitive. You can discuss whether this was about taking sides, but it would not be fair to discuss it under the heading of support for a political party or a campaign.

Lord Lamont of Lerwick: Not a political party, but it is rather like the Scottish referendum. If you had backed the Scottish nationalists, I think that we would have regarded that as an odd thing to do.

Mr Alexander Graf Lambsdorff: I do not think that the European Endowment for Democracy has considered becoming active in the United Kingdom so far.

Baroness Billingham: That may be just as well.

Mr Alexander Graf Lambsdorff: I do not expect the position to change any time soon.

Lord Trimble: While you are not promoting accession to the European Union, you are none the less trying to promote some of what might be regarded as the values of the Union.

Mr Alexander Graf Lambsdorff: Indeed we do, yes. There is absolutely no contradiction in that. It is exactly what we do: pluralistic democracy, multi-party democracy, minority rights, opposition rights and media pluralism. All these things are part of the DNA, if you like, of the
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European Endowment for Democracy. Initiatives that are actively based on these values are eligible for our support.

**Lord Trimble:** I think it is fair to say that Mr Putin regards those values in a hostile manner.

**Mr Alexander Graf Lambsdorff:** I think that it is fair to say that.

**Q129 Lord Lamont of Lerwick:** Can you tell us about the relationship with the UK? Why do the UK Government not provide any money?

**Mr Alexander Graf Lambsdorff:** The United Kingdom has been actively involved in the EED from the outset. It is a member of the board of governors and has made a number of constructive comments and suggestions, particularly regarding monitoring and evaluation. I am not aware that a formal decision would have been taken within the UK Government not to fund the EED, so I assume that either we have not been informed of such a decision, if it exists, or the discussions are still ongoing. The relationship with the UK is one where we would say that it would be desirable for the UK to become perhaps a little more engaged, particularly in financial terms, bearing in mind that relatively small sums can go a long way in this sort of work. For instance, the Canadian Government has provided us with 5 million.

**Dr Alastair Rabagliati:** Canadian dollars.

**Mr Alexander Graf Lambsdorff:** I am sorry—C$5 million for us to be active in Ukraine because they see the EED as a non-partisan, pluralistic, pro-democracy organisation, and C$5 million over three years is a small sum. However, it can mean a lot to activists who are faced with very simple challenges, such as whether they can buy the paper for producing a newspaper or the electrical equipment needed for a small radio station. They might need computers or to pay the rent for three months, something like that. These are sums that start at €2,000, while I think that our largest grant was €200,000. The vast majority of payments are in the five-digit range. If you are asking me as the chairman of the executive committee about the relationship, intellectually the engagement is there and it is constructive, but financially I would like to see some more action.

**Q130 The Chairman:** In view of your work in Ukraine, can you imagine circumstances in which that country could attain the standards that would justify it joining the European Union? When we look at the more recent members of the European Union, there is obviously a big difference between, let us say, the Czech Republic at one end of the spectrum and Bulgaria, perhaps, at another end. When one looks at Ukraine—I hope that I am not being unfair—it would seem to me to be some way behind Bulgaria.

**Mr Alexander Graf Lambsdorff:** I hesitate to answer that question in my capacity as the chairman of the executive committee of the EED. That is because the EED does not have a role in assessing the readiness of candidate countries or possible candidate countries as far as EU enlargement is concerned. If you ask me as an MEP, as someone who is politically active, I would agree that Ukraine certainly has a very long way to go. It is a country that has not realised its great potential. For nearly 25 years now the country has been independent. It has a highly educated population and a geographical position that is not bad at all. It is close to the largest market in the world, the EU single market, and it has Black Sea ports. It is a country that could achieve a lot, but due to endemic corruption and a dysfunctional political system, it has an economy that has not really developed any powers of innovation—unlike Poland and the Baltic states, for example. The population is very disaffected with
politics in general. The parliamentary elections this weekend saw a turnout of around 50%, which I think gives you a sense of how disaffected many people there are. So, to answer your question not in my capacity as chairman of the executive committee, Ukraine has a very long way to go. I personally am not convinced that the country can become a member of the European Union as we understand it today. If the European Union changes and becomes a system of concentric circles or develops a variable geometry in the discussions that we have, there may be ways to bring Ukraine significantly closer to the EU, but could there be full membership as it is understood it today? I have a hard time seeing that.

The Chairman: You mention concentric circles, which I remember being talked about in a different context back in the 1980s. It seems to me that it would be helpful if there were clearer ideas about the nature of the eastern frontier of the European Union. It was put to us by a former British diplomat in this way: is it a cliff—the EU here, everybody else there—or is it like a beach, with a series of agreements with the neighbouring countries which do not necessarily lead to membership? At the moment, all the precedents are that association agreements lead to membership. I can see that that would cause concern in Moscow. If it was understood that association agreements did not necessarily lead to membership, that might be more helpful.

Mr Alexander Graf Lambsdorff: Indeed, I could not agree more. I think that the image of a cliff is a very unproductive one, particularly in international politics. It describes a very hard delineation, something that is antagonistic to the other side of the cliff. I like to think of it as a much more flexible arrangement. You can use many images. Someone once used the word “mangroves”—you do not know exactly where the land ends and the sea begins—but I think “beach” describes it quite well.

Q131 Lord Maclennan of Rogart: Could you indicate how, if at all, you could create a more enabling Russian environment for civil organisations?

Mr Alexander Graf Lambsdorff: We will have a meeting in December of the board of governors at which we will consider lifting the current geographic limitation for the EED in order to be able to become active in Russia and other countries; Turkey comes to mind, where democracy is also a very difficult issue. What can we do in Russia specifically? There is demand from civil society organisations for flexible support. Civil society organisations there are under significant pressure, particularly once they are prepared to accept money from outside Russia, because that means they will have to register themselves as so-called foreign agents, which many refuse to do—GOLOS, for example. But I believe that particularly a flexible organisation such as ours would find ways to lend support to activities, whether it is in-kind contributions or Russian language activities—not necessarily in Russia but from outside Russia. The Dutch Government are now considering—they have not taken the decision yet—using the EED to work with Russian language media active in the Eastern Partnership. So there are a number of ways. Then there is the protection of minorities. There are smaller groups that would profit and benefit from our support—LGBT groups, environmental groups. There may also be groups of mothers of soldiers. If they came to us, we would be prepared to look at their applications. We would decide on a case-by-case basis whether to support them. What we cannot do as the EED, clearly, is change Russian legislation. It would not be our intention. It would be way beyond what we could achieve, and we would not even want to achieve it. That is not our role. Our role is to strengthen civil society to facilitate processes in the respective countries that may lead to a change of
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legislation if the countries sees fit, but it is not our role to do that and we could not do it in any case.

The Chairman: The Germans have been pioneering—the Konrad-Adenauer-Stiftung and the Friedrich-Ebert-Stiftung have been very successful operations. I am not quite clear how to differentiate the EED from those organisations.

Mr Alexander Graf Lambsdorff: Well, I happen to be on the board of one of those, the Friedrich Naumann Foundation.

The Chairman: Which is the FDP one, I suppose.

Mr Alexander Graf Lambsdorff: Exactly, the Liberal foundation. Again, we come to the issues of complementarity, speed and flexibility. The German foundations are bound by German regulations on financial contributions—financial aid. Their projects have to fulfil certain criteria that are established by the German Court of Auditors. For example, that excludes institutional support. You cannot support a small NGO that has problems with, say, the rent. That is not possible. You can support only projects. In many cases, the German political foundations in the countries that I have mentioned in the south and east have come to the EED and said, “Listen, we have a very good activist here. He has a particular challenge that he is faced with where we cannot help because of the Court of Auditors. Can you help?” So we have done that. Then, in a complementary manner, we have ensured that certain NGOs, certain activists, could continue their work. Particularly with Ebert in Azerbaijan we had a specific case, and in Tunisia—there are several cases with the foundations, which were sceptical about the EED at the outset. You asked the question: was there a consensus? The German political foundations were very sceptical. They saw the EED as a potential competitor. They have now come to understand that that is not the case because complementarity is taken seriously and now they are looking to the EED to do things that they cannot do. That is exactly what the EED was set up to do and therefore I welcome it very much.

Q132 Baroness Billingham: You raised something that I would like to follow through. The question is really: what criteria does the EED deploy in determining which Ukrainian civil society organisations are worthy of support and which are not? That is a pretty important decision.

Mr Alexander Graf Lambsdorff: Yes, and perhaps Peter and Alastair can come in on the criteria. This is really about the way in which the applications are evaluated. There is a set of criteria that the secretariat uses internally before it suggests projects to the executive committee, so I will perhaps invite them to speak on this particular topic. Just to give you an impression of selectivity, we have received about 1,300 applications and about 125 have been funded so far, so there is a strict application of qualitative criteria. Do either of you want to come in here?

Mr Peter Sondergaard: Yes, this is what we do in the programme: we assess the proposals that come in. In some ways, we have a very simple job, which is to provide added value complementary to other donors and especially EU donors. That means that every time we have an application come in, we look at the group that is applying to us and we ask whether they could get this money from another donor. We ask whether another donor would have the capacity to provide it. If the answer is yes, then it is very simple: we do not provide funding to them. So when we have groups that are already well funded by the EU
instruments, we do not need to fund them. If for some reason they cannot get that support, it could be because they are an unregistered group that would not be eligible for donor funding, they might be too critically sensitive for other donors to provide support, or they might need the money very fast, meaning that they need a fast reaction. Other donors cannot do this, and this is clearly the added value of the EED. Or it could be that they need institutional support—support for salaries, etc—where other donors would not step in. Such donors would say, “We can only provide support to you if it is for project activities”. If this is the case, then we can say, “Okay, we can engage with this group”.

Then we look at who the group is and we ask whether it is a relevant group to support—whether it is a group that we think has the capacity and the perspective to justify support. In this assessment of the group, we use local consultants based on the ground. We communicate with the German Stiftungen, with UK embassies on the ground and with the rest of the diplomatic community, who have the information on the ground to get feedback on these groups. Then, if the feedback is positive, we also look at the activities that they propose and at whether those activities fit in the country context. Here we also apply a model of coaching, which means that there is a negotiation going back and forth about whether the activities that they propose to us should be changed. That is the process.

I should also just highlight the question of supporting movements and so on. We facilitate people’s activism; we do not induce that activism. That means that we do not pay people to stay out or to do protests and so on. However, if there is social activism and we see that groups would like to do something, then we provide support so that they can actively do that and can contribute to the political, democratic process.

Q133 Lord Lamont of Lerwick: What would that support consist of?

Mr Peter Sondergaard: To be very specific, as part of Euromaidan there were several groups. For instance, a student group in the Euromaidan was distributing leaflets and information. They came to us and asked for support so that they could gather students from all over the country, especially students from the eastern part of the country, so that they could have a national discussion with other students. This was support that they needed very fast, so we provided them with support to conduct that meeting.

Lord Lamont of Lerwick: What sort of support?

Mr Peter Sondergaard: This was support so that they could pay people to come to one place to have the meeting. It was to pay for bus trips, train tickets, overnight lodging and so on. That was one example.

Lord Lamont of Lerwick: And what about literature? Would you pay for them to get their literature printed?

Mr Peter Sondergaard: Yes, we would, but in the case of Euromaidan we tried to strike a balance between facilitating and giving direct support to promote certain ideas. It depends on the specific context. We supported the infrastructure around Euromaidan but not the actual protests as such. That might include information going out from Euromaidan which was not actual protest—a newsletter, for instance, in Ukrainian, English and Russian on what was going on in Euromaidan, but not support for making the leaflets, etcetera. This we did not engage in. It is very context-related. When we do give support, it depends very much on the specific situation. We also support some groups when their leaflets are informing—

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Lord Lamont of Lerwick: Would you give them information that could be included in the leaflets?

Mr Peter Sondergaard: No, we would not. That is the whole point. We facilitate their activism; we do not tell them how to be activists.

Lord Lamont of Lerwick: It would be financial.

Mr Alexander Graf Lambsdorff: Let me just conclude with one remark. What you have heard from our director of programmes shows you that, within a little over a year of the EED being in existence, more than 1,200 applications have come in. With the level of scrutiny that is taking place, it is extremely labour-intensive. We are doing this with 13 people in the secretariat, which is a very small number. Member states have suggested that they would second diplomats or other people from their government structures to the EED, but that has not happened so far.

You asked me about the relationship between the UK and the EED. I have said that intellectually it is there but, financially, more could be possible. However, the work that is being done could also be supported through the secondment of staff. As you have just heard, an enormous amount of scrutiny, evaluation and coaching goes into these projects. Therefore, this is something that you will have to look at.

Lord Lamont of Lerwick: How many people did you have in Ukraine?

Mr Alexander Graf Lambsdorff: Formally speaking, at the time we had zero hired staff. There was one during the local protests but we do not have permanent staff outside the secretariat. There are no country officers in Kiev. We have local consultants. In media terms, you would call them “stringers”. They provide information but they are not permanent employees of the EED.

Dr Alastair Rabagliati: Can I just highlight that our slogan is “Support the unsupported”? That is also very much the modus operandi when we try to reach out to activists who have not received support from other institutions. We have a much more simplified procedure in terms of application forms and reporting compared with, for example, European Commission grants. Many people who have one month’s or six months’ experience would never be able to successfully get a European Union grant. We try to complement the European Union by providing this sort of start-up support to the unsupported as an extra way of providing complementarity.

The Chairman: Thank you very much. I am sorry that we need to end. We are going to see the Russian ambassador and we should not be late for that.

Mr Alexander Graf Lambsdorff: We have brought for you, for the record, the statistics as of October 2014 on regional distribution, thematic distribution and financial allocations, if you are interested.

The Chairman: Thank you very much
Evidence submitted to aid the House of Lords Select Committee’s inquiry into the relationship between the European Union (EU) and the Russian Federation

1. I would like to take this timely opportunity provided by the House of Lords EU Sub-Committee’s Inquiry into EU-Russia relations to explore EU policies in the context of the Russia-Ukraine crisis and to provide recommendations as to how to move forward. In this policy memo, which I am submitting in personal capacity and which is informed by empirical scholarship and academic and policy debates on the question of Russia’s relations with the EU, I will focus on four interrelated questions: (I) the question of the effectiveness of EU sanctions; (II) the EU’s hydrocarbon dependency on Russia; (III) the normative dimension of EU’s involvement in Russia and broader post-Soviet region; and (IV) the EU’s short- and long-term strategy in Russia and the region. The final section (V) of the memo will summarize the key points and policy recommendations made.

(I) Sanctions

2. To date, the EU has put into effect four rounds of sanctions against Russia. These sanctions have already had adverse consequences for the Russian economy. Sanctions have also affected the narrow circle of individuals closely associated with President Vladimir Putin. The sanctions regime has also had adverse effects on the economies of EU member states both directly—due to the limits imposed on trade with Russia as part of the sanctions regime—and indirectly, as a result of the Russian government’s ban on imports of EU produce imposed in response to EU sanctions. The key question is whether the adverse consequences of the sanctions for EU economies can be justified with reference to the attainment of the EU’s short-term contingent, and longer-term strategic, objectives, which motivated the imposition of sanctions in the first place. The immediate, shorter-term considerations in imposing the sanctions have been apparently punitive in nature, and were largely driven by US pressures to demonstrate Western unity in condemning Russia’s annexation of Crimea and, subsequently constituted a response to public outcry following the downing of the Malaysian Airlines aircraft. There is also apparently a deterrent component in the sanctions regime, the objective being to constrain Russian support for separatist forces in Eastern Ukraine in the ongoing conflict, while also preventing the repetition of a similar scenario elsewhere in the post-Soviet space in the future. Finally, in international practice, sanctions are often imposed with the objective—implicit or stated—of dismantling a regime that poses a threat to global or regional peace and security when other actions aimed at altering the regime’s domestic and international practices fail.

3. While fulfilling the objectives of placating domestic constituencies outraged at the downing of a civilian aircraft and demonstrating solidarity with the EU’s key Western ally, the US, sanctions have exposed or possibly exacerbated the deep divisions among EU member states. In particular, Russia’s key trading partners; those heavily dependent on Russia’s hydrocarbons; and those that also see Russia as an ideological ally—as would be the case with Hungary’s Viktor Orban—expressed deep reservations about sanctions and, in the process of EU discussions over an appropriate sanctions regime, ensured that they would be
delayed or watered down. Exposing such deep divisions over principles even in the face of what many observers have described as the most serious threat to the European order since the end of the Cold War is bound to affect negatively the EU’s wider economic, strategic and, as I further elaborate below, normative objectives in the region. Over the past decade, Russia has exploited EU member states’ vulnerabilities stemming from Europe’s dependency on Russia’s oil and particularly gas exports. More recently, as part of its emerging “soft power” agenda, it has sought to cultivate political divisions within and among EU member states, supporting, and by some accounts funding right wing and Eurosceptic parties; or cultivating allies among undemocratic forces and regimes in Europe. The manifest divisions over sanctions policy have further played into Russia’s strategy of cultivating or capitalizing upon Europe’s divisions and vulnerabilities. Some observers would point out that sanctions might have had a short-term deterrent effect on Russia’s involvement in the conflict in Ukraine. For instance, the Minsk process could be interpreted in terms of Russia’s willingness to moderate its encouragement of separatism in Eastern Ukraine, and to signal the abandonment of any ambitions it might have had to pursue military intervention in the Baltics or Moldova. Yet others would argue that Russia’s objective had never been to annex eastern Ukraine, let alone to attack Baltic countries, which are members of the NATO alliance; rather, the aim has always been to create a frozen conflict scenario in Ukraine similar to the one in Moldova’s Transnistria or Georgia’s Abkhazia and Ossetia regions—conflicts which undermine or indefinitely postpone these states’ accession to such Western bodies as the EU or NATO.

4. While the deterrent effect of sanctions against Russia to date is debatable, so too is their potential to radically alter the nature of Russia’s political regime, at least in the short term. Sanctions might have well contributed to elite divisions that may be already simmering behind the façade of a patriotic consensus. The Putin regime might also anticipate popular discontent spurred by rising food prices, wage arrears, and industrial layoffs exacerbated by western sanctions and Russia’s retaliation in the form of a ban on EU food imports. Ultimately, however, as a petro-state, Russia is more resilient to the economic shock of sanctions than would be the case with resource-poor economies. While sanctions have compromised Russia’s future oil and gas exploration projects, much of Europe continues to depend on Russia’s hydrocarbon exports even under a sanctions regime. Russia thus continues to generate revenue from exports of oil and gas. Recent moves to instigate the state take-over of the private oil company Bashneft indicate that Russia will continue to rely on the energy sector as a state and regime survival strategy, even if it involves resorting to measures that further undermine Western confidence in its business environment.

(II) Hydrocarbon Dependency

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5. A more appropriate strategy for the EU would have been to focus on reducing EU member states’ dependency on Russian hydrocarbons. By discreetly strengthening a policy that is already under way, the EU would have demonstrated long-term strategic thinking, while avoiding much of the sabre-rattling and hostility that sanctions have elicited from Russia. The EU has gone some way towards fulfilling this objective in recent years, constructing LNG facilities and diversifying the oil and gas supply and transit infrastructure away from Russia. Yet the recent crisis has further underlined the extent of continued hydrocarbon dependencies on Russia, which magnifies the perceived security vulnerabilities of smaller nations like the Baltics in particular in the current crisis. It is also worth noting that the objective of diversifying away from Russia has been somewhat compromised because Western companies have continued to insist on business partnerships and joint exploration projects with Russian oil and gas majors. Furthermore, prominent political figures, elder statesmen, retired ambassadors, leading entrepreneurs, and other individuals with access to political decision making in the various EU member states, including in the UK, sit on boards of Russia’s energy and other major companies or are otherwise engaged in advisory capacity with them and thereby have a stake in such continued collaborations.

(III) EU as a Normative Power in the Region

6. While pursuing a sober, pragmatic policy of enhancing its energy security—a policy that would ultimately contribute to the erosion of the economic foundations of the authoritarian regime in Russia—it is also in the EU’s best strategic and economic interest to continue to strive to maintain its stature as a normative power which operates according to a core set of principles and values. What the EU did get right in its policy in the former Soviet Union over the last twenty five years was funding thousands of projects nurturing civil society, media freedom, and municipal autonomy and capacity. These projects may often appear unglamorous in nature, as they in practice represent sponsoring cross-border exchanges in small towns, purchase of computer equipment for a community civil society group, or student scholarships. Research however indicates that even in Russia under Putin such discreet efforts can help nurture islands of resilience to authoritarianism. EU projects of this kind, often pursued in collaboration with regional and local authorities, are much less of an eyesore and irritant to the Putin regime than the widely televised distribution of cookies to protesters on the Maidan by a senior US official, and they are much less likely to provoke an intensification of a backlash against civil society.

(IV) The EU’s Short- and Long-term Strategy in the Region

7. How should the EU abide by its principles as a normative power specifically in the context of the current crisis between Russia and Ukraine and Russia and the EU, in the short term? One option would be for the EU to develop a form of “linkage” policy whereby Russia’s demands to have a stake in Ukraine’s institutional architecture would be matched by commitments that it would pursue equivalent policies at home. Russia may not seriously consider implementing democratic reforms domestically, yet a “linkage” strategy would

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expose the Putin regime’s hypocrisy in pressing for domestic political changes in Ukraine ostensibly on the grounds of concern for the rights of its citizens. For instance, the EU could point out more forcefully that Russia ought to safeguard the legal provisions for its own regions and municipalities to enjoy genuine forms of self-government if it is to have a stake in negotiating the future autonomy of Ukraine’s regions with substantial Russian-speaking minorities.

8. Some observers would argue that such a strategy would be counterproductive as it would exacerbate Russia’s concerns about EU meddling in the region to widen its orbit of political, economic, and strategic influence in the guise of democracy promotion. Furthermore, many observers would point out that Russia’s concerns about EU enlargement and any moves towards attaining that objective even in the long-term—which is interpreted as a precursor to NATO entry—are motivated by a historical record of vulnerabilities to attack from the West. Yet, to counter this argument, one might invoke Europe’s own history-informed security vulnerabilities stemming from an awareness of the havoc that dictatorships can wreck on their people and their neighbours. By contrast, consolidated democracies are less likely to go to war with other states than undemocratic or transition states. Because they have mechanisms of popular accountability in place, democracies are more likely to invest in public services, to safeguard the rule of law, and refrain from political repression—factors that help enhance social cohesion and minimise social and political instability that might have serious domestic and external repercussions. The EU should thus more forcefully counter Russia’s security narrative with a counter-narrative of EU’s own legitimate security concerns about the kinds of political regimes that it finds in its eastern neighbourhood. Russia under Putin may not understand the language of norms, but it understands the rhetoric of security.

9. In elaborating a longer-term strategy on Russia, the EU should take into account the longer-term dynamics of domestic politics and underlying social trends in Russia going beyond a focus on Putin and his entourage. While there is a short-term rallying effect around Putin following Crimea’s annexation, recent public opinion surveys reveal growing disaffection with corruption, poor public services, and weak rule of law. Systematic research into social activism that this author has conducted—involving an analysis of thousands of protest acts across Russia—shows that there is a strong latent potential for rapid citizen mobilization of the kind that we observed on the streets of Moscow, St. Petersburg, and all across Russia in December 2011-March 2012. The repression that followed the re-election of Putin to his third presidential term in March 2012 has simply driven political activism into more “safe” forms of civic mobilization around non-political issues. Research shows that such a-political protest can however rapidly mutate into politicised contention when political opportunities open up.25

10. The EU should anticipate political openings—and accompanying street protests—on Russia’s regime landscape in the near future given the likelihood of elite splits over Russia’s handling of the Ukraine crisis and the consequences for Russia’s economy that followed. Recent mass protests in the Middle East and indeed in post-Soviet settings highlight the

uncertain implications for democracy of citizen street contention. Given the role of Russian state media in promoting an exclusive brand of Russian nationalism, we should be prepared for the Ukraine scenario of street protests being hijacked or capitalised upon by otherwise marginal right-wing extremist forces. As is well known, the nationalist narratives in Russia’s propaganda offensive against Ukraine and the West have also exploited the sentiment of marginalization of Russia’s interests in the EU enlargement process.

11. It is all the more imperative in this context, in elaborating a strategy of supporting forces conducive to democracy in Russia after Putin, for the EU to consider first and foremost articulating a clear message about the future of Russia—and indeed other post-Soviet states which at present do not have clear membership prospects—in the EU enlargement process. The ambiguity as to Russia’s prospects for joining the EU even under the hypothetical scenario of Russia’s becoming a consolidated democracy works against building a constructive partnership relationship—and trust—between Russia and the EU and feeds into resentments capitalised upon by extremist forces. If the simple reason for Russia’s marginal prospects of EU entry is that it is too big geographically for the EU to swallow—and that the EU would not like to find China on its borders—even under the above hypothetical scenario, then this message should be clearly articulated. Alternatively, if the door is open to Russia in the distant future, then the EU should articulate a clear set of conditions a country the size of Russia would have to fulfil to qualify for entry and provide clear justifications to its member states and domestic constituencies as to the EU’s ability to absorb and support such a large economy. The EU of course faces many of the same issues with regard to Ukraine—a large populous country with substantial regional socio-economic disparities, whose Association Agreement with the EU is interpreted in Russia as a step towards quick accession. The EU therefore has to work even harder to articulate and justify more clearly why its position on Russia would be different, to avoid a charge of double standards.

(V) Summary of Key Points and Recommendations

12. To summarize, in elaborating a short- and long-term strategy on Russia, the EU should endeavour to:

Reconsider the policy of sanctions whose prospects of influencing Russia’s policy in Ukraine are uncertain, while developing a systematic long-term strategy to substantially reduce Europe’s hydrocarbon dependency on Russia;

Continue efforts to support media development, civil society, and democratic governance at regional and local levels across the country;

In negotiations over the status of Ukraine’s eastern regions, acknowledge Russia’s role, but as part of a “linkage” policy that would involve Russia’s reciprocal commitments to safeguard the rights of its minorities and genuine autonomy of regional and local governments at home. This strategy would not mean blunt acceptance of any terms Russia would wish to impose on Ukraine. Rather, it would envisage giving Russia a voice in articulating a constructive agenda for regional autonomy that would not involve Ukraine’s dismemberment or a frozen conflict scenario;

Be firm and consistent in articulating concern that an authoritarian form of government in Russia poses legitimate security concerns to the EU. At the moment, many analysts critical of the EU’s Eastern Partnership process appear to have fallen hostage to Russia’s claims of
its exceptional security vulnerabilities posed by EU enlargement. Yet the EU can just as well argue that its support for democratic governments in the region is motivated by its own legitimate vulnerabilities stemming from the 20th century record of dictatorships wreaking havoc on the continent;

Continue to support the democratic aspirations of states in the Eastern Partnership area. At the same time, strive for transparency in articulating whether in principle Russia itself has a place in the EU in the future.

Tomila Lankina
Associate Professor
International Relations Department
London School of Economics and Political Science

2 October 2014
Origins of Ukrainian crisis: While discussing the reasons of the Ukrainian crisis and Russian actions, it is important – in addition to the purely domestic factors of the Russian politics which other experts have mentioned - to take into account the irrational fear of the NATO many Russians have. Even liberal-minded people in Russia often honestly state that for them expansion of the NATO towards the east is a point of concern. It is obviously the case for the Russian leadership. The events in Kyiv in February 2014 triggered this irrational fear, combined with the fear of colored revolutions (in the eyes of the Russian leadership, Euromaidan is just one more step in the sequence of events, which were initiated by “the West” and could eventually threaten Putin’s regime), and it resulted into Russian actions in Crimea and in the Eastern Ukraine. Given the deep mistrust Russian leadership has towards “the West” (which became even larger in the last year), it is hardly possible to change this perception of the Russian leaders. It also means that the Russian leadership is driven in Ukraine by what it believes to be its security concerns and what it values above all other goals.

Somewhat simplified, one could argue that the Russian leadership is using a two-level approach to decision-making in all areas. The first level includes perceived security concerns (for Russia and for Putin’s regime – Russian leaders hardly separate these two), and it clearly has priority as opposed to the second level – all other issues, including, for example, economy, some aspects of domestic politics etc. Issues of the second level can be negotiated upon; here Russian leadership is often flexible and able to compromise. But for the issues of the first level the readiness to compromise is very low (and massively constrained by the lack of trust), and here Russian leaders are following their course of action with extreme rigor. This is what we have seen in the last months. Russia is experiencing major economic troubles - however, it did not really change the behavior of the Russian leadership in Ukraine. On the other hand, in the issues outside the “security core” – e.g., gas negotiations – compromise is possible (although sometimes difficult to achieve).

Economic situation in Russia: Economically, Russia is now in a very bad shape. It is determined primarily by its long-term structural problems, which have resulted into a decrease of economic growth already in 2013. Low protection of economic property rights, corruption and inefficient bureaucracy deter investments. These negative trends have been amplified by the oil price decline of the last months and to some extent by sanctions (although so far the effect of sanctions has been rather limited – they may have stronger effect in the medium run). The economic trouble strengthened the debate between those parts of the Russian elites, which advocate liberalization and integration into the global economy, and those, who favor protectionism – the former seem to triumph (with food sanctions being the best example). However, as of now this protectionism does not translate itself into a desire to establish full autarky – on the contrary, Russian elites seem to be clearly against it. They merely envision more regulated and protectionist foreign trade, but, for example are still open to foreign investments. Still, this protectionist policy is likely to contribute negatively to economic development in Russia. Generally speaking, it is unlikely
that Russia will face a major economic collapse in the short run, it is likely to enter a lengthy period of stagnation and lose its chances to modernize the economy.

**Prospects:** Finding a sustainable and resolute solution the Ukrainian crisis in the near future is unlikely to be feasible. As of now, the task could be not to search for final solutions, but rather to concentrate on managing the crisis, i.e., preventing it from escalation, searching for opportunities of dialogue and, above all, preventing the military conflict. Managing the crisis would imply keeping communication channels open and trying to avoid unnecessary emotions and rhetorical escalation. It also requires searching for new formats for dialogue. For example, for economic issues discussions between the EU and the Eurasian Union could be fruitful, since the latter also includes Kazakhstan and Belarus, which show clear interest in de-escalation. However, one has to be prepared that the Ukrainian crisis will remain a long-term matter.

**EU and NATO:** Discussions about the NATO membership of Ukraine are, as of now, counter-productive. It is clearly strengthening the irrational fear of the Russian leadership and does not support the de-escalation in any form (and does not increase the security of the European countries or of Ukraine itself). A more difficult question is whether one should give EU membership prospects to the Ukraine. On the one hand, in the long run, this option cannot be excluded entirely (in this “very long run” even Russian membership in the EU could be discussed). However, part of choosing the approach of “managing the crisis” instead of searching for short-term ways of “solving the crisis” implies that one treats such a long perspective without clear commitments or goals. In the medium and short run, the key issue is to deal with restoring Ukraine’s economy – the country is currently facing a major economic crisis (economic problems of Ukraine are much larger than those of Russia). In the foreseeable future, economic situation in Ukraine does not make joining the EU a realistic option. Solving economic problems for Ukraine requires that Ukrainian elites do not focus exclusively on the conflict in Donbass (as, for example, the Moldovan leaders did in a comparable situation – for almost two decades focus on Transnistria delayed the necessary economic reforms) and concentrate on rebuilding their economy. While it is unlikely that any external funding, which can realistically be provided, will be enough to “rescue Ukraine”, the EU could provide help in designing and implementing economic reforms, improving quality of bureaucracy etc. At the same time, the expectations regarding the future of Ukrainian economy should also be kept low – there are almost no “economic success stories” in Central and Eastern Europe, and one should not expect Ukraine to become one “by default”.

*November 2014*
In the course of your 9 September evidence session with Foreign and Commonwealth (FCO) and Business Innovation and Skills (BIS) officials, it was agreed that they would write to you to answer two further questions. I am writing to you on behalf of the FCO and BIS.

**Question:** Witnesses have informed us that when dealing with Russia the EU must practise what it preaches and uphold a rules based system. How does the UK Government intend to support the Commission’s efforts to combat corruption and its efforts to create a more balanced and open energy market within the EU?

In Ukraine, combating corruption was one of the earliest demands of the Maidan protesters and was a key part of the manifesto under which President Poroshenko was elected. The UK has worked with Ukraine and the Commission since February to help combat corruption and asset recovery. We hosted the Ukraine Asset Recovery Forum in London on 29 and 30 April in order to help recover assets stolen by the former Ukrainian regime. We are now planning £0.5m investment in supporting ongoing asset recovery investigations. On 21 August, the UK launched a two year £4.3 million programme to provide rapid technical assistance to the Ukrainian Government. This will be led by DfID through the British Embassy in Kyiv.

The UK continues to work to address corruption in Russia through global frameworks and forums such as the Organisation for Economic Co-operation and Development (OECD). In April 2012, Russia became a signatory to the OECD Anti-Bribery Convention and the Working Group on Bribery continues to encourage Russia to address serious, fundamental, concerns about its implementation of the Convention.

The UK Government is supporting the Commission to create a more balanced and open energy market by pressing for full and effective implementation of the Third Energy Package in all Member States and swift adoption of the gas and electricity network codes which will minimise barriers to cross-border trading and facilitate market integration.

**Does the UK government support the Commission’s efforts to suspend the South Stream project until there is full compliance with EU legislation?**

The UK strongly supports the Commission’s stance that South Stream should fully comply fully with EU law; all existing Intergovernmental Agreements with South Stream countries should be renegotiated to reflect Third Energy Package requirements, including third party access; and all existing contracts that have so far been tendered should be renegotiated. We believe the South Stream is damaging from an economic and foreign policy viewpoint and could be used to threaten Ukraine both economically and politically. Its completion will neither increase European energy diversity nor lessen the dependence of the EU on Russian energy, which is proving to be of key importance to the EU at a time when Russia has shown it cannot be considered a trusted partner, and at a time when Poland recently reported reduced supplies from Russia.
Rt Hon David Lidington MP, Minister for Europe, Foreign and Commonwealth Office—
Written evidence

**Question: Is there a role for the EU and Member States to hold Russia to her international commitments in multilateral institutions such as the Council of Europe, OECD, WTO and international finance institutions?**

There certainly is a role for the EU and its Member States to play through international institutions such as the Organisation for Economic Co-operation and Development (OECD) and World Trade Organisation (WTO), both of which provide fora and mechanisms to promote global economic well-being through transparency and fairness. It is right that we should work through these bodies to encourage Russia to behave as a responsible member of the international community and adhere to the principles and rules of the institutions—particularly where membership is based on the principles of these shared values and interests.

On 12 March 2014, following actions taken by the Russian Federation to illegally annex Crimea, the OECD, at the request of its members including the UK, postponed activities related to Russia’s accession to the OECD. Cooperation continues with Russia in this body at technical working level to take forward much needed reform, but Russia is no longer given a political voice in the group.

Russia became the 156th member of the WTO on 22 August 2012. Since then, the EU has filed a number of disputes against Russia’s non adherence to its WTO obligations. This year alone, the EU has filed a dispute against Russian import restrictions on pork products and Russia’s anti-dumping duties on light commercial vehicles. We consider Russia’s recent year-long import ban on food products from the EU members and other states to be unjustified and completely inconsistent with the principles of its WTO obligations. We, alongside our partners in the EU, will continue to review what steps might be taken in the WTO framework to address this.

It is also worth mentioning the OSCE as it remains the most appropriate vehicle to support a permanent ceasefire in eastern Ukraine, and have encouraged other international organisations including EU and NATO to work in close coordination with them. Following the Minsk Agreement of 5 September, the OSCE Special Monitoring Mission (SMM) issued a plan to expand to its full mandated capacity of 500 monitors. The UK has already provided £1.8m to the original budget, and 15 monitors, and we are now looking at increasing our contribution.

**What does the UK Government intend to do?**

We are continuing to look at where pressure can be applied to Russia to meet the international commitments it has freely signed up to. As was stated during the evidence session, Russia cannot be allowed to flaunt the international order and change borders by force with impunity. We will not recognise the illegal Russian annexation of Crimea and will continue to support Ukraine, both in bringing about a fair and just resolution to the Moscow conceived crisis in the east, and in terms of the country’s future development and prosperity.

I am copying this letter to Sir William Cash MP, Chairman of the House of Commons European Scrutiny Committee, the Clerks of both European Union Committees, Les Saunders
Rt Hon David Lidington MP, Minister for Europe, Foreign and Commonwealth Office—
Written evidence

at the Cabinet Office, Jonathan Worgan and Faisal Moosa, FCO Departmental Scrutiny Co-
ordinators and Victoria Butt, FCO Select Committee Liaison Officer.

THE RT HON DAVID LIDINGTON MP

3 October 2014
MONDAY 15 DECEMBER 2014

Members present
Lord Tugendhat (Chairman)
Baroness Billingham
Baroness Bonham-Carter of Yarnbury
Baroness Coussins
Lord Foulkes of Cumnock
Baroness Henig
Lord Jopling
Lord Lamont of Lerwick
Lord Maclennan of Rogart
Lord Radice
Earl of Sandwich
Lord Trimble
Baroness Young of Hornsey

Examination of Witness

Rt Hon David Lidington MP, Minister for Europe, Foreign and Commonwealth Office

Q253 The Chairman: Good afternoon, Minister, and thank you very much for coming. We have an unusually large audience on this occasion. As I think you are aware, this is the final session of inquiry into EU-Russia relations, and I think it is very appropriate, therefore, to have a UK Minister in that particular position. As you know too, it is all on the record and so forth. We have sent you a number of questions; I am sure there will be supplementaries.

Before I start, could I thank you very much for your courtesy in warning me that you might be taken away to do an urgent Question or a Statement? I am delighted that you have not been, but it was very good of you to alert me to that possibility.
Rt Hon David Lidington MP, Minister for Europe, Foreign and Commonwealth Office—Oral evidence (QQ 253-263)

To begin, what lessons regarding the EU’s relationship with Russia do you feel have been learnt from the events of the past year? At both a UK and EU level, what steps have been taken since the crisis in Ukraine to ensure that the EU—by which I mean the member states as well as the institutions—has the analytical capacity to understand Russia and engage in constructive dialogue in the future? How is the dialogue between the EU and Russia being managed ahead of the implementation of the association agreement with Ukraine? That is quite a mouthful.

Mr Lidington: Thank you, Lord Chairman. I should say that I am being supported this afternoon by two officials: Mr Keith Shannon on my right and Mr Jason Rheinberg on my left.

Your questions raise a number of different but linked questions, and let me deal with the strategic question first. I think that, as this year has gone on, there has been a significant shift in how the British Government and, I think, how European Governments generally have seen Russia. If you had posed that question to me this time in 2013, I would have said that the Government regarded Russia as an awkward, difficult partner but a potential partner still, and that we were seeing movement, through their membership of the WTO and prospective membership of the OECD, to the integration of Russia into a rules-based international system.

I think that now the feeling is that Russia cannot be considered a potential strategic partner to the EU, that Russia’s actions have fundamentally challenged the foundations of international order and the rule of law by violating the territorial integrity and sovereignty of one of its neighbours, and that the actions of the Russian Government suggest that they see the EU as a strategic adversary rather than as a potential partner.

In terms of the internal response within the Government, within the Foreign and Commonwealth Office we have strengthened considerably the Eastern Europe and Central Asia Directorate, increasing the number of senior staff and deputy directors, and expanding the desk teams working on both Ukraine and Russia, and that is a mixture of both permanent additions to the complement and short-term reinforcements. Other government departments have also increased their staff resource for dealing with Russia and Ukraine.

At EU level, the handover from the Barroso Commission to the Juncker Commission has complicated matters. A lot of staff—particularly cabinets—have moved on. A number of Directors-General and Deputy Directors-General too have been on the move. The Commission has established a support group for Ukraine—it did so back in April—to try to provide a central focus for the Commission’s work on Ukraine, and the EU and the Government of Ukraine have put together a European agenda for reform. I think it is also fair to say, however, that a fair amount more needs to be done in analysis and strategic thinking at EU level, and we very much look to see the new officers in the EU pursue that.

As far as Russia is concerned, the relationship has been very difficult. There has been a dialogue with Russia on the association agreement and the free trade agreement with Ukraine. That was initiated as soon as the Russian Government indicated that they had serious concerns about those treaties. There have been several rounds of discussions, and there is a commitment at the European level for that to continue, but I think that our fundamental problem is that the Russian efforts to destabilise Ukraine have not abated—they are continuing—and it is hard to see how there can be a constructive way forward while that continues.
The Chairman: Thank you very much. Just one small supplementary question. My impression—and, I think, the impression of all of us—is that, not only in the British Foreign Office but in the foreign offices of some of the other major member states, there is not—how can I put it?—quite the same level of expertise about Russia now as there was at the time of the Cold War, and that the level of expertise about Russia as distinct from trading arrangements and technical matters in the European institutions is probably not as great as the present situation demands. In other words, there has been something of a knowledge-analysis gap, as I say not just here but elsewhere. Would you agree with that?

Mr Lidington: I do rather agree with that. That is in no way to criticise the expertise or the commitment of the officials who were at the Russia desks when the crisis struck at the start of this year. If I look back, I think it is fair to say that pretty well every western Government had made various assumptions about Gorbachev and Yeltsin years and, indeed, the early indications in Mr Putin’s first term as President, showing that Russia wanted integration into a global rules-based system, and steps such as G8—Russia’s participation continues in, for example, the dialogue of the six with Iran on its nuclear programme—showed that Russia was serious about being an international partner.

It is also simply a matter of fact that by the beginning of 2014 there were very few officials in any government department or agency, here or elsewhere, who had personal professional experience of working with the old Soviet Union before it collapsed. That is nobody’s fault; it is reality, due to the lapse of time. I think there has been a recognition this year that we needed to refocus in the light of the challenge and in the refusal of Russia to take what Secretary Kerry described as the off-ramp solution in the early weeks and months, and de-escalate at that stage.

Q254 Lord MacLennan of Rogart: When we were in Brussels, Minister, we heard from DG Trade that they had not been in contact, when they were negotiating with Ukraine about the implications of this politically, with other Directors-General, and it seemed that the Commission was not focusing on the possible outcomes. Do you think that now that we have a new Commission—or new heads of Commission—we may have a rather better understanding across departmental divisions?

Mr Lidington: DG Trade, of course, has responsibility for the international trade negotiations in particular, but the association agreements and the DCFTA, which goes more broadly than what we traditionally regard as trade matters—the deep and comprehensive free trade agreement touches on things like human rights as well—were considered elsewhere in the Commission and by the External Action Service, and then by member states through the normal Brussels machinery involving permanent representatives, and by Ministers as well. The reality is that as soon as the Russian Government expressed serious concerns about the compatibility of the free trade agreement between the EU and Ukraine with existing CIS free trade arrangements, a dialogue was begun, but Russia left it very late in the day. These agreements had started negotiation back in 2007 under Yushchenko. They were continued by President Yanukovych, who, after all, is not renowned as somebody who is hostile towards Russia, and it was only late in the autumn or early winter 2013 that the Russians really did start to flag up a concern. At that point, dialogue was offered to them. I will be honest with Lord MacLennan: I think this was more a pretext than a genuine concern that there was a serious threat to Russia’s economic interests.
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Lord Trimble: Minister, I take the view in the present circumstances that giving help to the victim is probably more important than sanctions on the wrongdoer. The question, then, is: what is the level of EU support currently being offered to Ukraine? Is this sufficient? How great is the threat of default, which we see is being mentioned currently in the Ukraine? Going forward into the future, how would not just EU support but support generally be sustained, and what are the priority areas for that support and for reform in Ukraine?

Mr Lidington: The EU, historically and now, is the biggest international donor to Ukraine. In March this year, an EU support package of €11 billion was announced and, as I have said, a support group was established a month later, in April, to provide a focal point and structure for this. European money and a certain amount of bilateral assistance is being directed primarily at trying to equip Ukraine to carry through the economic, political and administrative reforms that it urgently needs to do. That covers a wide range of things, from advice on how to raise their phytosanitary standards so that they can take full advantage of the export opportunities that would arise from entering into force of the deep and comprehensive free trade agreement, through to judicial reform and institutional means of fighting corruption. It is not inventing something new, in a sense, because this is what western European countries did in offering help to central Europe 25 years ago, so it is very much the same looking-to-assist knowhow.

Of course, there is also a need for Ukraine to seek external help in financing the Government’s operations. A $17 billion IMF package was agreed earlier this year. I think everybody accepts that what has happened since then, and the fact that Russian intervention has meant that Donbass industrial production is not delivering to the figures that were assumed when the IMF package was agreed, means that there will have to be another look at financing. The IMF was out in Kiev last week; they have not reported and I do not want to venture an opinion until we have seen exactly what the IMF reports, but I would say to the Committee that it would not surprise me if there is a need to add to the financing package that was agreed earlier in the year.

Lord Trimble: It is likely that an addition to that package is going to be really substantial, because these comparatively small figures may have seemed appropriate at the beginning of the year, before the crisis really developed, but when you see what has happened and its impact on Ukraine—

Mr Lidington: I would not, at this stage, want to speculate about the figures. I think I would like to see what the IMF reports.

Lord Radice: We went to Berlin to speak to a number of people there, and one impression at least that I got from it was that if we are going to seriously help Ukraine, it will have to be for the long term. This is not something where we can say, “We have done it now”; it has to go on and on. Are we prepared to do that?

Mr Lidington: I can only speak for the present British Government, but I would say yes. It is very much in the interests of this country that Ukraine is able to modernise its economy and reform its political, judicial and administrative systems, and become much more like what we regard as a mainstream European polity.

Let me move away from the moral ground about human rights and the democratic wishes of the people of Ukraine, which they have expressed in elections twice this year, for a President and for a Parliament, and let us just look at British economic opportunities. A wealthier
Ukraine could become again the breadbasket for Europe, and there could be marvellous investment opportunities for the agricultural and food processing sector, for retailing and for energy investment, which would be a win for Ukraine in that it would allow it to develop and modernise its economy, and a win for British and other western companies that have the proven expertise to enable Ukraine to do that in the course of doing their own successful business.

**Lord Jopling:** I was in Washington last week with a presentation on Ukraine, and this issue was raised about support to Ukraine. The point was made by our interlocutor from the United States Government that we need to push a hell of a lot more money, as Lord Trimble suggested, and he made the point that it ought to be done in a comparable way to what we did to help Georgia after the Russian incursions a few years ago into Abkhazia and South Ossetia. Do you know off the top of your head how our support for Ukraine compares with what we did a year or two ago for Georgia and, if you do not, will you let us know?

**Mr Lidington:** I think the easiest thing is to write with that detail, but certainly we would want to look at Georgia. We would also want to look at what was done for Poland, the Visegrád countries and the Baltic states when they established their independence. Your point about the long-term commitment is absolutely vital. There is no point in doing this for two years and expecting all problems to be solved. For Ukraine to overcome the problems that it faces is going to be quite a long haul.

**Q255 The Chairman:** We had very recently the collapse of the South Stream pipeline, and looking a little further ahead we can see the end of the current Russia-Ukraine gas deal. Is there anything that you would like to say about either of those?

**Mr Lidington:** On the Russia-Ukraine gas deal, I am pleased that that deal was negotiated, and I do not think it is a great secret that Chancellor Merkel in particular was instrumental in bringing the two sides together. An agreement on gas was something that both the Russian and the Ukrainian Governments wanted to see happen, and the German Chancellor was able to engage in some successful bridge-building. We just have to hope the bridge is robust and not fragile. On South Stream, our view has always been sceptical, because South Stream was not going to provide European countries with an additional source of energy; it was simply going to enable Russian gas to be transported without crossing Ukrainian territory. From Ukraine’s point of view, they would have lost out on the fees that they would be able to get for gas transiting their territory, but it would still be the same Russian gas from the same sources as before. What Gazprom and the Russian authorities were angling for was an exemption from the requirements of the Commission’s third energy package, and that is something which the British Government resolutely opposed. I am not going to shed tears for the demise of South Stream, but there are important things that the European Union and member states need to do to improve their energy security, which include transmission systems like the trans-Anatolian pipeline from Azerbaijan into Europe but also developing all the indigenous energy sources that are available to European countries, whether that is renewables, nuclear or unconventional gas resources.

**Q256 Baroness Coussins:** How would you assess the impact of the EU’s sanctions policy so far? Are there any improvements that you would like to see, or are there any ways in which you think their enforcement could be made more consistent across the EU? Finally, do you
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think there have been any negative consequences of the current sanctions regime for either the EU as a whole or the UK in particular?

**Mr Lidington:** To take the second point first, on enforcement I have not seen any reports of other EU member states applying sanctions inconsistently or engaging in sanctions-busting. There are some concerns about third countries back-filling by selling into the Russian market in place of European exports, and we use diplomatic means to try to dissuade those countries from so doing. Sanctions are having a tangible impact upon Russia. They are an additional burden on top of the grievous structural weaknesses that Russia already faces in its economy and that have been laid bare somewhat by the recent collapse in global crude oil prices. But if we look at what has been happening in Russia, the rouble has continued to hit new historic lows against sterling, the euro and the US dollar. For the first time in five years, headline inflation in Russia is now outstripping wage inflation. Their central bank has revised its growth forecasts downwards to near zero for both the current and next quarter. Borrowing costs in Russia have been pushed up by sanctions and they are effectively locked out of western financial markets, and investment capital is now very wary about going into Russia, because there is an obvious fear on an investor’s part that either there might be retaliatory action by the Russian authorities or, if the aggression in Ukraine were to continue, sanctions could be ratcheted up and new investments fall foul of future strengthening of sanctions. They are having an impact, but I would be misleading the Committee if I said that it was yet bringing about a change of heart on the part of Mr Putin as regards Ukraine. We know that some very senior people inside the Russian system believe that this is taking Russia in the wrong direction—that this is doing harm to Russia. We believe there is some dissension within the Russian elite.

Finally, I was asked about negative impact. In terms of the United Kingdom, yes, there has been an impact on particular companies and particular sectors, not so much from the sanctions themselves as from Russia’s retaliatory ban on the import of food and drink from EU countries. In Scotland in particular, mackerel interests have suffered, and dairying. I was asked a question by one of the Northern Ireland MPs about this last week in the Commons. It tends to be food and drink, and some of the companies that perhaps had intended to invest further in Russia have deferred those investment decisions. At European level, the Germans have probably taken a bigger hit than the United Kingdom has, and the Baltic states—Lithuania in particular, and Poland, which are traditionally significant exporters of food stuffs into Russia—have obviously seen Russian retaliation hit their exports significantly.

**Lord Foulkes of Cumnock:** Would the United Kingdom have preferred stronger sanctions than were finally agreed? Do you think we could move into other areas? For example, we might put pressure on different sectors, such as sport, particularly football, because that would really hurt a lot of people and perhaps put extra pressure on Mr Putin and Russia.

**Mr Lidington:** I am not attracted by the idea of the Government issuing edicts to sportsmen and sportswomen or sports clubs for two reasons. Politically, they have tended to be counterproductive in the past, and it is a bit of an interference in where people can go and earn a living as individuals. Also, I think people-to-people contact is generally a good thing, and I think sporting contacts tend to fall on that side. Ultimately, we have a good principle in the UK that it is for sporting authorities to take this kind of decision rather than for Governments. There has been contingency work on both sides of the Atlantic about the
potential further strengthening of sanctions. We—the EU and the United States—have been looking at further targeted sectoral sanctions in the event of things deteriorating further. Contingency plans have been worked up. Would we have liked them to go further? I do not think it is a secret that the UK this year has been on what I might term the hawkish side of the sanctions debate, but it was important that we got consensus on this, both within the EU and across the Atlantic. The Prime Minister has personally worked very hard to make sure the US and EU positions have been as consistent as the different executive systems on the two sides of the Atlantic make possible.

**Lord Maclennan of Rogart:** We have had evidence from two former distinguished ambassadors to Russia that they considered sanctions to be a mistake for the West. It does seem that we are cutting off the possibility of dialogue by this means, and we are hoping that there will be sufficient internal ructions to enable that talk to take place, but if it is simply a matter of Putin backing down, it is really something that one cannot predict. I find it surprising that two distinguished members of the Foreign Office who have had long experience in Russia would find themselves counter to what the Government are doing at the moment. Can you explain this?

**Mr Lidington:** The Foreign Office is accustomed to employ independent-minded people who give Ministers in all Governments the benefit of their advice, even if that means challenging what Ministers would prefer to do. That does not surprise me. The FCO is full of very independent-minded and able people, and retired diplomats are entitled to their opinion and to express it publicly. I do not think that this country or the EU could have simply sat back and ignored what happened, particularly from the annexation of Crimea onwards.

Sanctions were not the first step. I remember sitting around the Council table in Brussels in January this year, where we were wondering what was going to happen. There were rumours that perhaps there would be some sort of Russian intervention in Crimea. The mood at that point was a reluctance to believe that Russia would take the most hard-line of the options available to it. There was a faith in the diplomatic approach. John Kerry in particular, although he spoke for allies in Europe and the US, was focused upon the off-ramp solution—a diplomatic way for President Putin to back down without losing face—but that approach was rejected. Russia formally annexed Crimea within days of sending its troops in to occupy the peninsula. That act of annexation was an outright breach of the UN charter; it was a breach of the Helsinki Final Act; it was a breach not just of the Budapest memorandum but of treaties that Russia herself had concluded with Ukraine and others at the time of and since the break-up of the Soviet Union. I do not think we could have just said, “This is business as normal”, particularly when at the back of our minds there was the precedent of Georgia in 2008, after which we had allowed business to go back to normal and thought that that was an exception to the trend in Russian politics.

I do not think we were wrong; nor do I think that sanctions have been ineffective, as I have said, or that we have ceased to offer dialogue. Our Prime Minister, Chancellor Merkel, President Hollande, or Barroso when in office, have been talking to the Russians and offering more talks. What has been lacking is, first of all, a willingness of the Russians to talk to the Ukrainians at all. They only began doing that after Poroshenko was elected. They refused to talk to acting President Turchynov or Yatsenyuk when he was Prime Minister before the presidential election. Even now there are talks, but we are not seeing the delivery on the ground of the things that Russia has agreed to do during those conversations.
The Chairman: Colleagues, we are making very slow progress. That is not your fault; we are asking too many questions. I have two supplementaries, from Lord Sandwich and Lady Billingham, but I would ask colleagues to remember that we have a lot more questions to get through.

Earl of Sandwich: Minister, still on sanctions, what sort of pressure have you had from the Germans? We were rather surprised that the German business community is going along with sanctions, and even asking for the strengthening of sanctions. This must be rather different from the atmosphere here.

Mr Lidington: Every country round the table wants to see sanctions that are proportionate to what Russia has done and are effective, but every country also quite legitimately has an eye on its own interests. The view that we have taken and argued for is that the pain caused by sanctions should be roughly balanced in how it is spread across European countries. It is for German Ministers to speak on this, but as I observe it, from looking at reports from our ambassador in Berlin, the views in Germany differ depending on who you speak to. There will be some people both in the Bundestag and in business who will argue the whole approach of sanctions is wrong, and there are others who take the view that is similar to the one that I have been expressing.

Baroness Billingham: Briefly, this Committee, and particularly the delegation that went to Brussels, was surprised and astonished at the apparent unawareness, if there were such a phrase, of what was actually happening. It appeared that our ambassadors who we spoke to did not foresee more clearly what was going to happen, whereas other people, certainly the press, had been speculating for weeks on what was happening. Now, why were we so slow in picking up the mood music from Russia, which was that Putin was gearing up to annex other countries?

Mr Lidington: The timescale of this was that in the autumn of 2013 a Ukrainian President and Government who were friendly towards Russia decided that they wanted to go ahead with the association agreement and trade agreement with the EU. I remember being in Kiev in October 2013 and being told by President Yanukovych’s then Prime Minister, Mr Azarov, that the President had decided they were going to go ahead and all obstacles needed to be swept away so Ukraine could sign on the dotted line at the Vilnius summit in November last year. The debate then was whether President Yanukovych really would follow through. There was, for example, a huge debate about whether he would bring himself to release Yulia Tymoshenko from prison in order to be able to sign this agreement with the EU. Russia intervened very late in the day. President Yanukovych was basically summoned to two long meetings with President Putin, and then two weeks out from Vilnius President Yanukovych changed his mind. At that point the EU view was, “Well, that is regrettable, but, okay, that has happened, and perhaps it is force majeure, but we look forward. Perhaps a future Ukrainian Government may change its mind, but that is their decision”. Then, of course, the Ukrainian people themselves rose up and protested about that change of policy, and there followed the events of January and February last year and President Yanukovych’s decision to leave the country the day after an agreement had been negotiated by the Polish, German and French Foreign Ministers with him and the opposition leaders. Ukraine was left with no Government, with a deal having been made but not implemented, and the Head of State having left the country.
It was after those events that you then started to have Russian intervention in Crimea. One can look back and say, “We should have expected Putin to be more aggressive at the time than we did expect him to be”. I think people were judging Putin in the light of what had appeared to be a trajectory on the part of Russian policy over a couple of decades. There were a lot of very wise and experienced people who thought that he would stop short of annexation—that he would announce that he wanted a special status for Crimea or he wanted a new treaty on the Russian naval base in Sevastopol. Certainly an outright annexation was at the very hard end of what was assessed as the potential range of possibilities, and it is the one he went for almost immediately. This was not just in Brussels; I think if you look throughout North America too, you would find the same sort of view was taken there.

**Lord Lamont of Lerwick:** Are you saying that President Yanukovych could have stayed on and that he was not really forced out, which from Russian perceptions was seen as a sort of coup? Do you really believe he could have stayed on?

**Mr Lidington:** Yes. Certainly, in London we were assuming the situation in Kiev was going to be very troubled, because you had these vast numbers of people in the streets and in the Maidan. You had the most appalling scenes where protestors had been fired upon by people who it was apparent were very well trained riflemen. You could tell that by where the wounds were in the bodies. There was intense enmity within Ukraine, but our view was that the best approach at that stage would be to find a way to patch things together to take Ukraine through to the presidential election that was due in 2015, when the people of Ukraine could take a decision. I do not think anybody was expecting Yanukovych simply to leave the country. Certainly, when I have talked to some of the Foreign Ministers who were out there in Kiev, it was not what they had expected when they negotiated that deal on 21 February.

**Q257 Baroness Young of Hornsey:** Minister, what is your assessment of the long-term viability and effectiveness of sanctions policy as it would relate to a long-term strategy from the EU towards Russia? In some of your earlier remarks, I guess you were talking more about the short and the medium term when you were talking about how Russia could no longer be considered a potential partner with the EU, and as long as the current situation held that would obviously make things really difficult. What about the long term? Could you also say what kind of steps Russia would have to take in order for the sanctions to be eased, and the extent to which you feel that these steps have been clearly communicated? Related to all that, how do we get past the current stand-off, and is it all about Russia having to do something, or is it all about the EU? What do both sides need to do in order to get past this moment?

**Mr Lidington:** Nobody wants to see sanctions remain in place longer than necessary, and while I am sceptical that Russia could be considered a potential strategic partner, we trade freely with all sorts of countries that we do not regard as strategic partners and with whose Governments we have very profound differences. What is needed is a de-escalation starting with the full implementation of the Minsk agreements. That would be a first step. Those agreements provide for a complete and genuine ceasefire. They require the withdrawal from Ukraine of all Russian military personnel and equipment, and crucially the restoration of security at the Russo-Ukrainian border. Once that happened, the OSCE could bring its monitors in to make sure that the border was being observed and that border procedures...
were being respected. At the moment, you just have this flow of people and materiel crossing from Russia to reinforce the separatists in Donetsk and Luhansk. It is about implementing agreements that respect Ukraine’s territorial integrity and sovereignty. If that happens, that might open up the possibility that President Poroshenko has talked about of a dialogue between Russian and Ukraine, and I think the EU approach would very much be governed by the direction that any potential such dialogue took.

**Baroness Young of Hornsey:** That is not exactly a “wait and see”, but there is no immediate long-term vision you can give of what the relationship between the EU and Russia might be?

**Mr Lidington:** The relationship that I would like to see between the EU and Russia would be warmer and more friendly than it is now, but we are very much in Russian hands on that. We cannot aspire to that sort of relationship if we have Russia openly trying to destabilise Ukraine, and not only that but still sitting on Abkhazia and South Ossetia, which we recognise as part of Georgia, and still maintaining troops in Transnistria and dabbling in Moldovan politics. We have seen for some weeks now the matter of an Estonian official kidnapped from Estonian territory by Russian forces and still held in Moscow without any evidence brought against him; a Lithuanian fishing boat seized on the high seas, towed to Murmansk, and still held in Murmansk; and the interruption of gas flows from Russia into Poland, Hungary and Slovakia, allegedly for technical reasons, but I think a political signal was intended there. We have a pattern of action during 2014 that I think rightly causes us to be suspicious and cautious. I wish that were not so, but I think that is the reality with which we are dealing.

**Baroness Young of Hornsey:** Finally, on sanctions, earlier you mentioned a dialogue between the EU and the US on the issue. Do you think it is important for the sanctions regimes to be synchronised?

**Mr Lidington:** It is important that they are synchronised as closely as possible. There are inevitable differences that reflect for the most part the differences in the systems of Government. The President of the US can do certain things by executive order for which the EU requires a more elaborate process. It is also a reality that the EU has a much more important trade relationship with Russia than the United States. It is something like more than 10 times larger than the US-Russia relationship. The figures I have are that EU-Russia trade is $417 billion a year, and US-Russia trade is only $38 billion a year.

**Lord Radice:** I want to go on to another question, but you did not mention the incursion of Russian aeroplanes into the airspace of a number of member states. For example, I think there was one today, was there not, or yesterday, in Sweden? What do you think about that?

**Mr Lidington:** That tactic has never completely gone away, but we are seeing a pattern that is reminiscent of the Cold War period. The Swedes also very publicly announced that they were searching for a third country’s submarine that had gone into their waters. They never found it, so it cannot be proved that it was a Russian one. But, yes, that kind of pressure, that testing, is now a fact of life and, again, affects the conclusions we draw about Russia’s intentions.

**Q258 Lord Radice:** To what extent is there a common EU strategy towards Russia? We are told that President Putin was quite surprised that sanctions were introduced and have been
upheld in the way that they have been. Do you have confidence there is a long-term position of the EU behind the sanctions?

Mr Liddington: Because of events, and because the breach of international law that was involved was so fundamental, it has called forth a much stronger and more united response from the European Union than many expected. I think too, though, that there is not yet a sufficiently coherent long-term EU strategy towards Russia. Russia is the most important global relationship to the EU in many ways, because it is next door. The EU talks about strategic relationships with the United States, China and India. Because of the challenges she has posed and because of her proximity, Russia is in some senses more important than any of those to Europe. The differences in interest and approach between member states and the problems that there have been in developing a genuinely comprehensive approach to external policy, because of turf wars between the Commission and the External Action Service, have contributed to our strategic European approach to Russia not being as strong as I would like it to be.

This is not a criticism of Cathy Ashton, because she, first of all, had other things that she was dealing with, but the turf war that I have described was a fact of life with which she had to grapple in the past few years. Federica Mogherini has said that she regards putting together a consistent, coherent strategy towards Russia as being of absolute prime importance. I am pretty confident that Donald Tusk, as the new President of the European Council, will take the same view, and I think the Heads of Government in the European Council will want to be very hands-on in making sure that they are happy with what comes up from the Brussels machine.

The Chairman: Baroness Billingham, we have covered up to a point some of the question.

Baroness Billingham: I know. This is a follow-up to the previous question. It is about strategy. To what extent has the UK cancelled or suspended meetings with Russia at ministerial or official level? Can we be told?

Mr Liddington: We have had a policy where we have basically said, “No business as usual with Russia”, so ministerial contact has been limited to the things that we were able to talk to Russia about, primarily about Ukraine, or where important British interests were involved, whether that is trade or diplomatic. For example, the work with Russia on Iran has continued, and rightfully so, and we have sought, so far without success, to find a way to agree with Russia over Syria and Middle East policy. At the moment, the positions are very different. We have postponed the regular 2+2 defence and Foreign Ministers’ dialogue with Russia, the Lord Mayor’s visit to Moscow and the intergovernmental steering committee trade talks, and we cancelled a VIP visit to the Sochi Paralympics. The UK-Russia Year of Culture has gone ahead, and I think again that was right—that is people-to-people contact—but ministerial participation was withdrawn from that. I have suspended my strategic dialogue with the Russian deputy Foreign Minister. The Prime Minister has spoken to President Putin I think eight times this year, most recently at the G20, and the Foreign Secretary, taking William Hague and Philip Hammond together, has spoken to Sergei Lavrov I think five times in 2014. Those contacts have been continued, but they have focused on Ukraine.

Q259 Lord Lamont of Lerwick: I think the question I was meant to be asking has been answered already, so maybe I could ask something slightly different. Can I say that I accept
entirely that Russia is behaving illegally and Mr Putin is not telling the truth about what is happening in eastern Ukraine? But one wonders what his motive is, and it is conceivable—I put it no higher than that—or possible he may have a feeling of insecurity that, although unjustified, we have to take into account. We had a distinguished former ambassador to Russia who told us about promises being made within his hearing about the non-enlargement of NATO. That happened nevertheless, and was accepted. But two breaking points were particularly stressed by some witnesses. One was in 2007, when Putin was in Munich, and he warned that whatever had happened with NATO expansion, Georgia was a step too far, and the warning signals, according to this argument, were put up in 2007 in Munich and again in 2008 after the Bucharest summit, when the accession to NATO of Ukraine was openly put on the agenda. Now, you may feel that any feeling of insecurity he has is quite unjustified, but is it not conceivable that it exists?

Mr Lidington: I am quite prepared to believe that the feeling of insecurity exists. I think the two questions then are: to what extent is that feeling of insecurity justified objectively, and what legitimately can be done to address such a feeling? The problem we have with President Putin’s approach is that he starts with the view that the break-up of the Soviet Union was the greatest tragedy that has happened in international relations in his lifetime. To judge from his actions this year, and looking back at 2008 in the light of 2014, he appears to wish to re-establish a world in which countries that used to be part of the Soviet Union are reduced to the status of vassal states of Russia, where their freedom to choose their path internationally, and to some extent internally, is determined by Russia. It is not just Europe; we have had comments this year to the effect that Kazakhstan was not a real country. Perhaps most perniciously, we have had the enunciation of a doctrine that argues that Russia is entitled to intervene anywhere in the world it chooses if that is purportedly a defence of Russian speakers or Russian citizens in that country—a statement of policy that I think was calculated to sow fear in the three Baltic republics in particular.

I would say that there can be a way forward. After all, both acting President Turchynov and now President Poroshenko have said that they do not regard NATO membership as a live issue. It would in any case take a very long time for Ukraine ever to get to the standards that would be needed to qualify for NATO membership, but I think we have to accept that we are starting from a situation where we recognise Ukraine, Moldova and Georgia as sovereign independent countries, those I mentioned with vigorous democratic political parties within them as well, that are entitled to choose their own course. Yes, a sensible Ukrainian leader will want to have a decent relationship with Moscow. I would agree with that point. If ways can be found to explain to Russia that free trade agreements within the CIS are compatible with a free trade agreement with the European Union, that sort of reassurance can be given, but one has to start with Russia being prepared to recognise the integrity and the sovereignty of its neighbours, and the problem that we have at the moment is that that recognition is not forthcoming.

The Chairman: Lord Jopling has a supplementary, but perhaps I could just interpose one as well. What you say I quite understand, but the reverse is also true. If you are living next door to Russia, you ought to take account of Russian interests as well.

Mr Lidington: If I look at what President Poroshenko has said, both before and since his election, he has made it clear that he wants to have a proper conversation with President Putin about de-escalation and the future of their relationship. If we go back to January and
February, there was never any challenge to the treaty that allowed the Russian Black Sea fleet to be stationed at Sevastopol. There was no risk to those Russian interests in Crimea at that time.

**Lord Lamont of Lerwick:** Was there not a statement made that the lease on the base might be not extended, as had happened under Yanukovych?

**Mr Lidington:** The lease on the base was always enforced. Certainly what we and other countries were saying to the Ukrainians immediately after the change of Government in February last year was, “You are going to need to have a decent relationship with Russia. You can give some assurances”. Things like the early attempt to get a language law through the Rada that discriminated against Russians got nowhere. Actually, President Turchynov vetoed it anyway, so it got nowhere. It was a foolish, hot-headed manoeuvre at the time, but, frankly, had there been a Russian Government who were prepared to de-escalate, the opportunity was there to do so, and that was the message Kerry, Merkel and others were taking to Moscow repeatedly in the early months of this year.

Whenever I have talked to the leaders of countries that border Russia, they all accept that they need to have an important relationship with Russia. If I just depart from Ukraine for a bit, when the current Georgian Government were first elected they made a great point of saying that they were going to improve their relationship with Russia. They appointed a special envoy mission, Abashidze, whose role was to promote a better bilateral relationship between Georgia and Russia. They have made desperately slow and disappointing progress, and that has not been from any lack of will on the Georgian side. They thought that, with Mr Saakashvili having been defeated and left office, there would be an improvement, and the Russians have proved much harder in how they have treated Georgia than the current Georgian Government had originally expected.

**Lord Jopling:** I want to go back to the question that Lord Lamont put to you about undertakings that a former ambassador had heard with regard to the possibility of the expansion of NATO and the EU into the former Soviet Union territories. As I understand it, this was purely a verbal statement made by I think two people, if not more, at that time of the break-up of the Soviet Union. As I understand it, it was using words like, “There are no plans to expand into these countries”, but since then, of course, those countries have come to NATO and the EU and asked to join in. I hope I am right in thinking that there was no formal agreement of this sort. It was merely a verbal statement of the position at the time. As we come to write our report, I think it is rather important we know whether the view I have tried to explain is the view which the British Government think is correct.

**Mr Lidington:** I will write to the Committee about the historic point there, because I do not have that information to hand. The position of the Government and NATO now is that of the NATO open-door policy that was enunciated at the Bucharest summit, which says that it is open to any country to apply to join NATO, but there is a demanding job of work to be done to carry out the reforms that are needed—and they are not just reforms to the operation of the military, of course—to meet the standard for NATO membership, and then there has to be a consensus among all existing allies about the admission of any new member. Ukraine has proved itself to be a good partner for both NATO and the European Union. For example, they have contributed a naval vessel to the Indian Ocean operations against Somali piracy. That sort of co-operation is in everybody’s interest and no threat at all to Russia. I go back to the point that these are independent, sovereign democracies that are entitled to choose
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their own course of action. Any country needs to take account of its broader interests. One of the messages that I just wish the Russian Government would comprehend is their actions in Eastern Ukraine are making the Ukrainian population more hostile to Russia now than they were at the beginning of 2014, and we saw that in the elections to the Rada.

Q260 Earl of Sandwich: We have touched on the Eastern Partnership. Those are the countries that concern us, but there is going to be a review of the Neighbourhood Policy generally. How do we address this subject now? Are we reacting to Russia’s intentions, or are we saying, “It is time we moved on. We have created a new kind of partnership”. What is your take on that?

Mr Lidington: There was going to be a need to review the Neighbourhood Policy anyway, because had there not been the Russian intervention in Ukraine we would still be in the situation in which the six eastern partners were choosing to go in disparate directions, as regards their relationship with the European Union. If you look at Moldova, Ukraine and Georgia, for example, their Governments quite openly aspire to closer integration with the European Union through association and free trade agreements. Belarus since the crackdown on the opposition and civil society is clearly not so inclined. Armenia would like a better relationship with the EU, but feels very dependent on Russia for its security needs in particular. Azerbaijan wants a good commercial relationship with the European Union but I do not think it, at the moment at any rate, sees itself as wishing for the sort of formal association agreement that some of the other countries seek. I think we need an Eastern Partnership that is not just one size fits all—that recognises the offer needs to be different for each of those six countries.

Earl of Sandwich: But that suggests to me there is no policy at all and we have decided we have to deal with each country independently.

Mr Lidington: You can have an umbrella of the Eastern Partnership, because the approach from the EU is going to be about providing for market liberalisation, free trade and the approximation and convergence of commercial production standards, and it is about political reform, human rights, rule of law and an independent judiciary, which are good things in themselves but which also, I very strongly believe, will attract more inward investment into those Eastern European countries that very much need it.

Baroness Coussins: Would you be in favour of exploratory discussions between the EU and the Eurasian Economic Union as proposed by both Mr Putin and Mrs Merkel?

Mr Lidington: I think it is a bit early for that. I do not want to rush ahead with that, because the Eurasian union itself is still not a finished entity. For example, the Kazaks have not devolved trade powers to the organisation. The three countries already in the Eurasian union still have internal tariff differences. There are Russian controls on the import of Belarusian fruit and veg, and of the Eurasian union members only Russian is in the WTO. Quite how effective that grouping would be is unclear. There is already a conversation between the EU and the Eurasian Customs Union at technical level to provide advice and expertise and to discuss the functions of the Eurasian union. If we saw the delivery of the agreements made at Minsk and we started to see a de-escalation, again perhaps a development of this EU-Eurasian union relationship at political level would be possible as well, but I think we are going to be cautious for the time being until we see some de-escalation on the ground of this ghastly situation in Eastern Ukraine.
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**The Chairman:** Before I turn to Lady Henig, could I come back to the question Lord Sandwich asked and ask you if you think there is a need for greater clarity and transparency of what the Eastern Partnership involves and, in particular, how it differs from EU accession?

**Mr Lidington:** There is a need for greater clarity and transparency, and that is what I hope and expect to come out of the review of Neighbourhood Policy that is going on at the moment. The review is also going to cover the EU’s approach to the southern neighbourhood—the countries of the Arab world. I agree with that point. There needs to be more focus on using EU resource to drive reform through civil society and the private sector, including SMEs, in those countries, but it should be hard-headed reform, where a country gets more out of the EU in terms of partnership funding if it is showing that it is committed to reform and delivering those reforms on the ground. I think we should move away from a model where we are almost thinking there should be a slice for every country, regardless of what they are actually doing. We should be about rewarding commitment there. It is not the same as membership. It is not incompatible with membership either. EU membership is open under the treaty to any European country that wants to join and can meet the accession criteria. If I can put it this way, none of the Eastern Partnership countries is going to be able to reach those standards to qualify for EU membership for a long time into the future. Even with the western Balkan countries, we are looking into the 2020s, in some cases the late 2020s, before I would expect them even to be at the point where perhaps membership could be agreed.

**Q261 Baroness Henig:** Minister, earlier I think you referred to Russia as the most significant external power with whom the EU has to deal, or words to that effect. You were emphasising its importance. One of the reasons for that is obviously the fact that there is a shared neighbourhood that the EU and Russia have to negotiate. Could you say in what ways you think relations with Russia need to be structured in that shared neighbourhood, and whether there is a role for more regional fora to promote dialogue between EU member states, countries in the neighbourhood and Russia?

**Mr Lidington:** There are a number of European and Eurasian fora already—the OSCE, the Council of Europe and so on—where you can talk about issues of common interest. My red line would be that we must not get sucked into an approach where the EU is sitting down with Russia and deciding in 18th-century-great-power pattern the fate of another country. Those countries themselves have to be equal participants at any table. Eastern Partnership countries have a sovereign right to choose the direction in which they travel. Again, if we see de-escalation—if we see moves towards an enduring political deal between Russia and Ukraine—other possibilities may be open. There is already, for example, a group of EU countries that work closely together on a Black Sea and Danube strategy. Is there a case for a Black Sea conversation, or a Caspian Sea conversation among countries that border the Caspian Sea? Perhaps. I do not want to rule anything in or anything out, but the red line I described is for me the critical starting point here.

**Baroness Henig:** Can I say that that was a view that came out very strongly when we were in Berlin? The Germans felt even more absolutely that that was a red line that they certainly would not want to cross.

**Lord Maclennan of Rogart:** Regarding the future, we have heard from some of our witnesses that we should continue to engage with Russia on non-political issues. Others have
suggested that the EU should continue to enforce its rules and values, such as anti-corruption legislation and human rights. In what areas do you consider it might be profitable to engage with Russia in the future?

**Mr Lidington:** We are maintaining contact with Russia at political level on things like Iran, counterterrorism, Afghanistan post-ISAF and counter-narcotics policy, and of course at the UN our representation is dealing with their Russian opposite numbers every week. Those contacts do continue, and we also do engage with Russia still, despite the current difficulties, on the non-political issues. Our ambassador in Moscow attended the Victory Day celebrations in May this year. That came to my desk. I thought it was right that he should do that, because that shared memory of World War 2 is important; it is important to honour those who fought and, given the significance of that conflict in the minds of Russian people, I felt it important that the British Government were seen, through our ambassador’s presence, to be honouring that sacrifice. The Russian ambassador came to Remembrance Day commemorations here in London. There are ceremonies around the country to present the Ushakov medals to Arctic convoy veterans, and we have tried to provide MoD representation at each of those. That sort of contact continues. For the future, subject to de-escalation, we would like to see EU and national-level talks on energy, trade and investment with Russia. But we would also like to see the resumption of our formal annual human rights dialogue with Russia, which I think provides the structural means in which to discuss those important subjects with Russia. We keep a close watch on what is happening in Russia at the moment regarding human rights and civil society organisations, because another alarming trend in Russian at the moment is the increasing restrictions under which those organisations have to operate.

**Lord Maclennan of Rogart:** Do you think there are areas where we could increase our contact positively and not bang them over the head, like education, culture or science?

**Mr Lidington:** Those contacts do continue, and I think that people-to-people, free-institution-to-free-institution contact should go ahead, but as has happened with the Year of Culture, it is going to be very difficult for the Government to encourage those activities or participate in them in the absence of a de-escalation of the crisis in Ukraine and the implementation of the Minsk agreements.

**Lord Foulkes of Cumnock:** Russian witnesses have suggested that we, the EU, snubbed Putin when he raised longer-term strategic issues like visa liberalisation and what they call the Lisbon to Vladivostok free trade area. I would prefer it to be called the Stornoway to Vladivostok free trade area, by the way. Is it true that we did that, and has that really caused him to be more negative and unhelpful towards us?

**Mr Lidington:** These things were discussed twice yearly between the EU and Russia until January 2014, when they were stopped as a result of what happened in Crimea. Visa liberalisation and the Eurasian trade area were up for discussion there, and I have to say that these were both Russian requests, but it was never very clear, from the Russian side, exactly how they saw visa liberalisation working in practice, or what convergence on a free trade area would mean, and whether we were just talking about tariffs, or we were talking about common standards or mutual recognition of standards, and, if so, how that would be achieved. Those talks did not get anywhere. Certainly, if I think back to our bilateral discussions with Russia over the last four years, and things like aviation and sales of British beef into Russia, it was pretty hard, painstaking negotiation on each of those dossiers. The
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Russians, in my experience, were very transactional and tough in their approach. They do not believe in something for nothing.

One word of warning is the Russians have a history of forum-shopping. They are, in my knowledge of the history of Russia, trying to have various conversations with European countries about Eurasian security from which the United States and Canada are shut out. We had, for example, President Medvedev, when he was in office, and his suggestion of a Eurasian security treaty, and we have had other suggestions over the years of that kind. I think we are right to be wary of that sort of initiative.

Q262 Lord Jopling: Minister, can we go a little further afield and just talk about some of the issues where we seem to have common interests with Russia? I am thinking of the Iranian nuclear programme, the need to combat ISIL, and the joint need to deal with terrorism. Could you say something about how those talks and relationships are developing, and to what extent they have been harmed by the events of this year?

Mr Lidington: It has not been so much a direct impact as the fact that the bandwidth for discussions both at national level and EU level with Russia has been taken up with the need to address Ukraine as a matter of priority, so there has been less time and opportunity to address those other subjects. If you look at what has happened, the E3+3 Iran talks have seen Russia playing a constructive role. They similarly adopted a positive approach during the ISIL conference in Paris earlier this year. It is no secret that there is a difference in that Russia would tend to see the Assad regime as an ally against ISIL, and the British Government would differ from them in that. Those relationships and mechanisms, however, are working satisfactorily, and if the Russians have seen that there are issues where co-operation can help them and serve their interests too, then the evidence is that they are prepared to do it. It would be an exaggeration to say that we have gone back to a Cold War situation.

Lord Jopling: Do you see a prospect of improving those particular relationships?

Mr Lidington: I would like to say yes. It is inevitable that the chilliness at the top political level that has developed this year makes it more difficult to develop those other relationships further without some positive movement as regards Ukraine, but we very much want all these other different relationships to continue. We are certainly not going to try to weaken them.

Baroness Bonham-Carter of Yarnbury: I just want to return to the question that you have been asked quite often about contact, and where and how we keep contact. You have said that the Year of Culture went ahead but without ministerial involvement. Witnesses have told us that there is a need for the EU to separate its approach to the Russian Government and to Russian citizens. How can the UK and other member states build a relationship beyond the current regime and support civil society in Russia? Interestingly, one of the things that came out when we were in Germany was that our attitude and our response here to the Sochi Games went down very badly. I know there was the whole complication of the anti-gay laws and stuff like that, but how do we navigate in order to keep the Russian people onboard, which we do not seem to be doing at the moment?

Mr Lidington: We are maintaining, particularly through the embassy in Moscow but not just through that, contact with human rights defenders and NGOs in Russia. Our diplomats often attend their events to provide moral support and an independent witness as to what is going
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on. We have to acknowledge that there is a significant body of opinion in Russia that supports President Putin, will have a conservative view of social policy and will not necessarily be of one mind with the human rights groups that we will see in Moscow or St Petersburg.

We fund, through the embassy, a number of projects to support human rights, civil society and democracy—it is about £1.1 million in the current financial year—and a large element of that is focused on programmes in the North Caucasus, where we have an active human rights programme. We focus in particular are the five priority areas: civil society and democracy, freedom of expansion, stability in the North Caucasus, the rule of law, and equality and non-discrimination. We monitor quite rigorously the effectiveness of all projects that we fund. The partners have to produce quarterly progress reports, so we can end funding if we think that a project is ineffective, although we do not have to do this often.

We have faced a problem with the introduction of the foreign agents law, and some of our previous project partners have decided not to apply for UK funding because of that, although they are a minority. We get good applications for funding from a variety of human rights NGOs and obviously we have to respect the decisions of those who decide that it is better to be without foreign funding, because of the problems that they would otherwise encounter. The fact is that there has been a very marked deterioration in the human rights situation inside Russia. We have seen the media become much less diverse.

Baroness Bonham-Carter of Yarnbury: Yes, I was going to ask you about that.

Mr Lidington: The operating environment for NGOs and human rights defenders is more difficult. I was in Basel for the OSCE ministerial meeting on the third of this month, and I met three Russian NGOs who were over there for a parallel NGO OSCE conference. They were very explicit about the difficulties that they are facing and the harassment that they are having to put up with, but they still continue. We work with allies. For example, in relation to the trial that is now going on involving Sakharov’s Memorial organisation, we have had British diplomats at that trial so that we can observe in detail what is going on. We have done the same with various LGBT foreign agent hearings in St Petersburg. The power that we have is limited, and I think the Committee will understand that, but we will keep up the active interest and the moral support that we offer, as well as the programme funding.

Baroness Bonham-Carter of Yarnbury: That is true across the EU, is it, for other countries, or is it horses for courses?

Mr Lidington: We do this through our national programme. Each country will have its own arrangements. I do not know the detail, but given the importance of the Stiftungs and the generous funding that the Stiftungs give I should think that the Germans will be active. Of course, there are long-standing links between some of Russia’s neighbours in the EU and human rights organisations in Russian territory.

Baroness Bonham-Carter of Yarnbury: You mentioned the media. Another thing we picked up very strongly in Germany was their concern about the manipulation of their own media through the blogosphere and so on, which I do not think we have quite so much, though we do have this new channel, whatever it is called.

Mr Lidington: Yes, Russia Today. We are aware of this, and I think what has become clear during this year is that there is an extremely well-organised Russian information or
propaganda campaign that involves, at one end of the spectrum, Russian-language broadcasts and journals not just to eastern Ukraine but to Moldova, into the Russian-speaking areas of Georgia, and Latvia and Estonia as well, but also involves presenting a coherent and strongly expressed message to western news networks so that carrying that as half of the story is seen to be part of discharging the duty of impartiality. I think the networks have probably got better during the course of the year at challenging that Russian narrative, and I think MH17 was a massive shock well that caused people to pause and just think, particularly given the original Russian denials of any separatist involvement.

We have given, and continue to give, a lot of thought to what we do both at European and at national level about this. One cannot set up an alternative broadcaster inside Russia. I think that one of the hopes for the future will be that the internet and mobile telephony, and economic change, will start to have an impact on Russian society in the way that we are seeing in so many other parts of the world too.

Q263 Lord Radice: The assumption behind drawing a distinction between President Putin on the one hand and the Russian people on the other is basically a rather pessimistic one, which is that we are not going to get very much from President Putin. We might have to sit him out, as it were. There was an interesting article in Prospect by Chrystia Freeland, who says that Putin is influenced not by the sort of things that we have been discussing—indeed, a number of our witnesses have said this as well—but he is very concerned about his own internal position, and much of what has happened is influenced by his view of his own position, and that therefore he is not particularly impressed by anything that we are going to say to him. I hope this is not true. I hope that is not the case, but I think that it is quite a dangerous situation if it is the case, but what is your view about this? In a sense, we have not really faced up to what is the motive force behind President Putin.

Mr Lidington: My observation is that President Putin is Russian nationalist who wants to restore the greatness of Russia after what he sees as humiliation under some of his predecessors, who has said publicly that he regards the collapse of the Soviet Union as the most appalling tragedy, and who has interpreted restoring Russian greatness not as addressing the structural weaknesses of Russian economy and putting Russia on a path to long-term prosperity but in terms of trying to subjugate countries that were once part of the USSR. Of course, the Russian system is not quite like our own—you will not pick up the Sunday newspaper in Russia and find sources close to various Government Ministers saying contradictory things on various occasions—so working out what may be being said inside the upper reaches of the Russian elite is very difficult. It is a very opaque system.

We do know, as I have said, that sanctions have caused some disquiet amongst members of the elite—and “disquiet” is putting it mildly. There are people in Russia who served in previous Russian Administrations who are out of power at the moment but who have a different view about the best future for their country and for the Russian people. We may have to sit it out, but not only for President Putin. I do not simply assume that whoever succeeds President Putin will be more amenable. We will have to wait and see and hope, and do what we can to demonstrate to Russia that the alternative course of action, involving respect for its neighbours’ sovereignty and a constructive relationship with Europe and the Euro-Atlantic world is profoundly in the best interests of the Russian people themselves,
because that is most likely to provide the path for greater clarity, political stability and security.

**Lord Trimble:** Minister, you have mentioned the Russia Today channel, which has a base, I suppose you could call it, here in London, not a million miles away from where we are at the moment. You also mentioned how our own media feel that their obligation to be impartial compels them to speak to Russia Today from time to time, so you might like to point out to them that the Ukrainians have followed suit and have launched a channel called Ukraine Today and established their own little outpost in London, not a million miles away from where Russia Today is. You might like to draw attention to that as well.

**Mr Lidington:** We have been giving some advice to the Ukrainians about strategic communications.

**Lord Trimble:** Good. I am delighted to hear it.

**The Chairman:** Minister, thank you very much. We thought you were going to be with us very briefly because of business elsewhere. In the event, this has been the longest session we have had, and we are all very grateful to you for the frankness and openness with which you have dealt with these questions. Thank you very much indeed.

**Mr Lidington:** Thank you.
The Lord Tugendhat
Chairman
Lords Select Committee on the European Union – Sub Committee C
Committee Office

In the course of our 15 December 2014 evidence session, I agreed to write to you to address two further questions.

**How does UK and EU support to Ukraine compare with support provided to Georgia after 2008 and to countries in Central and Eastern Europe immediately following the collapse of Communism and of the Soviet Union?**

**Ukraine**

The UK’s current support to Ukraine amounts to £9m for conflict resolution work and £10 million for reforms and humanitarian assistance.

The £9m is provided through the tri-departmental (FCO/DFID/MOD) Conflict Pool and includes:

- £430,000 and 100 observers to the ODIHR Election Observation Mission to the Ukrainian presidential elections on 25 May and 71 observers to the ODIHR Election Observation Mission for the Ukrainian parliamentary elections on 26 October.
- £1.9 million in funding and 23 operational and monitoring staff for the OSCE Special Monitoring Mission (SMM).
- 10 armoured vehicles, worth £1.2m, together with associated communications equipment, to enable the OSCE SMM to operate safely.
- Non-lethal support to the Ukrainian armed forces including personal protective equipment, winter fuel, medical kits, winter clothing and sleeping bags.
- Specialist medical treatment in the UK for up to five injured Ukrainian servicemen.

The £10 million is technical assistance to support economic and governance reforms in Ukraine, including humanitarian assistance:

- Technical assistance to support the policy reforms needed to stabilise the economy and build a more accountable and transparent government.
- A £2m trust fund with the World Bank supporting reforms including procurement reform in order to combat corruption and simplifying regulatory requirements for businesses.
- A £1m partnership with the German Government providing support on public financial management reform.
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Supplementary written evidence

- An agreement with the European Bank for Reconstruction and Development (EBRD) for £500,000 to establish an independent Business Ombudsman to focus on anti-corruption.
- Assistance in asset recovery to help recover stolen assets.
- Improving donor coordination by funding a secondment to the EU delegation in Kyiv, which has the lead in this area.
- £1.4 million in humanitarian support in Ukraine in addition to multilateral contributions. This support includes: £550,000 provided to the International Committee of the Red Cross (ICRC) to meet emergency humanitarian needs; £700,000 provided to United Nations High Commissioner for Refugees (UNHCR) to support the preparation of accommodation for winter for displaced people; and £150,000 to deploy technical expertise to build capacity for humanitarian response.

**EU Support**

EU support to Ukraine since March includes:

- The Commission have disbursed €1.36bn of the €1.61bn in macro-financial assistance committed to Ukraine. Working together with the IMF and World Bank, these loans aim to help support economic reforms in the country and address the country's acute balance of payments needs.
- The Commission have funded three bilateral programmes under the European Neighbourhood Instrument (predominantly grants, although with some technical assistance as well):
  - A €355m ‘state-building’ general budget support programme (of which €250m has been disbursed), to support the process of stabilisation
  - A €10m civil society programme designed to enhance civil society’s ability to promote the reforms required under the ‘state-building’ programme
  - A €55m regional development sectoral budget support programme to support Ukraine's Decentralisation and Regional Policy reforms
- The Commission have committed €32m in humanitarian assistance, to meet the immediate needs of vulnerable and conflict-affected populations in Ukraine.
- In July, the EU established a civilian CSDP mission, EUAM Ukraine, to assist with civilian security sector reform.
- The EIB has increased the funds available to Ukraine by €1bn since March, and the EU continues to promote EU IFI activity in Ukraine, including by providing complementary grants via the Neighbourhood Investment Facility.
- The EU has continued to fund activities via thematic programmes to encourage respect for human rights, enhance civil society capacity, increase nuclear safety and promote people-people contacts. Ukraine also continues to benefit from participation in the Eastern Partnership and other regional bodies/programmes which benefit from EU funding (e.g four cross-border cooperation programmes).

**Georgia**

The UK contributed £9 million to supporting post-conflict reconstruction work in Georgia in 2008, in the immediate aftermath of the war with Russia. £2 million of this was provided via the UNHCR as emergency relief support for IDPs. This was announced at a pledging
conference for Georgia held in Brussels in October 2008, jointly hosted by the World Bank and the European Commission, which raised over $3 billion in support of Georgia’s reconstruction (the bulk provided by the US - $1 billion – and the Commission - $500 million). The UK’s £9 million contribution represented a three-fold increase on DFID’s initial budget for Georgia for the FY 08-09.

**EU Support**

EU assistance to Georgia during the period 2007-2013 amounted to €452 million in total. This figure was revised upwards significantly (from €120 million) in the wake of the 2008 Russo-Georgian war. For the period 2014-2017, the EU envisages allocating up to €400 million in further assistance to Georgia.

These funds have been, and are being, used mainly for the following purposes:

- Reconstruction work in the immediate aftermath of the 2008 war
- Funding of the 200-stong EU Monitoring Mission in Georgia (set up following the 2008 war)
- Funding the EU Special Representative for South Caucasus and the Crisis in Georgia and his Office
- Public Administration Reform
- Agriculture and Rural Development
- Justice Sector Reform
- Conflict resolution projects

**Central and Eastern Europe**

In response to the collapse of Communism in Central and Eastern Europe and the Former Soviet Union during the period 1989-91, the UK and other Western donors and institutions launched assistance programmes designed to help these countries’ transition to Western market-based economic and democratic political systems. The UK’s programme, known as the "Know-How Fund", was a technical assistance programme of consultancies, training and institutional links. The Know-How Fund started in Poland and Hungary in 1989-90 and was progressively extended to other countries in the subsequent 2-3 years.

**DFID Spend by country***:

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EU Support

During the period 2000-2006 the Central European accession countries received in excess of €100bn in pre- and post-accession financial assistance. Poland, for example, received pre-accession financing in excess of €1bn per year. The Baltic States benefitted from three EU financial instruments following independence in 1999: the Programme of Community aid to the countries of Central and Eastern Europe (Phare); the Instrument for Structure Polices for Pre-Accession (ISPA); and Special Accession Programme for Agriculture and Rural Development (SAPARD).

Phare was the main financial instrument of the pre-accession strategy for the Central and Eastern European countries (CEECs) which had applied for membership of the European Union. The Phare programme began in 1989 immediately after the collapse of the Soviet Union initially covering Poland and Hungary but later extended to cover all Central European Countries. During the period 1999-2006, Phare committed €5.7 billion to 10 candidate countries of which €690m was committed to the Baltic States. The Baltic States also benefitted from the ISPA programme and SAPARD that addressed structural adjustment in the agriculture sector and implementation of the acquis communautaire concerning the Common Agricultural Policy and related legislation.

*Source: Department for International Development Evaluation Report Ev650 - Review Of DFID/ODA’s Programmes In Accession Countries (July 2004)*

Was there an agreement between NATO and the Soviet Union (or Russia) not to let the Baltic countries into NATO? Was there a formal agreement, or a verbal statement?

There was no agreement between NATO and the Soviet Union (or Russia) on NATO enlargement. NATO confirmed in April 2014 that had such a promise been made, it would have been a formal written decision by all NATO Allies.

In an interview in October 2014, Former Soviet President, Mikhail Gorbachev, confirmed this point. Asked why he had not insisted that such an agreement be legally encoded, he replied that:

“The topic of “NATO expansion” was not discussed at all, and it wasn’t brought up in those years. I say this with full responsibility. Not a single Eastern European country raised the issue, not even after the Warsaw Pact ceased to exist in 1991. Western leaders didn’t bring it up, either.”

The UK continues to support NATO’s ‘open door’ policy: all European democracies are entitled to pursue NATO membership with the final decision based on each country’s ability to undertake the commitments and obligations of membership. We are aware that Russia has concerns regarding NATO’s ‘open door’ policy. However we believe it is right that sovereign states have the right to decide their own security policy and that no one country should have a veto over those choices. NATO has carried out enlargement in a transparent...
Rt Hon David Lidington MP, Minister for Europe, Foreign and Commonwealth Office—Supplementary written evidence

way communicating with Russia through such fora as the Permanent Joint Council, part of the NATO-Russia Founding Act, and the NATO-Russia Council.

THE RT HON DAVID LIDINGTON MP

9 January 2015
Transcript to be found under Sir Tony Brenton KCMG
Thank you for providing me the opportunity to present my opinion about the current relations between Russia and the European Union, which are, as you all know, currently almost as bad as they can be. The crucial question is, why is this the case and who is to blame?

Naturally, there are two very different answers, depending on who is questioned: In the view of the West (i.e. USA and EU), Russia is responsible for the current situation. It has been offered friendship and cooperation and rewarded this by responding with cold-blooded expansionism, so the story goes. This view was vehemently expressed in the “Wales Summit Declaration”, issued by NATO’s Heads of State and Government during their meeting in the beginning of September 2014: “For more than two decades, NATO has strived to build a partnership with Russia, including through the mechanism of the NATO-Russia Council, based upon the NATO- Russia Founding Act and the Rome Declaration. Russia has breached its commitments, as well as violated international law, thus breaking the trust at the core of our cooperation.”

As a result, NATO argues that it is forced to revert to a confrontational relationship (and language) that is at least in parts reminiscent of the darkest times during the Cold War. Accompanying this where multiple “hard power decisions”, like the one to create a “Very High Readiness Joint Task Force” (VRF), primarily designed for possible military interventions near Russia, which further cement the new confrontational relationship. In NATO’s view, this is all a consequence of Russia’s alleged aggressiveness, which is seen as the first and foremost catalyst of the current crisis.

The only problem here is, that this narrative – at best – only tells a very subjective part of the whole story. It totally neglects causes and effects of the recent events and it shows a total failure to at least try to understand Russia’s point of view which paints a wholly different picture. To quote renowned scientist John J. Mearsheimer, writing in the recent issue of “Foreign Affairs”: “According to the prevailing wisdom in the West, the Ukraine crisis can be blamed almost entirely on Russian aggression. [...] But this account is wrong: the United States and its European allies share most of the responsibility for the crisis. The taproot of the trouble is NATO enlargement, the central element of a larger strategy to move Ukraine out of Russia’s orbit and integrate it into the West. At the same time, the EU’s expansion eastward and the West’s backing of the pro-democracy movement in Ukraine -- beginning with the Orange Revolution in 2004 -- were critical elements, too. Since the mid-1990s, Russian leaders have adamantly opposed NATO enlargement, and in recent years, they have made it clear that they would not stand by while their strategically important neighbor turned into a Western bastion. For Putin, the illegal overthrow of Ukraine’s democratically elected and pro- Russian president -- which he rightly labeled a ‘coup’ -- was the final straw. He responded by taking Crimea, a peninsula he feared would host a NATO naval base, and working to destabilize Ukraine until it abandoned its efforts to join the West.”
So, to me, we are witnessing an intense power political struggle in which it was the West that initiated the contest with its expansionist policies and where Russia now also increasingly reverts to hard power politics.

This is true for the whole region and especially for Ukraine and it is the case not only for NATO’s but also for the EU’s policies. At the epicenter of the current conflict was and is the attempt, to once and for all integrate Ukraine into its sphere of influence via the signing of an association agreement with the European Union. The geopolitical importance of this document stems from the fact that “associating” with the European Union is virtually the same as deciding to join one of two blocs that are increasingly at enmity with each other. This is because signing this agreement makes it impossible to join the Customs Union (soon to be “Eurasian Union”) led by Russia and designed as a tool to counter the West’s influence. This mutual exclusiveness was made unmistakably clear by then EU Commissioner for the Enlargement and Neighbourhood Policy, Štefan Füle, in 2013: “It is true that the Customs Union membership is not compatible with the DCFTAs [which are integral parts of association agreements] which we have negotiated with Ukraine, the Republic of Moldova, Georgia, and Armenia.”

The geopolitical importance of this document is also the reason why the West, when then president Victor Janukovitsch decided not to sign it in November 2013, massively supported (in part heavily violent) protests (with crucial contributions by right-wing groups) that led to his ouster in February 2014. First a pro-western interim government has been installed and after the elections – which most people in eastern Ukraine abstained – the new president Petro Poroschenko signed the association agreement with the European Union on June 27, 2014. But the resulting war in eastern Ukraine and the other Russian countermeasures are a clear indicator that Moscow does not intend to tacitly accept the countries’ integration into the Western sphere of influence.

We have to be realistic and this is the status quo, whether we like it or not. If we ignore this basic reality and continue trying to lure the whole post-Soviet space into the Western sphere of influence the conflicts with Russia will further multiply. This will be especially true for Ukraine, so in my opinion it is high time to completely turn the course by saying farewell to the current expansionist ambitions.

With regard to Ukraine I see the only option for a lasting solution if the West categorically supports a future neutrality of the country – that implies no NATO membership, but also no association agreement with the EU (i.e. the agreement has to be nullified), but also, to be sure, no membership in the Customs Union. This would be Moscow’s direly needed contribution for de-escalating the crisis but it has indicated on numerous occasions that it would be more than willing to accept such an outcome and agreement. If we do not take such a path, I fear that we will witness an extended period of heavy conflicts in and around the country which will be to the detriment of everyone, especially to the Ukrainian people.

To finally quote John Mearsheimer one more time: “There is a solution to the crisis in Ukraine, however -- although it would require the West to think about the country in a fundamentally new way. The United States and its allies should abandon their plan to westernize Ukraine and instead aim to make it a neutral buffer between NATO and Russia, akin to Austria’s position during the Cold War. Western leaders should acknowledge that Ukraine matters so much to Putin that they cannot support an anti-Russian regime there.
This would not mean that a future Ukrainian government would have to be pro-Russian or anti-NATO. On the contrary, the goal should be a sovereign Ukraine that falls in neither the Russian nor the Western camp."

22 October 2014
Fyodor Lukyanov and His Excellency Dr Ravaz Gachechiladze—Oral evidence (QQ 170-190)

Evidence Session No. 12   Heard in Public   Questions 170 - 190

THURSDAY 30 OCTOBER 2014

Members present
Lord Tugendhat (Chairman)
Baroness Billingham
Baroness Bonham-Carter of Yarnbury
Baroness Coussins
Lord Foulkes of Cumnock
Baroness Henig
Lord Jopling
Lord Maclellan of Rogart
Lord Radice
Earl of Sandwich
Lord Trimble

Examination of Witness

Fyodor Lukyanov, Chairman, Council on Foreign and Defense Policy, and Editor in Chief, Russia in Global Affairs

Q170 The Chairman: Mr Lukyanov, thank you very much for agreeing to give evidence to this Committee. I am sure you are well briefed on what we are doing, but just to put it on the record, this is a formal meeting of the Committee. It is part of our inquiry into EU-Russia relations. We will produce a report, I trust, in the first quarter of next year, so we have some difficulty keeping up with events sometimes. What you say will be written down and we will be able to draw on it for our report. We have a number of questions, as you know, to ask you. I am sure there will be some supplementaries as well. If at the end of the meeting you feel that we have not covered the terrain fully or that there is more you wish to say, or if you feel that you would like to add to something that you have said during the course of the meeting, then by all means we can take written evidence.
With that, I will kick off with a very straightforward question—some of the others may be more sensitive. My question concerns the popularity or otherwise of President Putin. At the moment, I gather on the one hand you have polls showing that 80% of people support what he is doing. At the same time, the Levada Center found that as many as 17% of Russians blame their own Government for the bloodshed in Ukraine. Those two things are not mutually incompatible, but in your opinion what is the divide in Russia on foreign policy? Is it a stable situation or do you feel that opinion could shift quite sharply one way or the other in response to events?

**Fyodor Lukyanov:** I would not say that 80% in favour and 17% against is incompatible; mathematically it is okay. There has been a profound change in Russian public opinion since the beginning of events in and around Ukraine. Putin’s policy enjoys very wide support, and not only among those who used to be the so-called passive majority, supporting whatever the President was doing. Now at least some of those who used to oppose his deeds, and even a few of those who participated in anti-Putin demonstrations three or four years ago, are now on his side as well—at least the nationalistic part of protests in 2011 and 2012. They sympathise with the idea laid out by the President about a Russian world—about the protection of Russians abroad—and they perceive Russian actions in Crimea and in eastern Ukraine as legitimate protection of our people endangered by events in Ukraine. In this regard, Putin extended his base. This development also generated, predictably, a very deep rift in society and a minority. It might be 17%, it might be less—I am not a sociologist so I cannot judge. In my humble opinion it is less than 17% on a stable basis. This minority is very much radicalised, and it is really the traditional part of the intelligentsia and the liberal part of the active population who blame Putin and the Russian state for unleashing war in Ukraine. This polarisation had been in place for quite a long time, but compared with what we had before it is now really fatal. I do not see any points of interaction between this big majority in favour of Putin and the minority against Putin. This is a problem for the state. There is a temptation just to disregard this minority, and the bulk of the electorate is very much in favour of that, but at least part of this minority is a very important part of society: this “productive” or, as it is now called strangely, the “creative” class. To eliminate this part of society is quite bad, but so far I do not see a bigger effort on the part of the authorities to engage them.

**The Chairman:** Thank you very much. I should have said that we only have an hour.

**Fyodor Lukyanov:** Okay. I will be brief.

**Q171 Lord Radice:** It has been suggested to us that Russia is distancing itself from Europe and is charting a separate course from Europe and, indeed, from EU values. Do you think that Russia now views itself as a Eurasian rather than a European power, or is this an exaggeration? What are the implications for future relations between the EU and Russia? It is a rather wide-ranging question, I am afraid.

**Fyodor Lukyanov:** Eurasianism and Eurasian power is a mentality and an ideology that is very difficult to identify. Yes, it is popular to discuss it, but it is a very abstract notion, so each can try to formulate it in its own way. The whole chapter of our recent political history, which started approximately in the late 1980s under Gorbachev and lasted until quite recently, is over. To simplify it, as I have no time to go into details, the essence of this period was that Russia considered integration—in the broader sense of integration into an extended West—as a goal. It was interpreted in different ways under different Presidents, but the goal was
the same. Not anymore. Now Russia is stressing the difference. It does not necessarily mean hostility, but it means that the Russian state has no intention any more to make efforts to get acceptance on the western side. This is the key difference. How it will play out in practical terms and what it means for, for example, foreign policy remains to be seen, but certainly the possibility of coming back to the model, for example, and the relationship with the European Union that we had until recently is not available.

**Lord Radice:** Is the implication of that that there is no prospect of a deal between the West and Russia?

**Fyodor Lukyanov:** A deal is always possible because Mr Putin from the beginning was very keen to strike a deal. He could never reach western counterparts, either in the United States or in Europe, to get the model for this deal. Again, to be simplistic and to describe the situation in broad terms, Putin wanted to have a very deep and intense relationship with the European Union when he came in as President. The problem was that for the European Union the only way to have such a relationship is that the counterpart takes the normative base of the European Union as the base for the mutual relationship. It is not a product of negotiations. The negotiations could only be about how the counterpart adapts to the normative base of the European Union. That was what Putin never could accept.

**Q172 Lord Jopling:** Let us turn to the Ukraine situation. It seemed that the Russian Federation woke up very late to the implications of the Association Agreement with Ukraine. What changed Moscow’s calculation following the fall of Yanukovych in February of this year? Why do you feel that it was not possible to manage Russian security concerns through diplomatic means as opposed to sponsored violence?

**Fyodor Lukyanov:** Why was it so late to wake up? For quite a long time during negotiations Russia assumed that the situation inside Ukraine was so troublesome to Europeans—corruption, dysfunction, and in particular Mrs Tymoshenko, who was under arrest and whose release was initially one of the conditions that the European Union put for signing and ratifying this treaty—that it was unlikely that the treaty would be signed. At a certain moment, maybe in summer last year, the European Union position changed. Some people said that it was due to a change of mind in Angela Merkel. Tymoshenko’s fate was removed from the picture and the decision was made that it should be signed anyway. Then Russia woke up. At the same time, in a low-intensity manner, Russia tried to put this question in negotiations with the Europeans to discuss the implications of this treaty for the Russian economy, but the European Union never showed any interest in discussing it with Russia; sometimes it was just indifferent, sometimes it said quite bluntly, “It is not your business. It is our bilateral business”. Russia made certain efforts to get to this topic and to discuss it, but there was no response on the European side at that time.

As for diplomatic means, in Russia there are two reasons: one reason is rooted in history and one reason is rooted in very recent history. The first is that there is a deep belief in Russian political culture that Russia can achieve anything geopolitically only through military means—through being very offensive. As long as diplomacy starts, the rest will be against Russia and they will impose something less favourable on Russia. That is a long story; it has been the case since I do not know which century. The latest experience with the US and Europe at least is perceived in Russia, and especially by President Putin, as a chain of broken promises. Rightly or wrongly, since Gorbachev many steps have been perceived as the West, especially Americans, using Russian weakness to achieve their goals, and it is perceived that
even if they promise something they never stick to promises. It is a deep disappointment in their basic ability to achieve something through negotiations.

The Chairman: Can I just ask you one supplementary? What you say is consistent with other things that we have heard, but I wondered about the functionality, or dysfunctionality, of the Russian Government. When we were in Brussels, I was very impressed with what the people in charge of DG Trade—the technicians—said about how they had kept the Russians fully informed at every stage. I wondered whether within the Russian Government what was taking place at the level of the trade officials would have reached up to President Putin and that level, or whether there might have been a disconnect and that what was happening at the working level never got up to Putin until quite late.

Fyodor Lukyanov: It might happen, because the Russian state apparatus never was very functional—this has been the case, unfortunately, since I do not know which century. At the same time, I would humbly doubt the statements by Brussels officials that they kept the Russian side informed. My little experience—I have never participated in such things but I have witnessed some of the stages of the Russian-European relationship since the early 2000s—is that, yes, they keep them informed, but they do it in such a purely formal way that they never allow anybody, especially Russia, to get deeper into the substance of what is happening. The association agreement was almost secret until September last year. Putin may have a problem with this, but Mr Yanukovych had a bigger problem, because it seems that he never read this treaty before he had to sign it. When finally the Russian side simply translated for him what he was about to sign—the initial text was in English—he was a bit surprised because he never meant it. The lack of co-ordination on the Russian side was in place, but I would not believe that the European Union was really interested in discussing things with Russia. Now it is different. You see the difference now after all the tragedies that have happened. Now they are inviting the Russian side to discuss and now suddenly they say, “Okay, we will postpone implementation”.

Q173 Lord Trimble: Turning to the proposed Deep and Comprehensive Free Trade Area between the EU and Ukraine, it looks as though Russia is trying to block this development and may even be treating it as a casus belli. Which is Moscow most concerned about: is it the economic impact of the agreement or its political implications?

Fyodor Lukyanov: Both, but I would guess that the political and security implications are ranked higher in the Russian hierarchy of priorities. The Russian perception is that economic integration in Europe cannot be separated from other forms of integration, and EU membership will almost inevitably lead, in the short-term or long-term perspective, to NATO membership, which is perceived in Russia as an absolutely unacceptable threat to national security. As for economic implications, there are very different assessments in Russia. You can find assessments that Mr Putin operates that are huge: that it will really undermine the Russian economy. There are more modest assessments, but there are risks. Even those who are in favour of a good relationship with Europe say that there are risks that might be generated by this agreement. Politically, in this agreement, while it is not about security, there is a section mentioning that one of the goals is to boost political and security co-operation with the Euro-Atlantic sphere, which is used in Russia as proof that it is built into the treaty.

Lord Trimble: Some of the people who have given evidence to us beforehand have said that the real political objection is not NATO, it is that the Kremlin regards the creation of a fully
democratic state and a successful democratic state on its borders as an existential threat to the present regime.

_Fyodor Lukyanov:_ It was the case 10 years ago. After the Orange Revolution it was the case; the Russian leadership was very concerned about the possibilities of Ukraine being transformed into something else. The Ukrainian leadership brilliantly showed that there was no chance, and now this is not the motivation, because frankly no one in the Russian leadership and not so many in the Russian expat community believe that Ukraine will succeed with their reforms and all this. The security threats are now prevailing.

_Lord Radice:_ Could you just repeat that last half a sentence? I did not quite catch it.

_Fyodor Lukyanov:_ The security concerns connected to possible rapprochement between Ukraine and NATO are now the key element, not the fear that Ukraine will become a successful democracy.

Q174 Baroness Billingham: The Russian Government have reacted very differently to the Moldovan and Georgian DCFTAs from the Ukrainian accord, raising little or no objection whatever to agreements that are indistinguishable from the one with Ukraine. Why is this?

_Fyodor Lukyanov:_ I would not say that Russia welcomes the similar developments with Moldova and Georgia, but, yes, it is true that the scale of reaction is different, which is quite understandable. Even in terms of the economy, the impact of Moldovan or Georgian association is very insignificant compared with Ukraine. Ukraine is a big country. Ukraine used to be very important for the Russian economy. It is a big market. It is a big production entity—it was before, at least—and objectively the implications will be different. At the same time, politically, with all respect to Georgia and Moldova, the geostrategic importance of those countries is incomparable to that of Ukraine.

Q175 Earl of Sandwich: Can we move to the Eurasian Economic Union? We would be very interested to have your views on how important this union is going to be and Russia’s attitude to it. Is it going to be further widened? Is the membership going to extend beyond even Armenia? Does the EEU aim to achieve the free movement of capital, goods and services that we see in the EU? Does it aspire to be a currency union? It is suggested that the loss of Ukraine is a mortal blow to the Eurasian union. Is that so?

_Fyodor Lukyanov:_ I do not think currency union is available in any foreseeable future. Even the European experience shows that currency union is such a complicated thing that to hurry it is senseless. Yes, I would dare to say that the initial idea about the Eurasian union was to create a framework in which Ukraine could be invited and embedded. Now it is not the case anymore. Whatever happens in Ukraine, this country will for a long time be unintegrable in any organisation or union, which means that now it is much more about Eurasia: the initial name was to me a bit misleading. The chance to extend this union to other countries beyond Armenia and Kyrgyzstan, which are in line, is not very great, because for one or another reason other countries that might be considered as candidates have no interest or no opportunity. For example, Tajikistan theoretically can apply, but Tajikistan joined the WTO under such terrible conditions that to change it in order to become a member of any economic union is almost impossible. Even if they want to, it is very difficult. As for other countries, Moldova, Georgia, Azerbaijan and Uzbekistan show no interest. Maybe Uzbekistan will change its mind, but not now.
Fyodor Lukyanov and His Excellency Dr Ravaz Gachechiladze—Oral evidence (QQ 170-190)

Since the deepening of political integration is not in sight—Kazakhstan and Belarus are not at all keen to share their political sovereignty to a larger extent—the economic logic will prevail. It will be really about free movement of capital, people and goods. It is difficult, because a lot of questions are not settled. My guess would be that in the long run the Russian Eurasian union project will, in one or another form, be merged with the big Chinese initiative launched by Xi Jinping last year about an economic belt or a new Silk Road, which basically covers the same area. So far it is quite difficult to imagine how those projects can co-exist, but given the rapid rapprochement between Russia and China I can imagine that this will be a joint project, and quite a big one. Russia in this case will not be the leading force there.

The Chairman: Could I just ask for clarification on a point? In your opinion, is it possible for a country to have a free trade agreement with the European Union and be a member of the Eurasian union, or do you think that those two things are incompatible?

Fyodor Lukyanov: As the European Commission has told us many times, it is incompatible: “You should choose”. That was the point they put to Ukrainians when Yanukovych tried to, so to speak, combine everything. It was the European side that first said, “No, you should choose”. Russia came later. In fact, I think it is possible if there is political will on both sides, which is not the case now.

Earl of Sandwich: Are you concerned—from what you have said I think you are—that the EU is cutting across WTO rules as well? The example of Kazakhstan comes up. Is that something that you think you should be concerned about?

Fyodor Lukyanov: The Eurasian integration is based on WTO norms. It is not against. This is the key point to make from the beginning. The architects of this union say that it is compatible with WTO rules and that it does not contradict the rules of the European Union. It is compatible in this regard if there is a political will to negotiate and to discuss. Each country had different conditions for joining the WTO. I mentioned Tajikistan. Tajikistan signed a deal that was very bad for them. To put it bluntly, they were less qualified to achieve better conditions, and now it is very difficult to change, because the conditions under which, for example, Russia joined the WTO are much more favourable than others.

The Chairman: Another clarification, if I may. You said that Ukraine is un-integrable in any union. Certainly from my knowledge of the European Union I think there would be very great difficulties in integrating Ukraine into that in any foreseeable future, but in your opinion is Ukraine un-integrable into the Eurasian union as well?

Fyodor Lukyanov: In the current situation of course, because the Ukrainian leadership is bluntly and entirely anti-Russian and anti-Eurasian union. Even if we disregard this, Ukraine is still a split country and is in a terrible economic shape. To get it into the Eurasian union would mean to get a burden such that no one can bear. I think the question about Ukrainian integration anywhere is now closed for quite a long while.

Q176 Baroness Bonham-Carter of Yarnbury: Quite a large part of my question has been covered. I was going to ask how you characterise relations between the Eurasian Economic Union and the European Union, but I think you have covered that. Maybe we could move forward and you could tell us how the leaders of the Eurasian integration project envisage the relationship with the European Union being structured and managed in the future, or whether that is on the back burner.
**Fyodor Lukyanov:** The Eurasian union is very keen to establish close ties with the European Union as two major economic entities. The European Union until recently flatly rejected establishing these ties, based on the assumption that if they established these ties it would legitimise this project, which is seen at least in western public opinion as a new imperial project of Russia. My personal view is that it is a wrong perception, but it is presented in this way here. Now we can see slight changes in approach on the European side. Maybe with the new Commission, which has a bit more room for manoeuvre, this process might be launched. For the European Union it would be favourable to launch this contact, because however we assess the Russian role in the Eurasian union, which is huge, Russia for the first time ever is ready to limit its capacities in order to get others on board. This is quite a big change in Russian political behaviour compared with what we had before. In the Eurasian Economic Commission there is a consensus rule. All countries de facto—both Belarus and Kazakhstan and, in future, Armenia—have a veto right. That means that Russia needs to change the traditional way of imposing its own will on others. I think that objectively for the European Union it would be very useful to launch negotiations and to launch serious institutional contacts with the Eurasian union.

**Baroness Bonham-Carter of Yarnbury:** Going back to an answer to an earlier question, you said that the Eurasian concept was a rather abstract one at the moment. Can Russia identify this, what you have called a rather abstract notion, through this structure?

**Fyodor Lukyanov:** Maybe, but the theory of Eurasianism has very little to do with the Eurasian union as an organisation. This idea was born 100 years ago in the brinkmanship of the collapse of the Russian empire. It was an attempt to find a new identity. It is still now an attempt to find a new identity, but if we go along those lines, that is very metaphysical; it is not about economic integration at all. The Eurasian union in fact is based much more on the principles of European integration as it was 60 years ago.

**Q177 Lord Foulkes of Cumnock:** I want to ask about military intervention. Do you think Mr Putin is envisaging any further military intervention, for example in support of Russian-speaking minorities in any of the countries around Russia?

**Fyodor Lukyanov:** No, I do not think so. If you follow the narrative in Russia since February, the notion of protecting compatriots abroad came up once, but very boldly, in the speech when the President announced the reunification of Crimea. To me it was a very risky thing to do, because his real motivation—we do not know, of course, but I am quite sure—was not about that. His real motivation was national security and the risk that the new rule in Kiev would very quickly denounce the agreements of 2010 that prolonged Russia’s stay in Crimea for 25 years. If they did this, it would mean that the Russian Black Sea Fleet should leave Crimea in two years, because the initial agreement was until 2017. For reasons that we can discuss in other contexts, today that is absolutely unacceptable to Russian public opinion, to the Russian people and to the Russian leadership, so Russia could not afford that. That is why he decided to move to Crimea. He may have thought that to explain it to people he needed a bigger narrative, and then this “Russian world” came in. The consequences were huge. We see that many people in eastern Ukraine interpreted this speech as encouragement for it, so to speak.

**Lord Foulkes of Cumnock:** We have seen other countries with internal problems use some external perceived threat as an excuse for military action. It happened in Argentina with the invasion of the Falklands, and there have been lots of other examples. One of our witnesses
the other week said that Russia was preparing militarily for some kind of international conflict. It sounded a bit far-fetched to some of us, but is it far-fetched?

_Fyodor Lukyanov:_ No, I do not think it was a preparation for a particular conflict. More than that, before 22 February no one could imagine that the Crimean move was possible. The collapse of the regime in Kiev meant almost nearly the collapse of the whole political model in Ukraine, and that suddenly opened up opportunities that never existed before. Was a special file collected by the Russian General Staff? Certainly, yes, because the military guys have to have all this for any situation, but it did not mean that it was a prepared operation. As for using outside operations in order to strengthen the domestic situation, I am assured that none of the neighbouring countries of Russia are at risk, because why would they do it? The Crimean move was a reaction to what happened there. Again, that was a collapse of the status quo that could lead to very profound changes to the Russian security landscape. There are no reasons to expect something like this in Kazakhstan, the Baltic states or anywhere else. For now, the situation in eastern Ukraine is pretty stable. No one is interested in enhancing this war. At the same time, I see no chances of solving this conflict for a very long time, but if you look at and listen to what President Putin is saying, there are no signs of a bigger appetite.

_Q178 Lord Jopling:_ Lord Foulkes just asked you about the future. Let me ask you about the past. We have seen Russian interference, whether it is sponsored interference as in Ukraine, or some time ago in Georgia with South Ossetia and Abkhazia, and we see it in Transnistria, where again in a sovereign state, having given undertakings that Russian troops would be totally withdrawn, they have not been. Looking at Russian foreign policy in the recent past, would you agree with the view of some of us that Russia has been much too ready to go in the direction of violence rather than to try to sort matters out, however difficult that may appear to be?

_Fyodor Lukyanov:_ No, I would not say so. The Russian actions that are identified as violence here used to be a response to something. This response might sometimes be disproportionate, but I do not remember any bigger move without any initial impulse coming from the outside. It is very difficult to compare the situations in the different frozen or unfrozen conflicts you mentioned. In Transnistria, for example, this is a legacy of the initial stage of Moldovan independence. Eleven years ago there was a chance to settle this with the so-called Kozak plan—Kozak was the then Deputy Prime Minister and the guy in the Russian Government who was responsible for this. It was almost signed, but the then President of Moldova, Mr Voronin, received many phone calls from Europe and from the United States not to do it because this plan accepted a Russian military presence in Transnistria, and this plan was killed. I am not sure that was a wise idea, because now we have a conflict without any prospect of settlement and Russian troops have a presence in place there anyway. It is not a big contingent, but still. The quite popular picture here that Mr Putin has a calculated strategy for how to destabilise the neighbouring territories is a very complimentary picture, because I do not think he has this strategy. It used to be reaction to the ever-changing environment. Any activities by the US or Europe, especially the US, in neighbouring countries are perceived as a threat to the status quo. Russia tries desperately all the time to keep the status quo as it is.

_Baroness Billingham:_ Just to rewind prior to the annexation of Crimea, do you find it surprising that the outcome that Crimea has been annexed was not foreseen clearly by
whomever and that it apparently came as an enormous surprise to the EU when many people think that this was on President Putin’s agenda for some time and he was merely waiting for the right opportunity?

**Fyodor Lukyanov:** It is not up to me to judge whether or not the European Union is a functioning organisation in terms of foreign and security policy, but in my humble opinion it is not at all. It was strange; on the day of the Crimean referendum, when everything was clear already—it was clear to me what would happen almost from the beginning but especially when the referendum was called and the questions were announced—I still received phone calls even from European diplomats saying, “It cannot happen. It is just a bluff”. With this level of analysis, I am afraid that more surprises are to come, and not only from Russia.

**Q179 Baroness Coussins:** I want to ask you about the EU’s European Neighbourhood Policy, which you touched on in earlier answers to some extent specifically about Ukraine. I want to ask you more broadly whether you think that the EU’s current process of reviewing its neighbourhood policy is regarded as a threat or a security concern by Moscow. Does Moscow think that Belarus, Moldova, Georgia and other places have the right to seek integration with the EU and/or NATO? If not, what are Moscow’s red lines? Up to what point if those states were to seek integration with the West would Moscow continue to exercise self-restraint?

**Fyodor Lukyanov:** I do not think that people in the Russian leadership think in terms of whether somebody has a right or does not have a right. It is a more classical approach; everybody has a right, but this right should be seen and considered in the existing geopolitical context: “You have a right to aspire to NATO membership; we have a right to stop you at any moment if we believe that this is of security concern to us”. I am not sure that NATO membership is a vital issue for any of the countries you mentioned, but if it is put back on the agenda it will be seen by Moscow as another attempt to cross this red line—and EU membership is not available anyway for now. Without that, the co-operation with the EU of Georgia and Belarus—it is difficult to envisage, but who knows—might be tolerated to the extent that it does not challenge Russian interests there. Russia does not need necessarily to be prevailing there, but Russia will not accept anybody else prevailing. It should be a balance, as it was in Ukraine before this tragedy developed.

**Baroness Henig:** Can I come back to an issue that we have already touched on this morning: the suggestion that the EU has failed to engage Russia in meaningful co-operation? Some people have accused EU policy instruments of being “utopian” and full of “wissy-wassy good intentions”. There is also the suggestion that earlier grand policies perhaps relied too much on Russian good will and should have been more hard-nosed and aggressive. What I am really trying to get at is your assessment of EU-Russia co-operation in the last few years. Can I throw in a suggestion to you? Has one of the problems been a change in the perception of Russian leaders that Russia should operate as a Eurasian power rather than a European power? You have touched on this a bit in some of your recent answers. I am sure we are well aware that there is long-standing debate in Russian history about the stance that Russia should adopt. Has that been one of the issues in recent years?

**Fyodor Lukyanov:** The European Union is a very difficult animal to deal with. Whatever you think about his political approach, Mr Putin is a very concrete guy. He is ready to strike deals and he is ready to solve questions, but in the normal way in which, for example, big powers
come together and decide something. The European Union is another case, because he comes to negotiations—a summit, for example—with certain proposals. From the head of the European Commission he receives the answer, “Yes, great, but we have no mandate for that. We cannot discuss this, we cannot discuss this, we can discuss only this, because this is the mandate of the Commission. If you want something else, we need another mandate, but we cannot get it because there are 28 countries”, and so on. That is a way that leads nowhere, because the issues between Russia and the European Union from the beginning but especially with the process were so big and so important that they needed political will and very hard work. The European Union, especially since the mid-2000s, was almost fully consumed by internal troubles. If you look at the record between Russia and the European Union, we can blame Russia for many things, and Russia made a lot of mistakes as well, but it was a more or less productive co-operation with certain benchmarks until the mid-2000s. It stopped when the European Union started to deal entirely with internal issues: when the constitution failed; the Lisbon treaty, the euro crisis and so on. It did not make sense to try to achieve something and Putin lost any interest in that. Meanwhile, the European Union adopted the Eastern Partnership programme, which was seen as an attempt institutionally to get those post-Soviet countries. Maybe I am wrong, but to me it was an unfair system—not to Russia but to those countries—because the European Union invented a forum where all the problems were Putin and partners, and instead the European Union did not promise anything: not membership, not anything else. “If you want a label ‘European choice’ then please get it, but do not expect anything else from us”. Some countries accepted, some countries tried and failed. At the same time, it undermined very much the Russian-European relationship. At the end, the internal dysfunctionality of the European Union contributed very much to this failure of the relationship, so now we need a completely different model.

Baroness Henig: Have there been changes on the Russian side in what the Russian leadership is trying to achieve?

Fyodor Lukyanov: The initial idea by Putin promoted in 2002/2003 when he was maybe the most pro-western President in Russian history was this so-called “asset swap”. He wanted a big deal that to a certain extent was similar in principle to the initial stage of European integration: the coal and steel union between Germany and France after the Second World War. His basic idea was that the European Union would get extended access to Russian resources and in return Russia would get extended access to the European market and technologies. That was discussed in different ways, especially with Germany—with Schroeder at that time—but it failed, because again the European Union is not about making deals; the European Union is about extending its own normative field in all regards, not only the economy but also values and so on, and if a counterpart has no room for compromise, Putin does not know how to deal with this.

Baroness Bonham-Carter of Yarnbury: I was interested in what the way forward is, listening to how badly it has been handled in the past. What are the steps to be taken by the EU to ease tensions?

Fyodor Lukyanov: The short-term goal is to stabilise the situation in the Ukraine—not to settle this conflict, which, we should be realistic, is impossible, but to stabilise the situation and to finalise the line between the two sides. The status issue might be discussed for ever. The key question is how both Ukraine and those self-proclaimed republics will survive this winter. If a more or less stable status quo is achieved, the European Union and Russia need to start to discuss where they can still co-operate, primarily on economic issues; and
whether it is possible to gradually remove sanctions, because as long as sanctions are there it is quite difficult to expect Russia to be co-operative. The complicating circumstance is that the Russian shift to China is very rapid, because Russia has no other choice now but to turn to China. The tempo is spectacular; I am surprised.

Q180  The Chairman: Can I ask you this final question? It has been suggested to us by many people—and, indeed, I think it is our experience—that during the Cold War the level of expertise in western capitals about Russia was very high. There was a very sophisticated understanding in London, Paris and Bonn at that time, as well as Washington of course, of what made the Kremlin tick, what the strengths and weaknesses of the Soviet Government were and what their aspirations were. Since the end of the Cold War, the level of expertise in western capitals on Russia has declined considerably; there is very much less. That has certainly, I must say, been our experience. What about the other side? If the level of expertise in London, Paris, Berlin, et cetera has declined, is Moscow’s expertise on the situation in western capitals and in the European Union and NATO—the organisations that bring them together—as good as it was in the Soviet days, or has that, too, declined?

Fyodor Lukyanov: It is a similar process. It is slightly better with NATO because of inertia. NATO used to be studied very carefully. With the European Union and the new European processes—the internal processes—in general I would say that the situation is very poor. The old generation of experts is gradually retiring. The new generation is not yet there, and that is a big problem. I would say that the roots are different. In Europe the roots are that for a while everybody here lost interest and believed that it was not needed. In Russia the roots are different. The collapse of the 1990s—no money, nothing—almost destroyed the academic capacity. Interest was there but capacity was not. Now they are trying to re-establish that, and there is the reform of the Russian Academy of Sciences, which is quite controversial, but still there is an attempt. I hope that this expertise will improve now, because the emphasis on European studies is growing. We will see whether the quality will be as high as before.

The Chairman: Thank you very much. We have a situation to some extent in which two short-sighted people are trying to reach an understanding with each other but both of them are seeing things through a glass darkly. Thank you very much indeed.

Examination of Witness

His Excellency Dr Revaz Gachechiladze, Georgian Ambassador to the UK

Q181  The Chairman: Ambassador, thank you very much for agreeing to appear before this Committee. You have been present at the last session so you know what we are doing, but for the sake of good order I should repeat that this is a formal meeting of the Committee as part of our inquiry into the relationship between the EU and Russia. Therefore, what you say will be taken down as evidence on which we can draw for our report. We only have about an hour together and we have a number of questions to ask, so I should be grateful if you could be brief where that is possible, but thank you very much first of all for agreeing to appear before us.
If I could start with a general question, how would you characterise the current state of Georgian-Russian relations? What in your view has been driving recent developments? How do you see the present situation?

**Ambassador Gachechiladze:** Thank you very much, my Lord Chairman. It is very difficult to say in a couple of words what the current state of Georgian-Russian relations is, so let me just elaborate about it for three or four minutes.

First of all, I must say that the situation is improving to some extent. This is due to the initiative of the new Government of Georgia, who have been at the helm since October 2012. Our Government offered Russia a dialogue on some humanitarian, economic and cultural issues, with the tacit consent that we would not touch political issues, because Georgia has its red line and this red line contradicts entirely the Russian red line. We do not recognise the reality that was placed upon Georgia in 2008 when two breakaway provinces of Georgia were declared independent by Russia—a couple of other countries also recognise their independence. We do not recognise this. We consider these territories to be occupied and to be under the military occupation of Russia, and I think that is correct. We insist upon the territorial integrity of Georgia, which is not the case with Russia. Russia wants us to recognise the independence of these territories. That would be impossible, so political issues have not been touched during the dialogue that is going on. There have already been seven rounds of this dialogue and they have been quite fruitful again from the point of view of cultural and economic exchange, and have led to the opening of the Russian market to Georgian agricultural and food products. The Georgian market was always open for Russian businesses, even when we had no diplomatic relations with this country—and we have not had diplomatic relations since 2008—but the Russian market was re-opened as a result of these talks. Just a couple of days ago I heard that during the last two years Georgian exports to Russia have increased by 550%. This growth is because it was very low before 2012, and I do not think it will increase more in the foreseeable future.

When we speak about the current state of these relations, your Lordship also visited Georgia and you know that there is no anti-Russian rhetoric at the moment, but this does not mean that we accept entirely Russian policy towards Georgia and towards other countries as well. From this point of view, normalisation is going on, but it will go on up to a certain point; then we will need some political solution, which, from our point of view, is necessary in order to have full normalisation.

**Q182 Lord Foulkes of Cumnock:** Your Excellency, do you think the West should have taken a more robust and assertive stance in relation to Russia and its conflict with Georgia in 2008? Do you think that if we had done that the current intervention in Ukraine might have been avoided?

**Ambassador Gachechiladze:** This is a very difficult question to answer. First of all, we do not call this war a “Georgian-Russian war” but a “Russian-Georgian war”, because it was Russia that invaded Georgian territory.

**Lord Foulkes of Cumnock:** Yes. I changed the wording in my question.

**Ambassador Gachechiladze:** Yes. Thank you very much. To some extent, yes, but understand that in 2008 and 2009 Europe and the West were very preoccupied with the economic crisis that was there and is just dissolving. That is why the Georgian problem disappeared from the agenda of the western countries quite soon. In the beginning, for
instance, the NATO-Russia Council was closed for a time, but then in a couple of months, as you know, it started again. If the West had been more assertive towards Russia maybe the present conflict over Ukraine might have been avoided. Again, in this case there are a lot of ifs; you cannot give a direct “yes” or “no”.

**Lord Foulkes of Cumnock**: Can I just elaborate? In Mr Lukyanov’s evidence you heard Lord Jopling and me question him about possible future conflicts. Do you think there are dangers of Russian military intervention elsewhere?

**Ambassador Gachechiladze**: It is very hard to say as a diplomat that there are. Afterwards, they will always say, “He said there is a conflict possible”. As a scholar maybe I would say yes, but as a diplomat I will say that I do not know.

**Lord Foulkes of Cumnock**: Well, you are a scholar. You have a doctorate and other degrees, I can see that. As a scholar you say yes.

**Ambassador Gachechiladze**: But as a diplomat I say that I do not know. The thing is that we are quite scared because of the possibility of this sort of conflict, and we try to avoid it by all means. The new Government of Georgia have given up the futile anti-Russian rhetoric that was quite characteristic of the previous Government and that led to some, let us call it, mild misunderstanding. Now we try to avoid this sort of conflict, but it can occur, because, as the Chairman said, there is not a good understanding of Russia in the West, and the Russian geopolitical code did not change at all. If you permit me to become a scholar again, I must tell you that Russia was always extending. There was a Russian historian who said that when Russia stops expanding territorially the ailment is beginning, and if it decreases in size then it is close to death. It was a Russian historian of the 19th century who said this sort of thing. We have seen throughout history that Russia was always expanding territorially. When 20 years ago it lost its outer empire and then its internal empire, by which I mean the communist bloc in Europe and afterwards the former Soviet republics, there was a Versailles syndrome in Russia. Now they are coming out of this syndrome because of Crimea and there is such happiness among public opinion, but I do not think that Russia is interested in having military incursions in all the countries if it can reach its own results without arms.

**Q183 Earl of Sandwich**: Ambassador, I had the pleasure of coming to Georgia and discussing all these things with you in July. I should call you Professor, because we were in an academic setting. I was there at a time of euphoria about the Association Agreement. You have already mentioned the paradox. The Foreign Minister, for example, said that Georgia is a European country—it is a statement of fact—yet there is a paradox that while it is difficult to agree on military or foreign policy, economic policy and culture bind you to Russia over many generations. We have been interested in Ukraine and the effect on Russia of the Ukrainian free trade agreement especially. How do you explain the contrast that Russia seems undisturbed by the free trade agreement in Georgia and has hardly made any comment on the Association Agreement?

**Ambassador Gachechiladze**: First of all, that is for the time being. Secondly, as Mr Lukyanov also said—and he was quite correct—there is a difference in size. Ukraine means much more for Russia than Georgia or Moldova mean. The Georgian economy is much smaller—something like 100 times smaller—than the Ukrainian economy. From this point of view, Russia is not very afraid of it. Thirdly, I must tell you that when this DCFTA agreement was to be signed by Georgia, a group of Russian experts visited Georgia—and I mean experts, on
the expert level—and they saw that this would not cause a lot of problems for Russia. Besides, sometimes even these challenges can be turned into benefits, because there is Russian business represented in Georgia and they thought that these companies might benefit from being allowed to enter the European market. From the economic point of view, Georgia is not a great threat to Russia. Moldova is a quite different case because it is so far away from Russia itself and it borders Romania, which is already a member of the European Union, so I would not speak now about Moldova. Georgia’s choice of the West is by necessity and choice. We consider ourselves a European country. There is very strong public opinion in the country that we must be together with Europe. From this point of view I think we have made a good step towards the West, and the West also was quite generous in this case to help us to move towards Europe. Let us see what happens, but in the foreseeable future I do not think that Russia will be very annoyed by our association with the European Union.

**Earl of Sandwich:** Are you concerned about the conditionality attached to the Association Agreement, remembering what the Orthodox Church and others have been saying?

**Ambassador Gachechiladze:** No. This is almost always about ethics, et cetera. I do not think there is anything in this association that will violate the human rights of Georgians or the rights of the Orthodox Church and its believers. Nothing is said about gay marriage, et cetera, which various radical groups sometimes like to raise and say that Europe is a promoter of LGBT rights, et cetera. This is not the case: the majority understands. I must also tell you that the highest hierarchs of the Georgian Orthodox Church supported the Georgian move towards the West. The Patriarch himself said, “No, we are not scared at all, we are supportive”. This means a lot from this point of view.

With regard to the other things, there are quite harsh provisions in the DCFTA agreement for our economy, but this is not very bad. If we change our working ethics and we move towards a western way of thinking and working, this will be very good. Besides, it will also help the further democratisation of our country. Georgia is quite a democratic country. At least in the post-Soviet world, apart from the Baltic states, I think we can boast that we have the highest level of democracy. It is not at the level of the western countries, but it is still high in comparison with the others—with neighbours, for instance.

**Q184 Lord Jopling:** Ambassador, as you know, the Russians have expressed concerns about the effect of the Deep and Comprehensive Free Trade Area on their own trade and the terms of trade with regional countries. How straightforward and reasonable do you think their reservations are? Secondly, to what extent were Russian concerns dealt with and handled during the negotiations that led up to the DCFTA?

**Ambassador Gachechiladze:** These negotiations lasted for quite a long time. We were in these negotiations together with Armenia. Armenia was compelled on 3 September 2013 to give up this idea, while Georgia did not give it up. I have said already that this agreement would cause no problem for Russia at the moment, and Russia I think accepts our viewpoint at the moment.

**Q185 Lord Jopling:** Ambassador, as you know, one of the few ways in which the Russians do not control the hydrocarbons pipelines and deliveries coming from the Caspian area and around that region is the pipeline that runs from Baku through Georgia to the Mediterranean. One has always felt that the Russians may feel that this is something they
Fyodor Lukyanov and His Excellency Dr Ravaz Gachechiladze—Oral evidence (QQ 170-190)

would like to get an influence on. Thinking of the development of the Eurasian Economic Union and the possibility of Armenia joining that, with Georgia rather sandwiched between Armenia and Russia, to what extent do you think that situation could, in the event of Armenia’s joining the EEU, provoke Russia to find excuses to be again belligerent towards Georgia?

**Ambassador Gachechiladze:** Again, this is a matter of speculation. It might be. Sometimes people think about it; I have read in some newspapers that the expert community is rather scared about it. The reality is that Georgia and Armenia have quite good economic and friendly relations. The President of Armenia has visited Georgia several times during these past years, and they came to some sort of terms that Russia and Armenia can have trade via Georgian territory and that there might be some sort of relaxation of taxes, et cetera. Armenia is also very interested in having trade with Georgia, because the Georgian territory is a major outlet to the outer world, because they are using Georgian ports, the Georgian railway and Georgian routes towards Russia. I think that we came to some sort of terms, and it would not hinder Armenia’s or Georgia’s interests in this case very much.

**Q186 Lord Maclennan of Rogart:** I would like to ask you about security in the Caucasus and the Balkans, which it appears is giving the Russians considerable concern. The US Deputy Assistant Secretary of State for European Affairs, Ronald Asmus, suggested that if anyone could convince the Russians that there was to be a shared partnership they would deserve the Nobel Peace Prize. Do you think there is any scope for nudging or pushing the Russians in the direction of accepting the possibility of partnership in that sphere, or do you think that the West and Russia have fundamentally different attitudes to the security question?

**Ambassador Gachechiladze:** Thank you for this question. First of all I must tell you that when we speak about security in the Caucasus and the Balkans, there can be different approaches to what the Caucasus and the Balkans are. In the case of the Caucasus, we have the southern Caucasus and the northern Caucasus, which is within the Russian Federation itself. Security for Russia means securing itself from such Islamists and fanatical groups that were operating in Chechnya and are still there, maybe underground but somewhere. From this point of view, Russian interest in security in the northern Caucasus coincides with our concerns about security in the northern Caucasus, because this is a threat not only to Russia but to Georgia as well. I cannot speak about the Balkans now.

The late Mr Asmus was a good friend of Georgia. He talked about the Nobel Peace Prize. I do not aspire to get this prize, and I must say very bluntly that to nudge or to push the Russians towards that thinking is next to impossible, because they have their own agenda; they have their own geopolitical code, which does not coincide with the European geopolitical code. That is quite normal, because even in the case of Russia, when they say that they are making friends with China, they have quite different geopolitical codes and this is just such a temporary friendship—this can happen—and there are some coincidences of economic interests, et cetera. If there were a coincidence of more economic interests in the Caucasus and in the Balkans towards the West and Russia, it could be more achievable, but it is impossible to give more details.

You mentioned the pipeline, which is very important for the West. When this deal was being signed in Baku, the then President of Azerbaijan, Heydar Aliyev, was wise enough to invite a Russian company to co-operate within the consortium that was building the pipeline, somehow to lower down the Russia concerns about it. Nowadays this pipeline belongs to
BP—it belongs to the western companies—and the Russian army is staying approximately 10 miles from this pipeline within Georgia. When they invaded Georgia and occupied South Ossetia, they came very close to this pipeline, but during the war this pipeline was not bombed. While they could have done it, they did not do it, because they understood that this might spoil relations with the West very much. I do not think that this pipeline will, in the foreseeable future, be the reason for any misunderstanding between the West and Russia. They are even constructing another pipeline in parallel, which will be called the Southern Corridor, and it will deliver Azerbaijani gas to western consumers via Turkey.

Q187  The Chairman: Ambassador, you were listening to the previous evidence, so you will have heard Mr Lukyanov express the view that Russia is primarily interested in maintaining the status quo in the post-Soviet space rather than encroaching on the position of neighbouring countries. How does that statement look from Tbilisi?

Ambassador Gachichiladze: They want to preserve the status quo not antebellum but post-bellum. This is the difference. They prefer the status quo to be preserved as it is now, with the so-called independent Abkhazia and the so-called independent Ossetia, and Nagorno-Karabakh, which is controlled by Armenian forces but which really belongs to another state. They prefer the status quo to be there, because if at any time the status quo deteriorates it will affect Russia’s interests in this area. From this point of view, Mr Lukyanov was right, but again I stress that this is not the status quo antebellum—before war—but after war.

Q188  Lord Radice: At the NATO summit in Wales in September, Georgia was offered a defence package. How useful is this defence package to Georgia?

Ambassador Gachichiladze: It is useful for Georgia. We must pursue our NATO membership during the next years. We understand quite clearly that NATO is doing what it can do in the circumstances. In spite of declaring that nobody can interfere in the affairs of NATO and its enlargement, in any case they feel they have to take the interests of the other countries into account—Russia first of all because Russia is very concerned about NATO’s presence in the former Soviet space. These concerns are exaggerated. I am sure that NATO causes Russia no problem at all. In Georgia we think it is exactly vice versa: NATO is the agent of peace and security in the region. But the other country—a huge country—thinks differently. NATO has done what it has done. This package is quite good. It is not sufficient, and we would like it to be more. Many people in my country thought that we might have received the membership action plan, and some people even suggested that outright membership of NATO might be the better solution, but we understand that the realities are quite different, so we accept what we have received and we will use it for our benefit.

Q189  Baroness Henig: Ambassador, you will be aware that the new leadership of the European Committee, which is about to take office in Brussels, has suggested that the era of further EU expansion must be put on hold for the next five years. What is your view of this approach to enlargement? Does Georgia still harbour an ambition of EU membership?

Ambassador Gachichiladze: It would be good if the era of further expansion of the EU was put on hold for just the next five years. We expected that it might be postponed for longer. Georgia will by all means harbour an ambition of EU membership. This is good for the process of democratisation and further liberalisation in my country. Georgia’s legislation is being harmonised with that of Europe. People’s attitude to working ethics is changing. Georgia will still harbour the ambition of EU membership in the foreseeable future, and if
after five years they reconsider this idea—five years is not a long time—that will be good for Georgia.

**Baroness Henig:** Are you at all concerned that that might make Georgia more vulnerable to Russian pressure?

**Ambassador Gachechiladze:** I do not think so.

**The Chairman:** What do you think would be the advantages for Georgia of membership of the EU?

**Ambassador Gachechiladze:** At least we will not be obliged to pay £1.7 billion to the European budget. I think we will receive something from you, and this will benefit our economy. Take, for instance, Cyprus or the example of Ireland next door, which was a very poor country until, after 25 years of membership in Europe, it became the Celtic tiger. Maybe we will become the Caucasian tiger. Why not?

**Q190** **The Chairman:** If I might ask a different sort of question, what first steps do you think the countries that are geographically close to Russia could perhaps take to bring Russia back into a more constructive relationship with the region? Are there areas for shared co-operation and forums for discussion that you think would help to promote a dialogue? Do you think there is scope for greater co-operation with the present regime in Russia?

**Ambassador Gachechiladze:** Do you mean for the EU or the neighbours?

**The Chairman:** No, I was thinking of countries like yours and others.

**Ambassador Gachechiladze:** There is always a space for negotiations and dialogue, and we are very supportive of these sorts of actions. As I told you, the new Government have started this dialogue with Russia. If this dialogue deepens and extends to the other spheres, that will only be good. Again, I must repeat that there are some red lines, and these red lines are hindering our movement towards the future. If Russia becomes more co-operative from this point of view, then I think negotiations will be beneficial for both sides. I also would like to repeat that Georgia had quite normal relations with Russia for quite a long time, and it was not Georgia that began the deterioration of these relations. By the way, in 2000 the visa regime was introduced within the CIS countries between Russia and Georgia, and this was Russian-initiated. It was quite a long time ago and it was not connected with any sort of war in South Ossetia, et cetera; it began earlier. The then Russian Prime Minister, Mr Putin, said that he would introduce this visa regime with Azerbaijan and Georgia, but then he introduced it only with Georgia. This is not our fault only. If there are some steps from Moscow, then we will of course make much more steps towards them.

**The Chairman:** Ambassador, thank you very much. We have concluded perhaps more quickly than I had expected, but thank you for the comprehensive nature of your answers, which have given us a much clearer view of where you come from and the way you see things.

**Ambassador Gachechiladze:** Thank you.

**The Chairman:** Thank you.
Tracy McDermott, Shona Riach and Vladimir Kara-Murza—Oral evidence (QQ 87-109)

Evidence Session No. 6  Heard in Public  Questions 87 - 109

THURSDAY 23 OCTOBER 2014

Members present
Lord Tugendhat (Chairman)  Baroness Billingham  Baroness Bonham-Carter of Yarnbury  Baroness Coussins  Lord Foulkes of Cumnock  Baroness Henig  Lord Jopling  Lord Radice  Earl of Sandwich  Lord Trimble  Baroness Young of Hornsey

Examination of Witnesses

Tracey McDermott, Director of Enforcement and Financial Crime, Financial Conduct Authority, and Shona Riach, Director, International Finance, Her Majesty’s Treasury

Q87  The Chairman: Good morning, ladies. Thank you very much for appearing before us. I am sure you have experience of these things, but just to put it on the record, this is a formal meeting of the sub-committee as part of our inquiry into the EU and Russia. Therefore, everything will be recorded. We only have an hour, so I would be grateful if you could keep your answers brief. I am sure there will be lots of supplementary questions. If at the end there is any point that you feel we have not covered sufficiently or where, on second thoughts, you would like to provide additional information, then obviously we would be happy to receive further communication from you. It might even occur to us that there is something we have not asked you and that we would like further clarification on. If I may, I will kick off with the first question. By all means both answer, but if you agree, do not feel the need to repeat what the other person said.
Let me ask the first question. Does the presence of significant amounts of Russian capital in the UK financial sector and property markets, in your view, pose a threat to the integrity of UK institutions or to the Government’s ability to develop and pursue foreign policy and/or to the security of the UK more broadly? If you do feel that, are there any policies that you think might be considered in order to reduce whatever threat may exist? Shall I turn to the Treasury first?

Shona Riach: Let me start by commenting on the premise of the question, which is about Russian capital in the financial sector and property markets. It is certainly true that the UK and London in particular do attract investment from overseas, and particularly into the property market, and it is undeniable that we have Russian investors in the property market, just as we have investors from all around the world. We would question how much capital is actually held in the financial sector in London. There are a number of London-based investment and wealth banks that administer Russian assets and provide advisory services from London. For us, to the extent that there was any risk, that would be the primary area.

Also, we should not assume that all money from Russian investors is corrupt money, and the sanctions that have been imposed—we have had asset freezes—have been very targeted on specific individuals. Equally, there are other individuals who invest in London completely legitimately and who we would have no concerns about.

To the extent that there are concerns, either from Russia or from elsewhere, the Treasury is responsible for maintaining a proportionate and robust anti-money-laundering regime. We are committed to ensuring the integrity of the UK market. We play a leading role in the Financial Action Task Force, which is the inter-governmental body that sets global standards on tackling money-laundering and terrorist financing, and the FATF considers the UK to have one of the most robust anti-money-laundering and counterterrorist-financing regimes of all its members. Nonetheless, as a leading global financial sector, just due to the sheer volume of money that passes through the UK we are exposed to significant risks and we continue to be vigilant in ensuring that regulated entities have the adequate systems and controls in place to identify and to manage those risks.

The Home Office and the Treasury are currently in the process of undertaking a national risk assessment on money-laundering and terrorist financing. This is a new aspect of the FATF regime—it was introduced for the first time this year—and rather than looking just at the letter of the law it also looks at the effectiveness of the legislation.

The Chairman: Two small supplementaries, if I may. Open Europe published a figure suggesting that although the absolute sums in pounds were quite large, the Russians probably accounted for about 2%, I think they said, of the funds deposited in London. I do not know if you feel that is an order of magnitude more or less correct.

Secondly, would you agree that a number of UK banks have simply found that taking money from Russians creates more trouble than it is worth? They decide not to have the business, rather than go through the complexities of demonstrating that everything is clean and above board.

Shona Riach: To answer the second question first, yes, that is true, and not just in the banking sector but across the private sector. Even before the sanctions came into place, we had seen a move away from Russian business and signs that the private sector preferred not to take those risks.
In terms of the Open Europe figure, we would not want to say exactly what the amount of capital held is, but the order of magnitude sounds broadly right.

Lord Jopling: You talked helpfully about the effect of Russian money and assets on the UK economy, but I can remember being told in Moscow and elsewhere over the years that a good deal of outflow money from Russia has gone to various other places. I remember being told that Cyprus and Gibraltar were particular destinations. Do you see that those two economies in particular, where there is strong British interest, might be threatened by Soviet funds being put there? I wonder if either of you have thought about that.

Tracey McDermott: I think it is widely reported that there is a large amount of Russian money in Cyprus in particular. As part of the discussions with the IMF in relation to the bailout for Cyprus previously, there were reports looking specifically at the anti-money-laundering controls in relation to Cypriot banks. Those findings were actually published by the Cypriot Government and showed that there were significant areas where Cypriot banks needed to improve their ability to screen Russian payments into those accounts. That has obviously focused on whether or not they are identifying money that they should not have from Russia, as opposed to money that they should have. I do not know the precise numbers, but it is probably a larger proportion of their banking sector than it is of ours.

Q88 Lord Trimble: This is to Ms McDermott as well. I understand that your most recent report on money-laundering found “significant weaknesses in a number of firms”. I wonder if you could explain that a bit further to us and indicate whether you think there is any need to reinforce our legislative framework.

Tracey McDermott: I will start by explaining briefly the context of that report and the role of the FCA as a supervisor of the financial institutions that we regulate, in their controls over financial crime. We look at the extent to which they have systems and controls in place to prevent them being used for financial crime. That obviously includes money-laundering, compliance with sanctions, and bribery and corruption issues.

The way in which we discharge that responsibility is really threefold. We have a systematic programme for the most significant institutions, where we visit individual institutions and look at those in depth. We do thematic reports—the report you referred to is one of those—where we look across a section of the sector at a particular issue, and then do what we call reactive work on issues that arise.

The report that you refer to we did in 2011, and it focused on banks’ controls over high-risk customers. We found significant weaknesses. We found that there were failures in the overall risk assessment and governance within institutions and how they identified what risks they faced. We found weaknesses in the way they identified whether or not customers were in fact high risk and in the way they monitored them afterwards.

Since 2011, when that report was published, significant work has been done both by the regulator and by institutions to improve controls. We have taken enforcement actions against 10 institutions over the past five years in relation to anti-money-laundering, and there are ongoing cases.

We have also done other thematic work in the interim. We did a review on trade finance controls last year where we also found weaknesses, although perhaps not as significant as previously. Of particular interest to this Committee, we found improvements in the way firms were dealing with sanctions and related issues. We have an ongoing report, which will
be published relatively shortly, in relation to smaller banks’ controls over anti-money-
laundering.

As far as the larger institutions are concerned, there has been a significant improvement in
the amount of effort and energy, particularly at senior management level, that has been put
into those areas over the past few years, but there is still some way to go.

Q89 Lord Foulkes of Cumnock: I wondered whether one of the sectors you look at is
football clubs.

Tracey McDermott: We do not look at football clubs.

Lord Foulkes of Cumnock: Why not?

Tracey McDermott: We do not regulate football clubs. We are the regulator of the financial
services institutions.

Lord Foulkes of Cumnock: If there was any suggestion that football clubs might be used for
money-laundering, and a lot of the transactions are cash, as you know, who would deal with
that?

Tracey McDermott: The primary responsibility for looking at allegations of actual money-
laundering is with the law enforcement authorities, so that would be the relevant police
force or the National Crime Agency, depending on the scale. Clearly if that money passes
through an institution regulated by us, we would have an interest in the controls that firm
had to identify those risks, but the actual laundering itself is a matter for law enforcement.
There are other regulators that look at different aspects of money-laundering—HMRC and
so on. I do not think that the Football Association has any responsibility in that, but I could
be wrong on that.

Lord Foulkes of Cumnock: Another one: if a Russian wants to set up a bank in the
United Kingdom, he has to apply for permission to you. Is that right?

Tracey McDermott: If you want to set up a bank in the United Kingdom, you are technically
authorised by the Prudential Regulation Authority with our consent. It is effectively a dual
key process. You have to make an application and you will be assessed on your ability to
finance—the capital and the liquidity position of the institution—but also importantly on
what we call the fit and proper test. This looks at your honesty and integrity, and your
connections—who you are linked to and whether or not we believe that you are a fit person
to be in UK financial services, whether you are a bank or any other sort of institution.

Lord Foulkes of Cumnock: I know one that has been refused, but do you know any that have
been accepted?

Tracey McDermott: There is at least one Russian bank operating in the UK and there are
other institutions with Russian connections operating in the UK. If they are authorised, they
would have been through our process to assess whether or not they are fit and proper. As
Shona said earlier, not all Russian money is necessarily corrupt and not all Russians are
corrupt.

Lord Foulkes of Cumnock: These banks are still allowed to operate in spite of sanctions, are
they?
**Tracey McDermott:** The sanctions impact on five specifically named banks in Russia. There is a connected institution operating in the UK, but it does not fall within the scope of EU sanctions.

**Q90 Lord Lamont of Lerwick:** I think the question I was meant to be asking has already been answered, but perhaps I could ask the Treasury a slightly more general question. Is it really possible to devise economic sanctions that are one-way in their impact? Surely by definition all commercial transactions have an impact on the purchaser, a cost, and a cost on the person selling. The idea that we can devise things that put pressure and costs on Russia that do not have pressure and costs on our own system, even if it is not necessarily our own country but another country in the European Union, is surely delusory.

**Shona Riach:** I think that is a very fair point and the Government have recognised that. They have recognised that the sanctions that have been implemented have been designed, as far as possible, to maximise the impact on Russia while minimising the impact on the UK and Europe. You are absolutely right that it can never be an entirely one-way process. Nonetheless, the Government take the view that the costs associated with sanctions are less significant than the costs associated with inaction and with doing nothing to tackle the very aggressive behaviour that we have seen from Russia. We recognise that they will have some impact on the UK economy. This also comes back to the point I made earlier about the fact that, even before we saw the sanctions, the nature of the political regime in Russia meant that we had seen some move away from investment into Russia.

On your other point about this being not just about the direct impact on the UK but about the indirect impact through our partners, obviously just for geographical reasons some European economies have more direct trade with Russia than we do in the UK. Given that the euro area remains our main trading partner, and given the vulnerabilities that we continue to see in the euro area, any impact that it has on the euro area is also of concern to us.

**Lord Lamont of Lerwick:** Thank you very much for that very frank answer. The very recent figures for the German economy, German growth, German exports and German exports to Russia have caused a lot of alarm. In the eurozone, the very small growth that it is having is largely the result of growth in Germany. Then we have had the Chancellor’s remarks about the impact of the eurozone slowdown on the British recovery. Are we not seeing a situation that is very dangerous for the whole European economy?

**Shona Riach:** The biggest risk to the European economy is the geopolitical threat and the threat from the situation in Ukraine, rather than specifically the impact of the sanctions. Germany’s importance to growth in the euro area, and therefore to the UK, is true, but not to do anything and not to take action would have had greater costs associated with it.

**Q91 Baroness Coussins:** You will be aware that BIS is in the process of upgrading some of the rules on corporate good governance, in particular the criteria that would disqualify certain individuals from becoming company directors if they have committed misdemeanours here or overseas. Could you say whether the UK is ahead of the game here in relation to the rest of the EU, or whether there are parallel measures in train in the EU and/or other member states? What steps could be taken to make sure that there is consistent enforcement of these corporate governance and company director rules, specifically in relation to issues such as beneficial ownership and financial transparency?
**Shona Riach:** There is always a tension in recognising the absolute importance of having consistency across Europe, but also more generally, when you are tackling money-laundering and when you are tackling corrupt assets. In order to really tackle the problem, the more global your solution is the more effective it will be. There is a tension between that and a desire to lead the way and to set best practice. During the UK presidency of the G8, the Prime Minister specifically made greater transparency around company ownership and specifically beneficial ownership a priority for the presidency. It is something on which we have worked very closely with our G8 colleagues, and we have agreed a set of principles about how the G8 would implement the FATF standards. The Financial Action Task Force sets standards that apply globally, and we want those standards to be implemented in as comprehensive and full a way as possible.

The Prime Minister has taken the decision that the UK will establish a central registry of beneficial ownership, which will be done through Companies House, and that access to that information will be made public. We are the first advanced economy to announce that we will do that. We believe that this is fully consistent with the FATF standards. The Government’s priority is to do what we think is right in the UK and what we think is necessary in the UK to tackle corruption and money-laundering here, but also to try to use that to bring others with us and to get that global best practice.

As I say, the Prime Minister pushed this very hard during the G8 presidency. We are now in discussions, as part of the Australian presidency of the G20, to try to get a broader agreement to a set of principles. The anti-money-laundering directive is currently being negotiated in Brussels, and we are pushing very hard to get similar standards adopted at a European level. On the one hand, yes, we are at the front of the pack on this, because the Government believe it is the right thing to do for the UK, but we are also working very hard to try to bring others along with us.

**Baroness Coussins:** Is everything being done that needs to be done in the EU context to align with what we are doing, or do further steps need to be taken or are there recommendations that it might be useful for this inquiry to make to give that a nudge?

**Shona Riach:** The key thing here is the anti-money-laundering directive, which is currently under negotiation, and getting the right language in that. That is currently under discussion between the Council and the Parliament. We are optimistic about where that is, but it is not a done deal yet.

**Lord Foulkes of Cumnock:** Do these extend to the Channel Islands, the Isle of Man and our overseas territories?

**Shona Riach:** The regime that we have implemented in the UK is just for the UK, but our overseas territories and Crown dependencies are active members in the context of the FATF. We are working very closely with them to ensure that they implement similar systems. Bermuda already has a central registry of company ownerships. The other Administrations in question have had consultations about how they are going to do this domestically. UK Government Ministers are in very close discussion with them about that, but we are also working with them at a technical level to try to provide them with the help and support they need to get to a similar place.

**Q92 Lord Radice:** I have two questions, which are not related to each other but which are both about asset recovery. Since the collapse of the Yanukovych Government in Ukraine,
there has been a lot of talk about and attention given to the alleged billions of dollars stolen by officials from state coffers, much of which has ended up in the West. Can the application of existing legislation and regulatory authority be strengthened, or can something be done in order to prevent this kind of theft of state assets? I understand that the Ukraine Government have asked us to help anyway.

**Shona Riach:** The first wave of sanctions that we saw were targeted very specifically on freezing assets of individuals and trying to tackle exactly these issues, although I cannot comment on specific cases or specific individuals. In recent years, we have found that there are specific challenges associated with identifying assets held in the UK. This comes back to the previous question about beneficial ownership. One of the reasons why the Government decided to take such a forward-leaning position on beneficial ownership was that we find that the ownership of some of the assets held in the UK is deliberately disguised, and companies have been used as a way of doing that. We are taking steps to address the legislation domestically to be able to tackle that.

We are also learning the lessons that we found after the Arab Spring, when we dealt with a lot of similar issues. We have been working very closely at a practical level with the authorities in Ukraine, because we found that locating and recovering stolen assets that have been moved overseas requires close and effective co-operation between the countries requesting the assistance and the jurisdictions in which the assets are being placed. This has led the UK Government to providing capacity-building assistance in the jurisdictions concerned, including in Ukraine, where support provided to the Ukrainians has included record keeping and the preservation of exhibits and evidence, because in order to freeze those assets, and in particular to look at potentially returning assets under the Proceeds of Crime Act, they need to meet UK legislative standards and the burdens of proof required.

**Lord Radice:** The second question I wanted to ask you was on the so-called Yukos grab. As I am sure you know, the international arbitration award of $50 billion has been made for former Yukos shareholders against the Russian Government. What levers can be used to enforce that settlement? Can you give us any help here?

**Shona Riach:** It is difficult to comment on a specific case.

**Lord Radice:** With great respect, it is a fairly large specific issue and has been a very big issue for a long time. I would have thought that the Treasury probably had a view of how an arbitration award of that magnitude is actually going to be enforced, because as you know it cannot be enforced by an international arbitration court. We are a major Government in the international global system.

**Shona Riach:** Recognising the importance of the issue, this is really a question that you would have to ask the Home Office rather than the Treasury.

**Lord Radice:** The Home Office? That seems a very strange answer to me.

**Lord Trimble:** On the specific point of the Yukos $50 billion arbitration, it has been suggested to me that the Russians are trying to wrap that up together with the issue of the Malaysian airliner, with the existing sanctions regime that has been imposed upon it, presumably with the hope of getting them all lifted at the same time. As I say, it has been suggested to me; I do not know whether that is in fact the case or whether you have seen any sign of that happening.
Shona Riach: We are certainly not in discussions with the Russians about lifting the current sanctions regime.

Q93 Earl of Sandwich: I am afraid that my question is still to the Treasury; it remains on the international scene, and particularly Russia’s compliance with conventions through the OECD and so forth. They have signed up to specific guidelines on corruption, bribery and strengthening transparency, so how would you assess Russia’s own commitment and enforcement of these guidelines?

Shona Riach: Under the Financial Action Task Force, there is a peer review system in place, which assesses countries’ compliance with the guidelines. Each member undergoes a mutual evaluation to assess their compliance with the FATF recommendations. Russia was subject to mutual evaluation in 2008. At that time, it was placed in the regular follow-up processes, as a result of the fact that it had some non-compliant and some partially compliant ratings for certain core and key recommendations. Since then, in October 2013 the FATF recognised that the Russian Federation had made significant progress in addressing those deficiencies and could be removed from the regular follow-up process.

This is an ongoing system of evaluation, but one of the key things to note here is something that I mentioned in my first answer about the UK implementing a national impact assessment for the first time. As of 2014, for the first time in assessment against the FATF standards, countries will be assessed also on the effectiveness of their procedures to combat money-laundering, including against corruption. It is not enough simply to have the right law in place; you have to be implementing it in an effective way. This is something that the UK has pushed for very hard in FATF discussions and again during our G8 presidency, because we believe it will give a better real picture of what is going on. We believe that assessing through the FATF how effectively Russia is complying is the right way.

Earl of Sandwich: You do not mention the OECD. Russia only signed up two years ago to the convention there. Is that being monitored? Is that as relevant?

Shona Riach: Certainly for us, the key corruption and money-laundering issues on the financial side are very much assessed through the FATF. Equally, the OECD has peer review processes and will have to make its own judgment about whether Russia is meeting the necessary standards.

The Chairman: I did not hear you properly at the beginning. Is this a UK or an EU-wide impact assessment?

Shona Riach: It is under the Financial Action Task Force, and you have country-by-country mutual evaluation of the systems in place.

The Chairman: Will this be published?

Shona Riach: It is published on an ongoing basis. Sorry, I misunderstood your question. The national risk assessment will be published at the end of this year.

Q94 Baroness Henig: Can I return to the issue of sanctions and ask about the impact of Russian sanctions on the EU economy so far? In particular, what has been the impact on the UK economy and the City of London?

Shona Riach: We have covered this a bit in previous answers. The first round of sanctions that was put in place was targeted very specifically on individuals and was specific asset
freezes of individuals. They were not intended to have a broader economic impact, so we have not seen a broader impact from them on the UK; nor would we have expected to.

Baroness Henig: Sorry, I am talking about Russian sanctions on the UK.

Shona Riach: The retaliatory sanctions? Sorry, I misunderstood.

Baroness Henig: Yes, sorry about that. It would be mainly the import of food and issues of that sort.

Shona Riach: This question comes back a bit to the point about whether you can have one-way sanctions or whether they have impacts on both sides. Our view is that the retaliatory measures that Russia has implemented are probably having more impact on the Russian economy than on other European economies. Certainly they have reduced imports into Russia and have reduced their access to high-quality low-cost food imports from the EU.

The UK does not have much in the way of direct trade of that sort with Russia, so it has probably been less impacted than some of the countries that are geographically closer. To the extent that there has been an impact, it has largely been on the Scottish mackerel industry, where there is a significant amount of impact. Obviously we have to mitigate that, and our approach would be to try to find other markets and to try to increase European support for finding new markets. There certainly has been some impact, but I think the impact has been limited and controllable.

Baroness Henig: Can I ask a supplementary about sanctions in general? All the experience of economic sanctions since the 1930s tells us that effective economic sanctions inevitably, to some extent, damage the economy of countries that impose them as well as the intended recipient. That being the case, economic sanctions actually require very strong political will. At the moment, we have three different sanctions. We have UK sanctions, we have EU sanctions, and we also have the United States sanctions of course. I was wondering how much co-ordination and how much political agreement there was between London, Washington, Brussels and other European capitals to try to co-ordinate these sanctions and ensure that the political will is there to make them effective.

Shona Riach: That is a really important point. I would slightly correct you in that the sanctions that have been imposed by the UK have all been done at the EU level. We have EU sanctions and we have US sanctions. The fact that the sanctions that have been imposed at the EU level have to be co-ordinated between all member states means that reaching agreement is not straightforward, but it does mean that when you do reach agreement you generally reach agreement on a robust and effective set of sanctions.

We have worked extremely closely with the US on this. The EU, but also the UK Government, has worked very closely with our US partners and our partners across the G7, notably in Canada and Japan, which have also imposed sanctions. On the financial sanctions in particular, you will never have identical sanctions because the countries involved have different legal systems and different systems, but we are now in a place where the package of financial sanctions between the EU and the US is as close as it could be. Certainly the policy intention behind the sanctions is extremely closely aligned.

The Chairman: It is an open secret that not all member states were equally enthusiastic about imposing sanctions. Is it your impression that, once they had been agreed, everybody is implementing them and that some of those countries that were less keen on introducing them in the first place are nonetheless implementing them? Then of course there are one or
two places—one has to mention Cyprus in this respect—where, whatever its political views may be, it is not always able to attain quite the same standards as some other financial centres.

**Shona Riach:** Implementation is an enormously important part of the package of sanctions. As you say, we worked extremely hard at EU level to get a package that everybody could sign up to and we now continue to work very closely on the implementation. The European Commission is producing guidance on implementation of the financial sanctions. We are working closely with them on production of that in order to ensure that the sanctions are implemented consistently across the EU. Equally, we are in discussion with our other G7 partners about implementation of sanctions to make sure that it is done as consistently as possible and that there is as much clarity as possible for financial institutions about exactly what is required from them.

**Q95 The Chairman:** So far we have been talking, on the way up, about introducing sanctions, tightening sanctions and so forth. Would you be able to enlighten the Committee at all as to the degree of consensus on what would need to happen for sanctions to be downgraded or even lifted? To what extent would that be a wholly governmental decision, and to what extent do you think that non-governmental organisations might be involved?

**Shona Riach:** The first thing I would say is that we are not at that stage yet. We have the Minsk agreement, which sets out a 12-point peace plan. That needs to be seriously worked on, and we need to see serious progress in that area before we are in a position to start thinking about removing sanctions.

Having said that, coming back to the previous points about the fact that sanctions have economic impacts on all parties involved, obviously the ideal would be to get to a situation where the situation in Ukraine allowed us to have those discussions about removing sanctions. The financial institutions in particular need us to be as clear as possible about what is expected of them. Therefore, any removal of sanctions would have to be done at a governmental level.

**The Chairman:** Lord Jopling has a supplementary, but let me ask one more before calling on him. If sanctions are to be effective, the people at the receiving end need to have some idea of what they should do in order for sanctions to be lifted or ratcheted down. Therefore, lying behind my question was not just whether we are all of one mind about what is wrong but whether we are of one mind or not too many minds about what would be required to start building bridges.

**Shona Riach:** I think that your point is a very important one, which is why I would come back to the Minsk agreement and the 12-point plan, which attempts to set out where progress is needed, but also the fact that we continue to have dialogue with the Russians at all levels, including head-of-government level, in order to keep those channels open and in order to retain the possibility of making progress.

**Q96 Lord Jopling:** Moving away from the possibility of winding sanctions down, let us look at the alternative of winding them up. As you know, some of the former Soviet Union countries are very apprehensive about what Mr Putin might be up to and what he might do in the future. I am not asking what advice you would give to Ministers, but if there was a ministerial decision by the EU to strengthen sanctions and to introduce new ones, what would the main options be?
Shona Riach: This is something that we have been thinking about, and work is going on within the UK and at a European level on this. As a first step—and I can only really talk about the financial sanctions here—we have a set of financial sanctions that have a number of exemptions within them. The first thing that we would do would be to look at tightening that up as far as possible. As we have touched on today, the package of sanctions that we have currently is very much targeted at a number of individuals and a number of individual entities. We do not currently have financial sanctions against Russia across the board. To move to something of that sort would be a very significant step up from where we are now.

Earl of Sandwich: Could you give us an idea of how high a priority all this is in both institutions: the FCA and the Treasury? What resources are you putting into this dual exercise, and is it taking away from other desks? Are you diverting from, as it were, Latin American desks?

Tracey McDermott: From an FCA perspective, as explained, our role here is around ensuring that institutions have systems and controls in place. That is an ongoing assessment, so firms have to have systems and controls in place to deal with sanctions, and new sanctions are imposed in different situations as the time arises. The main area of work for us at the moment is working with colleagues at the Treasury and with institutions to assist them in understanding how the sanctions work. We, for instance, host roundtables with the money-laundering reporting officers of all the major institutions, where we talk about what implementation issues they may have found and how they are working through those. Our role is very much a facilitative one at this stage. It involves devoting some resources, but not necessarily taking masses away.

We also have a role as the UK listing authority, where we are responsible for the listing of securities that are traded on the UK markets. There is clearly a sanctions impact there as well. There is some impact there in terms of people having to focus time and attention on sanctions, but it does not withdraw huge amounts of resource from other things. It involves people who are specialists in those areas spending some of their time on this specifically.

Shona Riach: The situation in some ways is similar in the Treasury. The Chancellor has been clear that this is a very important issue and that tackling this effectively is something that he personally puts priority on. Therefore, within the department we put priority on it.

Having said that, many of the issues at the heart of this problem are foreign policy rather than finance issues. The bulk of the work in responding to the crisis in Ukraine is led from other bits of government, but on design issues and the implementation of financial sanctions the expertise rests in the Treasury, and we have been playing a very effective role there. The Treasury, in government terms, is a relatively small department—and a small and nimble department, I would argue. Certainly in the way we are structured we move resources to where they are most needed. That is what we are doing on this.

Earl of Sandwich: In other words, you are not committing new resources; you are diverting.

The Chairman: That brings us to a close slightly earlier than we had expected, but could I thank you both very much for your evidence? I do not think we have anything outstanding at the moment, but we may come back to you.
Examination of Witness

Vladimir Kara-Murza, Co-ordinator, Open Russia

Q97 The Chairman: Mr Kara-Murza, we are starting early. Thank you very much for being here and enabling us to do so. I do not know how much of the last evidence you heard, so I may be repeating myself, but this is a formal meeting of the Committee and therefore everything you say will be taken down. If at the end you feel there is something that you omitted to say or that on second thoughts you would like to say, please do write to us, and we may do the same to you. That is all by way of introduction.

I will start with the first question, if I may, and then my colleagues will ask theirs. Opinion polls suggest that over 80% of Russian citizens support the policies of President Putin, including the annexation of Crimea and Russia’s intervention in eastern Ukraine on behalf of the Russian-speaking populations. That is a very enviable score. Do you believe that it accurately reflects Russian public opinion, or do you think that there are now indeed signs that he may even be losing some support?

Vladimir Kara-Murza: My Lord Chairman, thank you very much for the invitation. It is an honour to appear before the Committee. As to your question, I do not think it is very meaningful to talk about opinion polls in a situation where every single nationwide television channel, for more than 10 years, has been monopolised by the regime in power. Year after year after year, people have been fed government-approved propaganda with no alternative opinions or, indeed, no alternative serious political leaders allowed on the air. If there were a restaurant that served only one dish, you could say that that dish is the most popular dish in that restaurant. It would be technically true, but I would also suggest that it is pretty meaningless.

I would, however, point to other evidence and other trends that we can see from what is happening in Russia today. Just over a month ago, on 21 September, more than 50,000 people marched through the streets and boulevards of central Moscow to protest against Mr Putin’s war on Ukraine, the annexation of Crimea and the continuing political crackdown at home. The demonstrators marched from Pushkin Square, a historic place in Moscow, to Academician Sakharov Avenue. When those of us in front of the march had already reached the destination point, there were people still queuing up at the security gates to begin the route, more than an hour after the rally had started. This was the largest opposition demonstration in Russia, in Moscow, since the post-election protests against Mr Putin’s rule in 2011-12, when more than 100,000 people came out to protest.

Just a few days later, there was an official rally organised with the authorities’ support, a rally in support of Mr Putin’s policies in Ukraine on Poklonnaya Gora. That attracted just 5,000 people, 10 times smaller than our demonstration against this current policy. As we speak about Russia and the Putin regime, and as we discuss the situation, it is very important to keep in mind that Russia, Russian society on the one hand, and the Putin regime on the other hand, are not one and the same thing. There are millions of people in Russia today who want a democratic European future for our country. It is very important for our friends and neighbours in Europe to hear their voices as well, and not just the voice of Mr Putin.

The Chairman: That leads very directly to Lord Foulkes’ question.
Q98 Lord Foulkes of Cumnock: Are the ruling elite in Russia really being affected by the sanctions and the cost of sanctions? Are the liberals there getting fed up with what is happening? Are the Government and Putin under any kind of threat at all?

Vladimir Kara-Murza: There is nothing or very little that the Putin regime fears more than targeted personal sanctions imposed by the European Union and North America—by the West in general—on the people in Putin’s inner circle. We talk a lot about the comparisons between the current regime in Russia and the Soviet times, and indeed it is not difficult to see the many similarities: we have political prisoners, as I mentioned we have a total monopoly of the media, we have meaningless elections that are a mere ritual for confirming incumbents, and we have a Parliament that has become a rubber stamp. To quote the unforgettable words of Boris Gryzlov, former Speaker of the Russian Parliament, “Parliament is not a place for discussion”. In terms of foreign policy, we see the Kremlin once again trying to impose its will on neighbouring countries.

For all these similarities, there is one major difference. When members of the Soviet Politburo did all the same things, they did not at the same time hold bank accounts, buy real estate and send their children to study in the United Kingdom, France, America or other countries of the western world. This double standard, at the very heart of the Putin regime, is to abuse the rights of Russian citizens at home, engage in mammoth corruption, attack other states and violate the territorial integrity of other states, but then prefer to enjoy the security, the rule of law and the comfort of the West and the European Union for themselves and for their families. There is nothing that these people fear more than to face a simple choice: behave according to European norms or lose European privileges. Therefore, I think, and many of my colleagues in the Russian opposition and Russian civil society think, that this is exactly the way forward.

Lord Foulkes of Cumnock: You mentioned the Russian opposition and civil society. What kinds of links are there between the opposition and civil society in Russia, and the European Union and particular countries within the European Union?

Vladimir Kara-Murza: It is still very important in the current situation for our partners and neighbours in Europe to engage with civil society in Russia through people-to-people exchanges, educational exchanges, joint conferences, forums, meetings and hearings such as yours in other parliaments of western Europe and North America, where not just the official representatives of the Putin regime are heard from, but also people from within Russia with alternative points of view. These are very important interactions. I think they should continue.

Also, as the targeted sanctions on regime figures and corrupt officials are expanding and increasing, maybe one of the ideas would be to think about easing the visa requirements for law-abiding Russian citizens and to increase and enhance the people-to-people contacts between Russia and the rest of Europe.

Lord Foulkes of Cumnock: Do opposition supporters in Russia keep in touch through social media a lot?

Vladimir Kara-Murza: Absolutely. Twitter and Facebook are very popular. This is one of the major reasons why the current regime wants to start limiting it. A law was passed recently in the Duma that would require all personal data from social media to be held physically inside the Russian Federation. That would basically mean that social media networks such as
Facebook or Twitter, which connect millions of people inside Russia and allow them this free exchange of information, which is not possible in the official media channels, would have to cease operations. We will see how that goes.

The Chinese regime has been doing this by limiting the internet in parallel with the growth of the internet, and it started straightaway 10 to 15 years ago. In Russia, 60 or 70 million people are online every day. In the big cities, Moscow and St Petersburg, in excess of three-quarters of the population uses the internet on a daily basis. If the regime were suddenly to try to shut it all off in one instance, I think it would find the response from society very surprising.

**Lord Foulkes of Cumnock:** Finally, I heard at a meeting on Monday, from the Joint Committee on the National Security Strategy, that the Russian Government are placing people over here in academic and other positions who are also working for their intelligence agencies. Is that correct?

**Vladimir Kara-Murza:** Obviously I would not have any specific information on that, but given the history of Soviet intelligence practices, and given the backgrounds of the people who are currently in power in my country, I would not put it past them to do something like that, but again obviously I do not have any specific information.

**Lord Foulkes of Cumnock:** We should assume that some people who may be giving evidence might be agents of their intelligence services.

**Vladimir Kara-Murza:** There are many open political allies of Mr Putin’s regime among the western political elite—maybe not so much in this country, thankfully, but certainly in many other European Union countries—from whom, I think, they have enough support. For instance in the European Parliament, they have public support from both the extreme right and the extreme left. The so-called referendum in Crimea earlier this year—the annexation referendum in March—was not recognised by any international organisations, but Russian television channels reported that there were “international monitors present” who approved the referendum as free and fair. If you look at the composition of that so-called international monitoring group, these are the neo-Nazis or the neo-Stalinists in the European Parliament, who have publicly come out in support of the Putin regime. There are enough of those in the European Union unfortunately that they have some political base of support in the power structures here.

**Q99 Lord Jopling:** Continuing to ask questions about the opposition elements within Russia, to what extent do you believe that the relationship between Russia and the EU should be structured in the eyes of the opposition groups? Do you think the opposition shares the Kremlin’s evident belief that EU or NATO expansion poses significant security threats to Russia, which is what Putin has been basing a lot of his policies upon over the recent past?

**Vladimir Kara-Murza:** On your last point, the answer is a simple no. The Russian opposition, at least the Russian democratic opposition, has a very simple idea that Russia is an integral part of Europe. One of the biggest missed opportunities by the West in the 1990s—we had a lot of missed opportunities in Russia in the 1990s—was not to offer the Russian Federation the clear European and Euro-Atlantic path that was offered to other states in central and eastern Europe, and which served as a big impetus for reforms there.

I would remind you that in 1991, President Yeltsin officially sought membership of NATO for Russia in his letter to the North Atlantic Council on 21 December. There was never a serious
response from Brussels. It is very important, going back to the points already raised here, that the leaders of the European Union not just keep in mind but publicly state, in the long term of course, that this goal of a Europe whole and free, as the phrase goes—if that goal is still being pursued—is impossible to achieve without Europe’s two largest countries, Russia and Ukraine, inside a Europe whole and free. We see Russia as an integral part of Europe and certainly see no threats from that direction.

A much more real threat would come from an ambitious and potentially expanding China, with regard to our territories in Siberia and the Far East. As you know, the current regime is actually increasing our dependence on China, including in the energy sector, with this recent in-your-face deal signed with the Chinese Government to spite the West, as it were. Actually, in my view it goes against long-term Russian national interests.

**The Chairman:** Can I just ask a supplementary, and then Lord Lamont? You say Russia is an integral part of Europe, but is that not a historical fault line within Russia? I am no expert on Russia, but all that I have read of 19th-century Russian literature suggests to me that ever since Catherine the Great there has been one school of thought in Russia that sees Russia as an integral part of Europe, and another substantial body of opinion that sees Europe as the other and Russia as—I do not quite know the right word—a rival or alternative civilisation.

**Vladimir Kara-Murza:** Absolutely, my Lord Chairman. We can go into a long cultural historical debate here about the difference between the Slavophiles and the Westernisers. That is exactly what you are referring to. First of all, I represent the part of Russian civil society that clearly identifies itself as European Russian. Open Russia, which is a platform for civil society activists that I co-ordinate, has as its stated aim trying to consolidate and unite people of pro-European views. I am not here pretending to speak on behalf of the entire Russian population. All I am saying is that the part of Russian society that is pro-European or westernising, if you use the 19th-century historical term, comprises millions of people, especially in cities like Moscow, St Petersburg and others. The current regime pretends that they do not exist and behaves as if they do not exist. There is nothing more insulting for Russian society and Russian people than when the leaders of the current regime—they like to accuse western politicians of Russophobia—state publicly that Russia is not Europe, which is what Mr Putin’s Ministry of Culture stated; or when they state publicly that Russia cannot have parliamentary democracy and that it would be a disaster for Russia, as Mr Medvedev, the former President and current Prime Minister, has publicly stated. I think these statements are insulting for the Russian people.

If we talk certainly about cultural history, nobody would doubt, at least since the times you mentioned—of Catherine the Great and maybe even earlier, but definitely from the 18th century—that Russia has been an inseparable and integral part of Europe in most areas of development. However much the current regime of Mr Putin would like to negate that and go in a different direction, I frankly do not think they will be able to do that.

**Lord Lamont of Lerwick:** Thank you very much for your answers. What you said was very interesting about the early 1990s and President Yeltsin. Given where we are, which is a terrible situation, how do you think we could get back on a path that would open up some of those possibilities? We are so far away from what you were describing now. What would be a first modest step towards getting back on that path?

**Vladimir Kara-Murza:** The last three years have been surprising in many ways, both for outside observers and for the Putin regime. For instance, if somebody told me in December
2011, at the beginning, that two weeks from now there would be 120,000 people protesting on the streets of Moscow against election fraud, against the Putin regime, and in favour of democratic freedoms, I would say that that person is not being realistic, yet that is exactly what we had. A year ago, we had the Moscow election, in which Alexei Navalny, who is one of the opposition leaders, even according to the official results and despite the fact that he was basically banned from television, received nearly 30% of the vote. As I mentioned, we are having these mass protests in Moscow against Putin’s policies in Ukraine and inside of Russia.

The situation is not as hopeless as it sometimes seems on the official level. Despite the fact that our Parliament is a rubber stamp, and the fact that if you looked at the mainstream television media you would think those voices do not exist, they do exist and there are millions of people like that. I think, as a historian by training, that it is basically inevitable. That is the path of development for Russia: towards Europe and towards freedom. Mr Putin may delay it. He has delayed it already. This December will mark the 15th anniversary of his coming to power. He has delayed it substantially, I could say, but I do not think there is any stopping of the development in that direction in the end.

If you are asking specifically about what our friends and neighbours in western Europe and the European Union can do about this, it is precisely what the subject of this hearing is. You should frankly stand by your own values, as the leaders of this country and America did, for instance, with regards to the Soviet regime in the 1980s.

**Lord Lamont of Lerwick:** Let us accept everything you say. Let us say that we stand firm, and let us say that some sort of perhaps imperfect solution is arrived at with regard to Ukraine and that a degree of stability is achieved. Given that we have to live with Russia in an imperfect world, institutionally what could be done to open Europe a bit more to interconnectedness with Russia, even though we could not go back to the sorts of things that Yeltsin was discussing in the 1990s?

**Vladimir Kara-Murza:** When we speak about Russia, these are two different strategies: dealing with the Putin regime and dealing with Russian civil society. We have covered part of this in terms of how important it is for western democracies, first of all, to recognise that Russia is not limited to the Putin regime. By the way, wording is very important. When people in the West talk about “sanctions against Russia” when they actually mean targeted sanctions against corrupt individuals—people involved in the aggression against Ukraine, the crooks, the election fraudsters and so forth—this is very counterproductive language. It plays into the hands of Mr Putin’s propaganda, so even basic things such as wording are important here.

In terms of the actions, when I say stand by the values, I do not mean just rhetorically; I mean in effect not letting the people who steal the tax money from Russian citizens and abuse the rights of the Russian people come here and have comfortable lives, using their looted money. That would be a big step towards reaching out to Russian civil society and showing that you stand by the values, not just in words but in deeds. Again, as we mentioned in the European context, it is very important to state publicly the prospect of accepting Russia as a European country and that one day Russia will be a European country in every sense of the word. This prospect was lacking in the early 1990s, which was a big mistake.
Actually, I was going to mention that it was you, I believe, Lord Lamont, who in April 1992 introduced the new democratic Russia into the International Monetary Fund, when Deputy Prime Minister Gaidar was in Washington. Am I correct? I am not saying that there were no movements in this direction from the West. There were, but they were not enough; they were inconclusive. The next time we have political change in Russia, it is very important that our friends in Europe react accordingly. Ultimately, it is only for Russian citizens to effect democratic change in our country. This cannot be done by the outside world, but what the outside world can do is stand by its values, and tell the crooks, the abusers and the aggressors that they cannot come here and enjoy the fruits of their corruption.

Q100 Baroness Henig: Let me pursue this theme, also as a historian. In a way, I cannot help reflecting, perhaps being rather sceptical, that there have been a number of times in Russian history when there has been this prospect of liberal gain and so forth that has not materialised for various reasons, which I will not go into. A previous witness talked to us about Russian civil society, and estimated that around about 17% of the population—I think she said—would generally support the kinds of ideas that you are putting forward. I wonder whether you would corroborate that or what your estimate of the percentage of the population would be.

Vladimir Kara-Murza: As I said at the start of this hearing, it is difficult to talk about opinion polls in such repressive conditions. If we accept them, however, at least as a general measurement, there was an opinion poll by the Levada Centre, which is probably the last independent pollster organisation in Russia, on the march against the war with Ukraine that I mentioned earlier, which took place in Moscow. It showed that nearly one in three Russian citizens supported the goal of the protesters, which I would say is an astonishingly high figure, given the relentless regime propaganda on television, year after year after year. We see empirical results, such as Mr Navalny’s 30% in the election last year. At the time of the 2011-12 protests in Moscow against election fraud and against Vladimir Putin’s return to the Kremlin, polls consistently showed that more than 40% of the general Russian population—I am not talking about big cities—supported the goals of the protests: free elections, measures to fight corruption and the regular change of power, as opposed to one person being in power for 15 years.

I do not know where this precise figure comes from. How do you measure civil society in the first place? We know that there are hundreds of independent civic groups across Russia, people who deal with such issues as election monitoring, anti-corruption measures, ecology, the environment, municipal self-government—all these things. There are hundreds and hundreds of groups around Russia like this. The main part of my job now, as the co-ordinator of Open Russia, is to travel around the country, so I do not spend most of my time in Moscow; I spend most of my time in the regions or in the big cities, at least. I see a lot of people, especially young people, who are fed up with this status quo. They want to change it. They want to do something to change it. Frankly, these are the people who I think will determine Russia’s future. Even if the pro-democracy pro-European opinion is in a minority today, first of all it is a very significant minority even numerically. Also, it is a very significant minority in terms of the composition of people. These are the people who, in my view, are the driving force of any modern European society, and these are the people we saw protesting two years ago against Mr Putin.
Baroness Henig: Presumably it is the younger people mainly who are on Facebook and Twitter. Would that be a reasonable assumption?

Vladimir Kara-Murza: Generally. Going back to those protests in 2011-12, the vast majority of people were below the age of 35.

The Chairman: Lady Young has waited very patiently, but I have one more supplementary from Lord Trimble.

Lord Trimble: You were saying a few moments ago that we should remain true to our values and not let ourselves be a safe haven for those who have behaved badly in Russia, a view for which I have a considerable amount of sympathy. I just wonder about what that actually means in practice. At the moment, we have sanctions that can be specific to individuals, but because they are being imposed in the way that they are there is no normal due process of law with regard to this.

Of the sanctions that are designed to get a better result in the Ukrainian crisis, if some sort of arrangement eventually comes about to resolve that crisis, it is going to be rather difficult to maintain the present structures. I can understand quite easily if you are saying that these people who are corrupt have actually committed criminal offences and we should be looking at them more as persons who are criminals, who are trying to hide here from justice elsewhere, but that requires the sort of evidence that would be necessary in our normal processes. I am quite sympathetic to what you are saying, but I am not sure exactly how in practice we do it.

Vladimir Kara-Murza: Thank you very much. It is a very important question and I would answer it with two recent examples from the United States, because they face the same issues that you just raised. First of all, sometimes, or very often, these things can be done in the framework of the current anti-corruption and anti-money-laundering legislation. There is not even the need for new measures; it is just a question of implementing the law on the books.

Two months ago, a United States senator, Roger Wicker, sent a letter to the US Justice Department asking them to investigate the purchase of four palaces in the state of California for the total sum of $28 million by the head of Gazprom Media, which is basically the biggest propaganda outlet in Mr Putin’s regime. The guy’s name is Mikhail Lesin. He was instrumental in shutting down independent television in Russia in the early 2000s. He was the Minister of Information in Putin’s Government. Now he is the head of Gazprom Media. Frankly, there is no better illustration of the hypocrisy of the current regime than the head of the biggest propaganda outlet, which disseminates anti-western, anti-democratic propaganda, who just went and bought four palaces in the state of California.

The senator’s letter to the Justice Department asked a very simple question: how can a state official purchase something for $28 million? This is a Russian state official; where would he get the money from? Of course, when this was published in Russia, everybody laughed, because we know where they get the money from, and for us it is not surprising, but for them it is. They are launching an official investigation. It is under-way. We will see what the results of that are. Such actions as this do not require any specific acts; they are just about implementing current legislation.

The second model, which I think is very important and was groundbreaking and precedent-making, was the Magnitsky Act, which was passed in the US two years ago.
you are all aware, it was a Russian lawyer, Sergei Magnitsky, who discovered a $230 million tax-fraud scheme involving Russian security service officials. He was arrested after he discovered it. He was tortured in prison and he died in prison after nearly a year of imprisonment. In the United States, they passed this law to ban entry into the country and freeze the assets of the people involved in the Magnitsky case, but also those involved in other human rights abuses, when these are documented by relevant international organisations. It is one of the favourite gimmicks of Mr Lavrov and Putin’s Foreign Ministry people when they say, “Don’t interfere in our internal affairs”. Russia is a member of both the Council of Europe and the Organization for Security and Co-operation in Europe, which states clearly that human rights, democracy and rule of law issues are not internal affairs; they are the concern of all the member states.

Of course, it is every country’s privilege to let or not to let somebody on its territory. It does not even have to be explained. The United Kingdom does not have an obligation to let somebody who is involved in election fraud or corruption into its territory. That is not a privilege; that is a right. It is within your rights to deny that privilege to those corrupt foreign officials. From a legal point of view, this could be done without any problems in a perfectly legal and straightforward way, as the Americans are trying to do.

Q101 Baroness Young of Hornsey: Going back to this thing about European values and the consistency with which they are applied, if we look at this in the context of the issue of ethnic Russians, linguistic diversity and so on, do you feel that the EU has failed to live up to its values or its particular standards around the treatment of Russian minorities across EU countries, where they are sometimes denied full citizenship? Do you think that President Putin’s concerns about the treatment of Russian “compatriots” in the Baltic states and fears for their safety are shared by the political elite and the Russian citizens? Perhaps you could segment people, as you have been doing today.

Vladimir Kara-Murza: Thank you very much for this question. This so-called concern about “compatriots” is merely a pretext, which the Putin regime uses as a political tool against Governments it deems unfriendly. The Baltic states are a particularly good example. When the rights of Russians are really being violated, the Kremlin usually remains indifferent and pays lip service to it. I will give you an example. In 2008, the dictatorship in Turkmenistan unilaterally announced that it would no longer recognise the Russian citizenship of more than 100,000 ethnic Russians who live in that country. The Kremlin did nothing. They just issued a statement and forgot about this. When they needed to annex Crimea, they talked about the so-called threats to Russian-speaking people in Crimea, which is of course nonsense, as everybody knows who knows the situation.

This is just a propaganda trick, a gimmick, but it is a very dangerous one, because it is used as a pretext for potential aggression, and it is very important for people in the West to recognise that and not to indulge in Mr Putin’s propaganda ploy in this regard. What level of hypocrisy does this regime have? For years they deny Russian citizens in Russia the right to free elections, the right to freedom of speech, they beat up peaceful Russian demonstrators on the streets of Russian cities, and then they talk about the supposed abuses of the rights of Russians in other countries. You cannot get more hypocritical than this.

There is now a post that the Russian Foreign Ministry introduced a few years ago of a special representative at the Russian Foreign Ministry for democracy, human rights and the rule of law. It is a truly Orwellian post, I would suggest, given the context and the disastrous human
Tracy McDermott, Shona Riach and Vladimir Kara-Murza—Oral evidence (QQ 87-109)

rights situation inside our country. They publish annual Soviet-style reports about how the UK, Belgium, Norway and all these other gross human rights abusers behave in a bad way. This is just a propaganda ploy, frankly, and I would not indulge the Kremlin in this.

Baroness Young of Hornsey: It is an interesting argument though, is it not? Even though I might well accept what you have just said about that hypocrisy, nonetheless if the EU is not upholding those particular standards, that is still a problem, is it not? It then creates a problem that can be exploited by Mr Putin’s Government. Does it still not need to be addressed, or are you saying that there is no kind of problem with non-citizenship and so on?

Vladimir Kara-Murza: Obviously nobody has a perfect human rights situation. That is just stating the facts, but I do not think it is for a regime that has not held a free election in 15 years and does not allow freedom of speech in the mainstream media to lecture countries of the European Union, which of course do have human rights problems, I would think, as any other country in the world does. “Hypocrisy” is not a strong enough word. I know that word is banned on the floor of this House. Am I correct? Is it okay to pronounce it here? That is not a strong enough word to describe this. Of course there are problems, and regimes like this will exploit them, but if you compare the situation in Turkmenistan and in, say, Lithuania, there would be no comparison at all.

Baroness Young of Hornsey: Just to be clear then, you are suggesting that the EU does not need to worry itself about ethnic Russians and their rights, because it is coming from a place that is deeply hypocritical, as you say. There is no point in trying to address that.

Vladimir Kara-Murza: I think the EU should see it for what it is. This is used mostly for domestic propaganda purposes and for in-your-face discussions in meetings. When western leaders talk about genuine human rights concerns with regard to what is happening in Russia, they have something to reply to this. Do not put it on a par with the real issues; that just dilutes the real problems that we have in Russia, which do not compare with the human rights problems that I am sure do exist in the European Union. There is simply no comparison.

Lord Lamont of Lerwick: Baroness Young’s supplementary in a way anticipated mine. I strongly agree with what she was suggesting. I was just going to point out that of course I accept that there is hypocrisy and motive, but I suggest that there is motive in your description of it as well. There was a Council of Europe report, under the chairmanship of a Swedish diplomat, that looked at this. I do not have it here, but I have a copy; I can circulate it to the Committee. It did say that there was a problem, and that there have been improvements, but that there remain problems for Russian citizens in the Baltic states.

Vladimir Kara-Murza: I am not suggesting that there are not. As a very quick addition to this, the election rules differ as well. For instance, the non-citizens in Estonia can vote in local elections. In Latvia, they cannot. There are all these nuances. The situation is different. In Lithuania, everyone was granted automatic citizenship; it is not an issue there. It is also important to say that in Russia, even officially—I am not talking about what is happening de facto—the Putin regime has “elections”, but even officially hundreds of thousands, if not millions, of Russian citizens have been officially barred from running for any elected office. These are the people who have either dual citizenship or permanent residence abroad.
Lord Lamont of Lerwick: I accept that. I think that is outrageous; it is wrong, but we are just trying to identify a different situation in different countries.

Q102 Baroness Henig: Can I turn now please to the sanctions that the EU countries are imposing? Arguably, the sanctions are in fact having a perverse effect, or so it has been suggested, of strengthening public support for the Government in Russia. I take your point about the strength of civil society, but nonetheless there seem to be large percentages of the population in Russia in favour of what Putin is doing. Even on your evidence, there is a strong majority in favour. I was wondering what your comment was on the effective sanctions and whether that strong support is coming from any areas you can identify. Is it from older people? Is it from rural rather than urban areas? Is it people on lower incomes? Can you perhaps quantify why there is this strong support and to what extent sanctions are fuelling it?

Vladimir Kara-Murza: Thank you for the question. On the supposed perverse effect of the sanctions and the strengthening of the support for the regime, this is where we go back to the language and the wording. When the Magnitsky Act was being passed in the US two years ago, the Kremlin’s propaganda machine tried its best to present that law as sanctions on Russia, on Russian society and on Russian citizens. They failed in doing that. An opinion poll, again with all the caveats that go with that, was conducted in December 2012 by the Levada Centre, which showed that a strong plurality of Russian citizens supported the aims of the Magnitsky law, which is for western democracies to bar those corrupt officials and human rights abusers in the Russian regime from entering their countries. Forty-four per cent were in favour, 21% were against, and the rest had no firm opinion. Again, this was despite the propaganda on television.

What we are seeing now, frankly, is leaders of the western countries doing the Kremlin’s propaganda job for it. When President Obama goes on the air and talks about “sanctions against Russia”, or when people in the European Union do this, Putin does not need to do anything else; he just needs to quote them. There may be a very subtle nuanced difference here, but as somebody who lives in Russia I can say that it makes a huge difference to people’s perception. It allows Mr Putin to portray these individual sanctions as being directed not against his oligarchs and his officials, but against the whole of Russian society.

In fact, the only ones who have been putting real sanctions on Russian society have been Mr Putin and his regime. First, as you will remember, in response to the Magnitsky Act, in probably one of the most cynical moves by any Government in the world, the Kremlin banned the adoption of orphaned Russian children by American citizens—in response to the US putting sanctions on corrupt crooks from the Kremlin. There is a prominent Russian journalist, Valery Panyushkin, who writes for Vedomosti, who said that there are only two organisations in the world that use their own children as human shields: one is Hamas and the other one is the United Russia Party, headed by Vladimir Putin. That is what he said back in 2012. It may be strong wording, but I think that it is essentially true.

Then, of course, there are what you discussed with the first panel: the food sanctions that Mr Putin has imposed on the Russian people, which are now leading to a significant inflation in prices, obviously, as people have to purchase goods that are more expensive, coming from countries that are farther away. This food import ban on the European Union is not nearly as significant for the European Union as it is for the general Russian population.
Of course, another form of tax is now being introduced—an informal tax that is being imposed on the Russian people in connection with the targeted sanctions in the West. It has been dubbed “Rotenberg’s Law” after Arkady Rotenberg, who is one of Putin’s closest friends and one of the few people who mysteriously became billionaires during Mr Putin’s 15-year rule, and who was affected by sanctions in Italy. His villas were seized. Now there is this law going through the Duma that would allow any of those oligarchs and crooks, who have been affected by targeted western sanctions, to be compensated with Russian taxpayers’ money. Who is really putting sanctions on the Russian people here? It is Mr Putin. It is not the West.

Again, I know I have said this a few times already, but it is really crucial to choose the language carefully and to talk not about “sanctions on Russia”, but about sanctions on the regime, on the corrupt officials, on the human rights abusers, on the aggressors and so forth. I know “Russia” is shorthand; it is easier to say, but it is very important to say those few extra words and not play into Mr Putin’s propaganda.

**Baroness Henig:** Presumably your organisation, Open Russia, disseminates information on social media channels to this effect. Do you try to put that sort of view around?

**Vladimir Kara-Murza:** Absolutely. If you would allow me, I will briefly quote Mikhail Khodorkovsky, who is the founder of our organisation and who was Russia’s most prominent political prisoner.

**The Chairman:** Quite briefly, please, we still have a number of questions.

**Vladimir Kara-Murza:** Absolutely, just a phrase. He spoke at a big forum of Central European democrats in Prague last week and said, “The reaction of the international community should be targeted not against Russia but towards creating an atmosphere of moral alienation for the champions of the regime and the prevention of export of corruption and unprecedented laundering of money stolen from the Russian people”. It is very important to remember this.

**Q103 Lord Jopling:** You have been talking about the effect of sanctions on public support for the Russian Government. Can I move off tangentially slightly? Russia is now faced with the problems of oil prices below $80 a barrel. If that persists over a reasonably long period of time, to what extent will that cause Putin serious problems, and conversely to what extent will that strengthen the views of people like you in opposing the regime?

**Vladimir Kara-Murza:** It is just stating the facts that when the oil prices go down—as you know, a large share of Russian federal budget revenues depends on oil prices—it will not be very good for the regime. It does not automatically mean that it will be good for the pro-European, pro-democracy forces in Russia. The people in our country who want this European democratic path do not just sit there and wait for oil prices to fall, and then everything automatically will fall into place—not at all. Again, as I already mentioned, it is only up to Russian society and Russian citizens to effect democratic change in our country. It is not for oil prices; it is not for western Governments.

Of course, we do take this into account, and so does the regime. That is why they have been trying to distract public opinion at home away from the stagnating economy, from the corruption, from middle-class fatigue with one-man authoritarian rule by a classic trick that all authoritarians have used over the centuries: find an external enemy—in this case Ukraine—annex Crimea, and all this pseudo-patriotic hysteria and all the rest of it. They
know the fall in oil prices is affecting them. We know this is affecting them, but we are not counting on it as the main factor in democratic change in Russia. It will not be the main factor.

The main factor in democratic change in Russia will be the organisation of civil society to continue to work even in these current difficult conditions, to continue to try to spread free information as much as possible, and to hold public discussions. As I mentioned, the former Speaker of the Duma, Mr Gryzlov, said that Parliament is not a place for discussion in Russia. It is not just Parliament; we have fewer and fewer places for discussion, frankly. One of the goals of our organisation, Open Russia, is to expand this space for public discussion and to return this habit of people discussing the problems of their country, discussing the way forward, growing this civic responsibility that will be necessary once the Putin regime goes, which it will inevitably do. It will then be up to that civil society in Russia to build a new democratic future. It is not going to happen automatically, because the oil prices fall. That is my personal view.

**Q104 Baroness Coussins:** One of our previous witnesses suggested to us that he could foresee a possible scenario developing in which Putin might indulge in what he called “more foreign adventures”, perhaps even involving an intervention into the Baltic states. This would be a strategy for Putin to reassert his authority in the face of external pressures from sanctions and internal pressures from diminishing popularity. What do you assess the likelihood of Putin’s future actions to be in response to these stresses, or does he genuinely believe he has 80% in the popularity polls?

**Vladimir Kara-Murza:** That is sometimes the trouble with authoritarian regimes: they start believing their own propaganda. That is when the biggest problems can start, as we know from history. I think you are absolutely right: it is the natural logic for any despotic regime, when it starts having problems at home, to try to distract people away to imagined foreign enemies.

I do not foresee an attack, for instance, on the Baltic states, as they are NATO members, but there are other means of destabilising countries. We are already seeing these things. Among the events in the past six weeks, we have seen: the kidnapping of an Estonian police officer, Eston Kohver, who is now held in Lefortovo, the FSB prison in Moscow; the arrest of a Lithuanian fishing vessel off the coast of Murmansk in international waters by the Russian coastguard; and in an absolutely astonishing example of trying to rewrite history, we have seen prosecutors in Moscow opening criminal cases against Lithuanian citizens who refused to serve in the Soviet armed forces in 1990 and 1991. This is really far-fetched, but they are doing this.

Of course, Mr Putin has many political allies inside the political elites of the Baltic states—public ones. I mentioned the bogus international monitoring group at the Crimean so-called referendum in March. One of its members was Tatyana Zhdanok, a Member of the European Parliament for Latvia and the founder of Interfront, an organisation campaigning to keep Soviet rule in Latvia back in 1990 and 1991. She has been outspoken in support of Putin. She joined this group and said that the Crimean referendum was fine, great and democratic. There are all these non-direct means that the Kremlin can use to destabilise the situation, so I think people should be careful and watch out for those.
Your fundamental point is the most important one: this crisis has domestic origins. Everything that has been happening in Ukraine since the start of Mr Putin’s aggression in February has had domestic origins and domestic motivations. It is not, I would suggest, primarily about restoring the so-called post-Soviet sphere of influence, although that would be a nice added benefit for them. Primarily, it was because when Putin saw the victory of the Maidan in Kiev, he decided that he had to do everything to prevent a Maidan in Moscow. Frankly, the image of an authoritarian corrupt leader fleeing his country in a helicopter, amid mass popular protests in the capital, was too close to home. That is why the current Government of Ukraine is being presented to Russian TV viewers as a “fascist junta”. There are all these bogus stories about Ukrainian soldiers crucifying children—there was a story on Channel One in July. Even compared with the propaganda of the previous 10 years, the stuff we are seeing now on our television screens is completely mind-boggling. The origins are domestic. You are completely right, I think. That is why the fundamental solution in the end can only be domestic—when Mr Putin’s regime is replaced in the Kremlin by a democratic Russian Government that would respect both the rights of its own citizens and the rights of neighbouring countries.

Q105 Baroness Bonham-Carter of Yarnbury: My question comes from a rather different perspective. I have a feeling that you are probably not going to agree with it. Our former Chief of Defence Staff, David Richards, now Lord Richards, talked in a recent interview about the importance of bringing Russia back into the family of nations. He said, “I am not an apologist for Russian aggression, but I do understand Russia. You have to empathise with their position, which is very emotional, very patriotic, willing to put up with a lot of hardship for their kith and kin”. I understand your aspiration of a truly democratic Russia, but in order to rebuild the working relationship in the neighbourhood now—that comes back a bit to what Lord Lamont was saying earlier—should the EU take more steps to address some of Russia’s concerns? We have addressed the Baltic states and non-citizens. Again, I would rather endorse what I heard from Lord Lamont and Baroness Young: that is something that should be specifically addressed. The expansion of NATO is another, as well as the economic impact of EU agreements. There are three questions there.

Vladimir Kara-Murza: Thank you very much. Actually, I totally agree with the quotation that you started with: that we have to bring Russia into the family of nations. The question is whether you consider Russia to be only the Putin regime and nothing else. That is where the fundamental difference begins. Of course, as we already mentioned a few times here, unlike the Kremlin, we believe that Russia is an integral part of Europe. It should be an integral part of Europe and it will inevitably be an integral part of Europe. That is why it is important for our friends here to hold out for this long-term prospect. There is no other way; I do not think there is any other way for Russia to go, except as part of the European family.

Restoring relations with Russia as a society and bringing it into the family of nations, as you quoted, is one thing. It is another thing to indulge essentially a dictator—let us call people by the names they deserve—and to pretend that somehow the regime that exists now is a democratic and legitimate representative of the whole of Russian society. The modern world knows no other way of measuring support for and legitimacy of a Government than through free elections, like the ones you have in this country and like every single European Union country has.
We have not had a free election since 2000, according to the OSCE monitoring missions. Frankly, for many years Mr Putin was accepted by western democratic leaders, including here in the UK, as one of their own. I remember very well—I was a journalist at the time—in June 2003, here at the London Guildhall, Mr Putin being given a lavish reception by the Queen exactly three days after his Government shut down the last independent television channel in Russia, by a direct government order by the way. They did not even try to cloud it in economic problems and all the rest of it. He was given this lavish reception; he was accepted as a friend and a partner. Actions like this, as we saw from what happened afterwards, only allow these dictatorial regimes to strengthen their positions inside the country and outside in the world. They allow them to consolidate their power to destroy what remains of independent forces in the country. Of course there should be means of communications to the regime. Nobody is saying that there should not be, but they should be honest.

**Baroness Bonham-Carter of Yarnbury:** What about the point that there have been things that could be seen as provocations? The expansion of NATO is one of them.

**Vladimir Kara-Murza:** As I already mentioned, the elected President of Russia, Boris Yeltsin, applied for membership of NATO. I do not see the expansion of NATO as any kind of threat to Russia. The most stable, secure and peaceful borders that our country has are the borders with NATO, which could not be said of the borders in the Far East, with China. It goes directly against Russian national interests to juxtapose ourselves and to call the Euro-Atlantic community the enemy. It is not.

That is one of the biggest fundamental differences between us and this current regime. The West should pursue what, back in the 1980s, was called “dual-track policy”, I believe. Of course you talk to the regime—you cannot avoid this—but you also recognise that the regime is not the same as the country, and you talk to opposition leaders, to civil society representatives and to people who frankly could be the face of the Russia of tomorrow. It is not very far-sighted to deal just with the group in power in the Kremlin now without regard for what happens next. I wholeheartedly agree with the goal: Russia should be brought back into the family of European nations, and I am sure it will be. There is no doubt about this.

**Lord Jopling:** A few minutes ago, you were very critical, after the collapse of the Soviet Union, of the way in which the EU and NATO embraced some of the former members and treated Russia at that time. Now you have been very critical again that Putin was given a royal reception in London. I am not quite clear where you are coming from here. Our former Prime Minister Jim Callaghan once said, “If you cannot ride two horses at once as a politician, you ought to keep out of the circus”. I am not quite clear where you are coming from. You are talking about two things that are quite different. It seems that you are in danger of having a rather nasty accident from riding two horses at once.

**Vladimir Kara-Murza:** Not at all, my Lord. I will just clarify, and this goes exactly to the point that we have been discussing here for the last few minutes. There is no such thing as one “Russia”. These are different things. In 1991, Russia was a democratic country with a democratically elected Government, the people of which just came to the streets of Moscow in August and overthrew the totalitarian Communist regime. It was in the same situation as our neighbours in central and eastern Europe. Of course, it was the natural thing to do to welcome this new democracy into the institutions of Europe and the Euro-Atlantic community, as was done partially. I mentioned already that Lord Lamont welcomed and
introduced Russia officially into the IMF in April 1992. Russia was made a member of the Council of Europe in 1996, but there was never the prospect of a full-blown European/Euro-Atlantic path for Russia, as there was for Poland, Hungary, the Czech Republic, the Baltic states—all these other nations. In the 1990s, we were talking about a democratic Russia, which of course had to be welcomed with open arms into Europe.

Today, we are talking about an unelected authoritarian aggressive regime, and frankly I see no comparisons here. It is as if we are comparing the relations with today’s Germany and Adolf Hitler’s Germany. I am not comparing Putin to Hitler; I am just saying that these are two very different things. There is no comparison between my point that the West should have welcomed Russia with open arms back in the early 1990s and the point that it should not indulge an unelected dictator today. That is a pretty clear distinction.

Q106 Baroness Billingham: We are about to enter into a new chapter in the European Union, with new commissioners and new members. How do you think new commissioners and new members can most help the proposals that you are making? Where would you like their voices to be strengthened? How would you like to see them being more proactive? Do you think that all member states are prepared to be as upfront as you would have them be? Where do you think we could put pressure to ensure that we get a stronger view from the European Union than we have had in the past?

Vladimir Kara-Murza: Thank you very much. Your last point is very important: that it is crucial that the European community, the European Union, speaks as much as possible with one voice or, as you said, my Lord Chairman, at least not too many voices or not too many minds. That is another favourite tactic of the Kremlin regime: to try to split up and divide opponents and sew divisions among them to weaken their position. It is important to speak with one voice, at least on the basic questions that should not be put in doubt by anybody: that elections should be free, that people should have a right to peaceful protest, and that people should have a right to freedom of speech and free media. These are not controversial things in the European Union, as far as I understand. There should be no problem in presenting a united front to Mr Putin on this question.

It is very important that in every single meeting with the representatives of the Putin regime these questions are raised. As we mentioned, these are not internal affairs, as Mr Putin tries to present them; they are human rights, democracy and rule of law issues. It is important that the European Union leadership engages with civil society in Russia, at the same time as they engage with the regime in the Kremlin. This was done to a certain extent in previous years. For instance, in the European Parliament, it is their standard practice that when they have hearings in relation to Russia they have somebody from the official circles, as it were, but also somebody with an alternative point of view from civil society and the pro-democracy movement. It is very important to continue this and, frankly, to keep faithful to your own values: to the things that we have come to know as European values over the centuries. Representative democracy and freedom of speech are very basic things that, unfortunately for us, are not so basic at the moment because we do not have them.

Lord Radice: I may be rather more sympathetic to the position that you are putting over than one or two of my other colleagues. May I suggest, if I get your message right, that you are saying that Putin’s behaviour in Ukraine has not been influenced by what the West has done? There seems to be the assumption behind some of the things that my colleagues have been saying that actually it has been caused partly by the West. You are saying that
that is not the case: that it has come from within Russia, because Putin needs to prop up his position. Is that right? Is that what you are saying?

**Vladimir Kara-Murza:** Absolutely right, yes. What happened in Ukraine was an anti-criminal, anti-corruption revolution, and then the authoritarian leader fled in a helicopter as there were hundreds of thousands of people standing in central Kiev. Mr Putin did not like that image, and that was why he had to discredit it and the Ukrainian pro-democracy movement. Frankly, after the protests of 2011-12, when they saw 100,000 people from their windows in the Kremlin, standing on Bolotnaya Square, across the Moskva River, they started feeling really uncomfortable. Their aim for the past two and a half years has been to preserve their power basically with any means possible.

There were no threats to Russian speakers in Crimea. Most of the schools in Crimea were Russian. Everybody spoke Russian in Crimea while it was a part of Ukraine. This was absolutely bogus. If you look at the news stories coming out from Russia’s Channel One, like the story about a child being crucified by Ukrainian soldiers in Slovyansk in July, like using pictures from Syria to illustrate events that are supposedly happening in Ukraine, most of this stuff is just completely bogus.

I spoke to a former senior television journalist recently, who worked in Soviet television and then in Russian television in the 1990s. He is not working anymore because it is not possible, but he said that Putin’s television today is worse than Soviet television ever was, because the Soviet TV took facts and twisted them to suit the Kremlin’s goals. Current television in Russia just invents the facts. They just do not exist. They just make them up as they go along. You are absolutely right: it was not a provocation, it was not caused by anybody, it was Putin’s nervous reaction to an anti-corruption popular uprising in Ukraine.

**Q107 Lord Radice:** I have a second point that I wanted to test. I said I was going to. Your second message is that we are not to reward Putin by offering him a special deal. Is that right? Is that what you are saying? I mean, we obviously do not want to go on with this crisis if we can possibly help it. How do we get out of it?

**Vladimir Kara-Murza:** What do you mean by “special deal”?

**Lord Radice:** I do not know. You were saying, or there is an implication, that Ukraine cannot become a member of NATO, like Georgia or wherever, or that Ukraine cannot have a special economic deal with the European Union. He might demand that, but you are saying that we should not reward him by giving him that. Is that what you are saying?

**Vladimir Kara-Murza:** This is just a simple point that every country should have the right to choose its own alliances and deals. On the question of a special deal, I understand what you mean. It is a very good phrase. If you look at Mr Putin’s domestic political practices, which we talked about at length today, they are no different from the practices, say, of Mr Mugabe in Zimbabwe or Mr Lukashenko in Belarus. The regimes of Mr Mugabe and Mr Lukashenko have been under EU sanctions for years, and I mean targeted personal sanctions against the people in those regimes. They cannot visit here, for instance. Why should there be special treatment for the people in Putin’s Kremlin, who behave in exactly the same way? No, I do not think there should be a special deal. People should stand by their values and treat everybody in the same way. That is the basic point.

**Lord Lamont of Lerwick:** If I were in your position and I lived in Russia, I am sure I would be saying what you are saying to us. I do not disagree with your characterisation of the Putin
regime. For countries in the West, we have to live with many authoritarian regimes in the world. We have to live, sometimes, with problems that are unresolved. There are many very close, warm Middle Eastern allies of this country that are very undemocratic, which get put up in Buckingham Palace and given banquets in the City of London. We toast them and we think they are absolutely wonderful.

The Chairman: We do not necessarily think they are. We treat them wonderfully.

Vladimir Kara-Murza: That will be quoted in newspapers tomorrow.

Lord Lamont of Lerwick: Let me put it this way. The Foreign Office says very little that is ever critical of them, and Ministers say very little that is ever critical of them. The fact is that we cannot pursue regime change everywhere in the world. Of course, civil society has to respond to people like you and press for the things that you are pressing for as well, but Governments cannot do this all the time. If you cannot press for regime change all the time, you have in the end to resort to diplomacy, and sometimes diplomacy alters behaviour and brings about certain changes, as it did with Libya, I would argue. That was a diplomatic effort that was worth pursuing. I am not sure about the policies that subsequently followed.

Vladimir Kara-Murza: Thank you for the question. From the outset, I would state absolutely unequivocally that nobody is talking about regime change. As I mentioned several times—I will repeat it again—it is only for Russian society and Russian citizens to effect democratic change in our country. All we are asking our friends and neighbours in Europe to do is to have an honest position. Of course you have to deal with these regimes. There is no question about it, but do not pretend they are democratic. Do not pretend they are “one of us”, because they are not.

This dual-track diplomacy has been tried and tested, and it worked. In the 1980s, Margaret Thatcher and Ronald Reagan could, at the same time, negotiate with the Kremlin while beginning every meeting by putting a list of political prisoners on Mr Gorbachev’s desk, as Reagan did in Reykjavik in 1986, at the same time as achieving an arms control agreement. There is no contradiction between the two. You can still pursue diplomatic aims while remaining honest and faithful to the values.

There is this argument that has often been voiced that there are many countries that are even less free and democratic than Russia. Frankly, I want to hold my country up to higher standards. We are a European nation. We are a part of the European family. We are a member of the Council of Europe. We are a member of the OSCE. We have signed up to those human rights commitments, unlike, say, Saudi Arabia or China. We should be up to them and we should be fulfilling our own commitments and our own obligations.

Again, with this policy, there is no contradiction between talking to the regime on issues you need to talk about but also keeping channels of communication open to the millions of Russians and their representatives who want a different future and who will achieve that future. It is not a question of if but of when we have a democratic system again in Russia. Then, many people who have been the victims of this regime, who have suffered persecution from it, will have unpleasant questions for leaders in the West who closed their eyes to what has been happening.

The last point is that history has shown us very clearly that there is a direct connection between internal repression and outward aggression. There is no reason to expect a Government that abuses the rights of its own citizens and breaks its own constitution to
somehow respect its neighbours and abide by the norms of international law. An uncharitable observer could even say that this aggression by Mr Putin in Ukraine is the price that many western leaders are paying for having turned a blind eye, year after year after year: when he shut down independent television, when he threw the opposition out of Parliament, when he beat up peaceful demonstrators on the streets of Moscow. There is a direct connection between those things—between domestic repression and outward aggression. It is in the interests of every democratic nation to understand this and to behave accordingly. That is my personal view.

Lord Lamont of Lerwick: That is a very good answer indeed. You describe the revolt in Ukraine as an anti-corruption revolt. Do you think there has been any non-corrupt regime ever in Ukraine in recent years?

Vladimir Kara-Murza: I think not, but Mr Yanukovych’s regime has broken a lot of records in this regard.

Lord Radice: They were number one.

Q108 The Chairman: We are almost at the end, and you have been extremely frank, clear and open. I do not think anybody can be in any doubt as to your position and your recommendations. You mentioned the Council of Europe en passant a moment ago. Do you attach great weight to the European Convention on Human Rights in seeking to maintain freedom of the individual and respect for human rights in Russia?

Vladimir Kara-Murza: The last independent court that we have in Russia is the European Court of Human Rights in Strasbourg, which, as you know, we can appeal to as citizens of a country that is a member of the Council of Europe. I know there have been a few controversies involving this court here in this country, but of course you have a different tradition of common law, as opposed to our Roman law system in continental Europe, so there is no direct comparison here.

In any case, it was right for the Council of Europe Parliamentary Assembly to suspend Members of the Duma from its sessions. Frankly, they should have done it earlier, not because of the conflict in Ukraine but because we do not have free and democratic elections. Therefore, these are not legitimate Members of Parliament and representatives of Russian society. The biggest mistake would be to try—nobody is suggesting this, but if they did it would be the biggest mistake—to expel Russia from the Council of Europe, because the last resort that we have to independent justice is the European Court of Human Rights.

There is the recent example of Russian opposition leader Boris Nemtsov, who was arrested at the end of 2010 and thrown into prison for nothing except coming to a peaceful demonstration. He just won his case in the European Court of Human Rights. Now, that is not going to change anything substantially, but it is a very important symbolic judgment on the Putin regime and its anti-democratic nature. Yes, we put a lot of weight on our Council of Europe membership, in particular with regard to the European Court of Human Rights. We hope that continues.

Q109 Earl of Sandwich: Can I ask a very short final question? I was going to ask you what civil society is, because it is such a general term. I know it is largely middle-class, NGOs and
city-based. You have never been able to get to the rural areas, I suspect, in spite of travelling, as you mentioned.

Vladimir Kara-Murza: It is mostly large cities, yes.

Earl of Sandwich: What about culture? We all share the great writers from Russia, and music. We have very strong cultural exchanges. The Bolshoi is still coming on tours here. Why do you not look for a Sakharov, a Solzhenitsyn, a leading ballerina who is going to represent civil society and take up some of these causes, as we have seen in the past?

Vladimir Kara-Murza: You are absolutely right. As well as a big cultural tradition, there is a big tradition in Russia of cultural figures being honest and outspoken and speaking truth to power. We have this today as well. For instance, during the mass protests in 2011-12, it was not just the political leaders and political activists leading the protests. There were a lot of cultural figures, like Yuri Shevchuk, the legendary Russian rock musician, or Boris Akunin, the popular novelist. Now the famous Russian musician Andrei Makarevich has been one of the most outspoken people to oppose Putin’s policies in Ukraine. As a result, his concerts are being cancelled. There is pressure on people who produce his discs. His lectures and talks in various Russian cities are being annulled. He is not being allowed to speak. Nothing changes in this regard. We still have the authorities trying to repress independent-minded people among the cultural figures, but we still have and we will always have, I believe, honest, outspoken, moral people, leaders of Russian culture, who will always speak the truth, however inconvenient it is for the current regime in the Kremlin.

Lord Foulkes of Cumnock: When I was in St Petersburg in 1999 there was a street newspaper called The Depths. DFID gave it some money and it worked closely with the Big Issue. Are these types of street newspapers developing as alternative media in Russia?

Vladimir Kara-Murza: Most of the alternative media has gone online. First the television and then most of the print media has been either taken over or has had pressure from the Government to shut down. The freest space for discussions in the country is online. The online segment is growing. As I mentioned, in the big cities in excess of 70% of people have access to this information. That is basically one of the biggest hopes for transformation: that there is still a space where people can freely exchange views and discuss important issues, which you cannot do either in Parliament or in the mainstream media today.

The Chairman: Once again, thank you very much, Mr Kara-Murza. You have been extremely clear.

Vladimir Kara-Murza: I am happy to be here. Thank you.
What was the trigger for the crisis?

Recently, I met with a Russian expert. He told me that – since 1989 – all Presidents of Russia adhered to the idea of Russia being a part of the “extended West”. According to him President Putin had adhered to this view until recently. However, when he came to power the second time in 2012 he felt that Russia was in a deadlock and something new was needed to boost economic and societal development. In this expert’s opinion that was why President Putin had decided to change the framework and to break with this idea. And the crisis in Ukraine was an excellent pretext to do so.

I think this is an interesting analysis. Furthermore, I think that according to his own view, President Putin had sent many messages to the West seeking for cooperation, but the West had not taken him seriously and rebuffed his offers. This was a huge frustration for President Putin. I think he realized that – by the annexation of Crimea – Russia had suddenly become unpredictable for the West. This unpredictability is Russia’s new strength.

How to get out of the crisis?

The speech by Chancellor Merkel on 17 November at the Lowy Institute for International Policy in Sydney and on 26 November at the German Bundestag marked a change in Merkel’s public assessment of Russia. In these speeches, the Chancellor said that Russia challenged the international order with its behavior during the crisis in Ukraine. I have the impression that the Chancellor has lost patience with President Putin and decided to change the tone towards Russia. A high-ranking German diplomat recently said to me that at the moment there was no solution without Russia, but there was also no solution with Russia. This shows the difficulty of the current situation. Another expert I recently met phrased it as follows: It is not possible to resolve the crisis at the moment, but only to manage it.

Should the EU and NATO renounce to any further enlargement?

To renounce publicly to any further enlargement towards Eastern Europe may perhaps in the short-term ease the tensions between Russia and the EU and the West. However, renouncing any further enlargement would deprive the countries of Eastern Europe of their wish and all their efforts to join the EU or NATO in the future. By doing so the West would buckle to Russia’s course which I would assess as a betrayal of its own values, first of all, the value of freedom and self-determination. EU and NATO membership have to remain an attractive and possible option for the countries in Eastern Europe – the economies and civil societies of Poland and the Baltics developed so successfully against the outlook of such an option. However, I am afraid that the public in the EU member states would not easily accept the EU financing Ukraine in a comparable way like EU member states during the euro crisis.

December 2014
1. Exposure of the EU and UK to Russia

One of the key considerations when looking at economic sanctions is the exposure of economies to each other. In the following section we present data which examines the links between the EU and UK economies and the Russian economy – with a focus on the links between the City of London and Russia, a topic which has been much publicised.

In general, the UK has minimal exposure to Russia, even in the financial services sector. However, other parts of Europe have much larger exposures and many rank Russia as a vital trading partner.

1.1 External Trade

According to data from the Russian Federal Statistics Services, the UK accounted for 4% ($16.4bn) of Russian exports in 2013 and 3% ($8.1bn) of the country’s imports. As a whole the EU accounted for 57% of Russian exports and 46.5% of Russian imports, making it by far Russia’s most significant trading partner.

![External Trade Chart]

Source: Russian Federal State Statistics Service

1.2 Foreign Direct Investment

FDI from Russia goes mostly to offshore centres, much of which comes back into Russia from these areas. In 2013 stock of FDI abroad (latest data) 34% was in Cyprus, 13% to the Netherlands and 17% to the British Virgin Islands. The evidence suggests that much of this ends up back in Russia. 2013 stock of FDI in Russia: 34% Cyprus and 11% Netherlands. The flows suggest a strong cycling through of money.

Interestingly though, comparing the data from 2012 and 2013, it looks as if a significantly larger amount of money is being held in the British Virgin Islands as the gap between FDI

held there relative to the amount invested back into Russia has grown significantly. However, it is not initially obvious why this is.

1.3 UK international investment

The section above highlights that, contrary to popular belief, the UK is not a key investment partner for Russia – accounting for 2% of its outward FDI and accounting for 4% of FDI into the country. This is supported by data from the UK Pink Book. In absolute terms the level of Russian investment in the UK sounds quite large at £30bn. However, in 2012 this amounted to just 0.53% of total international investment in the UK from Europe (including Russia). UK investment in Russia totals £48bn, 0.9% of total UK investment elsewhere in Europe (including Russia).

1.4 UK services provided to Russian firms

Russian business of course generates fees for the City but it is not clear they are particularly significant for a global financial centre as large as London. As the graph below shows, UK exports of financial services, other business services and insurance are substantial but

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Russian firms accounted for only 1% of the total in 2013, £1.44bn. This makes it the 7th largest recipient of UK exports of these sectors.

![Pie chart showing UK exports of financial services, business services, and insurance in 2013](source: ONS Pink Book and Open Europe calculations)

**1.5 Russian firms on the London Stock Exchange**

At the end of September 2014, there were 34 Russian incorporated firms listed on the LSE out of a total of 2,467. These firms had a market capitalisation of £238.9bn out of a market total of £4.1 trillion. This means Russian firms account for 1.4% of the total number of firms and 5.8% of the total market capitalisation.  

It is also worth taking note of the level of equity issued by these firms on the LSE. The graph below shows the total amount issued by Russian incorporated firms in the past decade with the state owned banks and oil firms highlighted since they have specifically been stopped from raising money on European capital markets under the sanctions. As the chart suggests, while there has been activity present, it has not been particularly significant since the mid-2000s.

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1.6 UK real estate market

There are various estimates on this, although little recent data. Savills estimates that 2% of high-end home buyers in London are Russian.\(^{32}\) At the other end of the scale Knight Frank estimates that 9.1% of purchases from June 2012 to June 2013 were from Russia (and the Commonwealth of Independent States) although only 4.9% were actually residents of this area.\(^{33}\) While this is an important sector of an important market, the current trend in the UK housing market suggests it could survive this. Demand continues to heavily outstrip supply. The lack of safe assets with a decent yield, as well as the safe haven aspect continues to draw investor from around the world. Even in the worst case scenario where there is a blip in demand in the upper end of the London property market we do not think this is something to be overly concerned about.

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\(^{32}\) Cited by the FT, ‘Prospect of tough sanctions on Russians hits London realpolitik’, 20 March 2014: [http://www.ft.com/cms/s/0/787a89ea-af72-11e3-bea5-00144feab7de.html#slide0](http://www.ft.com/cms/s/0/787a89ea-af72-11e3-bea5-00144feab7de.html#slide0)

1.7 UK and EU banking sector exposure

The exposure of UK banks to Russia is fairly low at $14.2bn, below that of France ($47.7bn), Italy ($27.7bn) and Germany ($17.7bn), all of which have much smaller banking sectors. The US and the UK do have much larger “other potential exposures”. This includes things such as issuance of Credit Default Swaps (CDS) on Russia, which are calculated at a ‘notional’ level not a fair value. This overestimates the true impact but more importantly the issuance and use of such swaps is unlikely to fall under the sanctions, as the issuance or purchase of such instruments does not constitute direct ties to Russia.

34 This is explained in more detail by the Bank for International Settlements here: http://www.bis.org/publ/qtrpdf/r_qt1109v.htm

35 BIS, Consolidated bank statistics, Foreign exposures on selected individual countries (ultimate risk basis), section 9E: http://www.bis.org/statistics/consstats.htm
1.8 Agricultural trade

In response to the EU’s sanctions, Russia has imposed its own sanctions. Specifically, Russia has banned all imports of fruit, veg, meat (including fish) and dairy products from the EU (as well as the US, Australia, Canada and Norway). Agricultural exports are about 7% of total EU exports. Of this, 10% goes to Russia. This means that agricultural exports account for around 0.7% of overall EU exports – it’s important to remember that this figure includes much more than the specific parts targeted in the sanctions.

However, in terms of total agricultural trade, some countries are quite susceptible to such sanctions as the graphs above show. This has led to the creation of a compensation mechanism within the EU to help those farmers who have lost significant business. So far the European Commission has responded with specific market support measures for peaches & nectarines (€33m), perishable fruit & vegetables (€125m + €165m), and private storage aid

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37 For a longer discussion of this see the Open Europe blog, ‘What will the impact of Russian retaliatory sanctions be?’, 7 August 2014: http://openeuropeblog.blogspot.co.uk/2014/08/what-will-impact-of-russian-retaliatory.html
for butter, skimmed milk powder (SMP) and cheese, as well as an additional €30m for promotion programmes.¹³

2. What has been the impact of sanctions so far?

Above we have looked at the exposures and areas which could potentially be hit by the sanctions. It is also worth exploring directly what the impact of the sanctions on both Russia and Europe has been so far. This exercise has some severe limitations – mostly the lack of up to date data but also the fact that the sanctions – and in particular stage three ones which were only introduced in August – have not been in place long enough for there to be a clearly discernible impact. That said there is some anecdotal evidence to review.

2.1 Capital outflows from Russia

As the graph below highlights, Russia has suffered from capital outflows since the global financial crisis hit. In fact Russia has seen outflows equal to about 20% of its GDP between 2008 and 2013. So far this year (January to September) $85.2bn has left the Russian economy, a marked increase on the past few years. The Russian Central Bank estimates that this will reach $128bn by the end of the year ³⁹– meaning it will be nearly as bad a year as 2008 when $133bn left the economy at the peak of the financial crisis.

Source: Central Bank of Russia ⁴⁰

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This is of serious concern for Russia for a number of reasons, but primarily it highlights that capital and potential investment continues to flow away from the economy. This despite the country running a large current account surplus thanks to its natural resources. As the relationship sours between the West and Russia it is likely that foreign investment will dwindle. This means Russia will become more reliant on domestic investment. However, as the chart shows, a huge amount of private capital is flowing out of the economy. Eventually this will impact on the level of investment in the economy and will make it harder for firms to source domestic funding. The latter has been true for some time with large firms such as Rosneft, often relying on external financing.41 In sum, this will increase the burden on the state, which is already heavily involved in the management of the Russian economy.

2.2 Russian Ruble and Russian stock market volatility

It has been well documented that the uncertainty surrounding the situation in Ukraine and the sanctions has filtered through to the Russian currency and stock market. As with other areas, there are numerous factors which impact these metrics – not least oil prices and the long term prospects of the Russian economy. Nevertheless, there has been a notable deterioration in the Ruble since stage three sanctions were announced in August, while through the whole year there has been significant volatility.

Similarly, the Russian stock market MICEX has also been incredibly volatile over the period as the chart below shows. It has recovered sharply recently but it is important to take into account the significant weakening of the Ruble highlighted above, since the index is measured in Ruble terms. In these terms it is slightly up in the year to date, however if considered in dollar terms it would be significantly lower.

41 For a bit more discussion on this see the Open Europe blog, ‘EU divisions delay sanctions on Russia, likely to focus on Rosneft’, 9 September 2014: http://openeuropeblog.blogspot.co.uk/2014/09/eu-divisions-delay-sanctions-on-russia.html

This volatility highlights the uncertainty and confusion which the current situation has bred and generally shows some investors underlying unwillingness to make any long term investments in Russia.

2.3 Russian International reserves

Until recently the Central Bank of Russia actively managed its currency, primarily to stop it weakening too much or too quickly. This involved the use of the country’s international reserves to help prop up the value of the Ruble. As such there has been an impact of weakening the country’s stock of reserves – overall reserves have fallen by 17% and FX reserves by 19% – though it remains significant at $428.6bn.

43 Micex, Micex Index, Technical Analysis: 
http://www.micex.com/marketdata/analysis?secid=MICEXINDEXCF&boardid=SNDX&linetype=candles&period=1d

44 Central Bank of Russia, Russian Federation, International Reserves of the Russian Federation, monthly values: 
Furthermore, questions have been raised about whether this aggregate figure is a true representation of the strength of the Russian reserves. For example, the reserves include holdings of gold, IMF Special Drawing Rights and two sovereign wealth funds. It is not clear that these funds are easily accessible. For a full and interesting discussion of this, see the Peterson Institute of International Economics here. Ultimately, as the reserves begin to run down questions will be asked to what extent the central bank and state can backstop the liquidity and foreign currency access in the economy but also manage the exchange rate if needed.

2.4 Russian growth forecasts revised downwards

All of this has fed through to declining forecasts for Russian economic growth. The chart below highlights how substantially the IMF has revised its growth forecasts for the Russian economy even just since October 2013.

![IMF GDP forecasts for Russia (%)](image)

Source: IMF World Economic Outlook

Related to this is the question of whether Russia will be a growth market for UK firms and investments over the medium and long term. It has long been the assumption that it will be, however, Russia’s growth prospects are now the worst they have been for some time. One can’t help but feel that the opportunity may not be as great as is made out – not least given the fact that (as we showed in the first section) the UK has not built serious links to the Russian economy while it was growing fast and opening up over the past 10 – 15 years. This is particularly true in services, a key sector for the UK economy. All this is not to belittle the potential opportunities, which are of course significant, but the economic and financial realities do not look good on this front.

2.5 EU28 – Russia trade

As noted in section 1 Russia and the EU are important trading partners for one another. While it is still early, it is worthwhile to look at the trade data to see any variations due to deteriorating relations and the imposition of sanctions.

Since December 2013 the EU’s imports from Russia has fallen by 6.8% (€1.1bn), while exports have fallen by 9% (€829m). As the chart above shows, the EU’s net balance with Russia has stayed relatively stable, though the deficit is slightly smaller than the start of the year. Ultimately, it is largely too soon to fully judge the impact of the sanctions. There are some indications that the hostilities are reducing the level of trade between the two sides.

2.6 Germany – Russia trade

Looking a bit deeper within the EU, Germany in particular has significant trade links to Russia. As with the broader EU data it is possibly too early to form any clear judgements. That said, it’s clear that German trade with Russia has declined significantly between August 2013 and 2014 – exports have fallen 26% and imports 19% (however, due to a big dip in trade over the winter period the change from the start of the year is minimal). Generally, since the start of 2013, German exports to Russia have been on more of a downward trend than the imports from Russia which have been relatively stable.
3. Overall thoughts and conclusions

This submission reviews the economic data on the links between the Russian economy and the EU as some EU countries, notably the UK and Germany specifically.

What the data show is that as a whole the EU and Russia have significant links, particularly through external trade and energy. Germany and the eastern European states in particular are heavily exposed. Contrary to some reports the UK does not have any particularly significant links to Russia, even via the City of London. Being a large and diverse financial centre London of course has links to Russia but these do not seem particularly prominent in the overall scheme of things. They also pale in comparison to the exposure of some countries in terms of the trade and energy links.

It is also worth noting that in this debate, while important, pure economic and financial exposure does not provide a clear indication of how countries think or whether they support sanctions. For example, the Eastern European states (Poland and the Baltics) have been some of the most vocal in favour of sanctions despite significant economic ties. This is largely down to historical, cultural and security factors. Equally, some of the Mediterranean countries which have limited exposure have been quite cautious on sanctions, possibly due to wider concerns about restarting the economic crisis or spooking markets in the Eurozone.

In terms of the impacts of sanctions it is probably too soon to draw firm conclusions. In broad strokes the sanctions, along with other factors (oil price and general pullback from Russia), do look to have had a negative impact on the Russia economy. Growth forecasts have been revised down substantially while Russia’s currency and stock markets have been volatile. In terms of Russian trade with the EU and countries such as Germany there does look to be a general downward trend, though discerning how much of this is down to the sanctions is difficult.

Politically however, it is not clear that the sanctions have had much, if any, impact. Russia does not seem to have changed its approach to the crisis in Ukraine.

In the longer term, it is unclear exactly how the EU envisages its relationship with Ukraine and Russia. This hampers the approach and raises questions over what sanctions are trying to achieve in the medium and long term – sanctions without clear goals can often be ineffective. This topic remains under discussed at the highest level in the EU, not least because it tends to significantly divide EU states.

We discussed these issues in detail and at length in our paper ‘EU and Ukraine: what are the limits of Europe?’: http://www.openeurope.org.uk/Article/Page/en/LIVE?id=19763&page=PressReleases.

25 November 2014
THURSDAY 4 DECEMBER 2014

Members present

Lord Tugendhat (Chairman)
Baroness Bonham-Carter of Yarnbury
Baroness Coussins
Lord Foulkes of Cumnock
Baroness Henig
Lord Jopling
Lord Maclennan of Rogart
Lord Radice
Lord Trimble
Earl of Sandwich
Baroness Young of Hornsey

Examination of Witness

Dmitry A Polyanskiy, Deputy Director, First Department of CIS Countries, Russian Foreign Ministry

Q240  The Chairman:  Mr Polyanskiy, first of all, on behalf of the Committee, I thank you very much for agreeing to appear before us. As I think you know, we are a sub-committee of the House of Lords with responsibility for looking at the EU’s external relations: that is to say, the EU as a whole, as distinct from simply the UK. Our last inquiry was into the Transatlantic Trade and Investment Partnership. Our present one is into EU-Russia relations, which has turned out to be a little more fraught than perhaps we thought at the beginning, so we are very grateful to have an opportunity to talk to somebody from the Russian government. This is an official meeting, so it is being broadcast, and there will be a written transcript, which you will have an opportunity to see. We have sent you a number of questions, but I should warn you that my colleagues will have other questions as well, and we might deviate somewhat from the questions that are on the piece of paper.
Dmitry A Polyanskiy—Oral evidence (QQ 240-252)

As I think everybody is going to want to ask you questions, could I ask you to keep your answers brief so that we can get as many in as possible? If there is anything at the end that you feel we have not covered or understood, or that you would like to reinforce, then please by all means submit written evidence in addition afterwards.

That is what we are going to do. Would you like to start with a brief statement, or shall I ask you the first question and you develop your ideas in answer to questions?

Dmitry Polyanskiy: Thank you very much, my Lord. It is a great honour for me to be here, and I am absolutely at your disposal. I hope that my statement will contribute to the improvement of the overall relations between Russia and the EU and to the establishment of good and friendly relations between the Eurasian Economic Union and the European Union. That is why I am open to your questions.

The Chairman: Thank you very much. My first question is very straightforward. It would be very helpful if you could give us a brief explanation of the Eurasian Economic Union. Why was it formed, and what in your view is the state of relations between the European Union on the one hand and the Eurasian Economic Union on the other?

Dmitry Polyanskiy: Thank you for this question. The establishment of the Eurasian Economic Union between the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation is the third stage of economic integration between our three countries. The first, as you might know, was the establishment of the customs union; the second, the creation of the Single Economic Space. The treaty on the Eurasian Economic Union was signed in Astana on 29 May this year, and this is quite an important document.

The algorithm of the formation of the Eurasian Economic Union does not differ very much from that of the formation of the European Union, as far as I can understand. Of course, there are certain things that differ in these two blocs. The first is that our co-operation is totally limited to the economic agenda. That was our choice, and this was highlighted several times by our Presidents, specifically President Nazarbayev of Kazakhstan, who was the author of the idea, launched more than 20 years ago, of the re-establishment of the Eurasian Economic Union. He was very keen that we should first build the ground floor and then start with the first floor and the second floor. This ground floor is economic integration. There are also some differences between the European Union and the Eurasian Economic Union here. For example, we do not envisage in the near future anything related to a single currency. We do not have justice and home affairs, the second pillar that you have in the European Union, and we do not have a common foreign and security policy. Those are the major differences between the Eurasian Economic Union and the European Union.

We also have two candidate countries. One is Armenia, and we have already signed a treaty with Armenia on it joining our union. We expect this treaty to enter into force by the end of the year, so hopefully Armenia will become the fourth member of the Eurasian Economic Union very early in January. There is also a second country, Kyrgyzstan, which is very keen to join our club. There are two road maps, established jointly between Eurasian Economic Union member states and Kyrgyzstan. They are being implemented, and we have every reason to believe that early next year Kyrgyzstan will also join the Eurasian Economic Union.

One thing I would like to point out in answer to your question is that, as in the EU, we have a supranational body that enjoys certain competences transferred from a national level. This...
Dmitry A Polyanskiy—Oral evidence (QQ 240-252)

is the Eurasian Economic Commission, which can be more or less considered comparable to the European Commission. We have members of the board of the commission who have the rank of Ministers, and we also have a chairman of the board.

The basic principle of our work is equality. We all have three representatives on the board of the commission. The body takes certain decisions, including direct decisions implementing international legislation, within the scope of its competence. The principle of equality is also written into our new treaty. That means that the two countries that are joining will also have the same number of board members as Russia has, for example. It also means that the level of influence of Russia within the union is the same as the level of influence of Armenia when it joins the union, so this is a basic principle that I would like to reiterate.

I do not think it is necessary to point out the competences that were transferred from national to supranational level. They are easily available everywhere. Of course, in certain areas the commission enjoys close to 100% competency, such as custom regulations, technical regulations, sanitary measures, and the establishment of trade regimes in respect of third countries. For some of them, such as energy policy or industrial policy, it enjoys some competence, but these very much remain at national level. Gradually, we will see whether we need to transfer more competences to this supranational level. This will be done gradually, step by step, and maybe in a year’s time there will be a good opportunity to review what we have achieved and to see whether we need further openings for our common work.

The second part of your question was about the state of relations between the EU and the Eurasian Economic Commission. Since the very beginning, when we were about to establish the customs union, we tried to alert our European partners to the fact that, given that we will transfer certain competencies at supranational level, it is logical that there should be some sort of a dialogue between, for example, the European Commission and the Eurasian Economic Commission in the spheres of competencies that are transferred to this body. Unfortunately, one cannot say that this dialogue was very fruitful. The European Union was always very unwilling to engage in such relations. I do not remember a single official opportunity for a meeting between somebody from the European Commission and the Eurasian Economic Commission, although we proposed this several times. For example, it would have been logical for Slepnev, the member of the board who is responsible for trade regimes, to meet his European counterparts. There were enough topics to discuss at these meetings, but unfortunately that did not happen. We were forced to limit our contacts to the participation of commission experts in Russian delegations that visited Brussels and other cities.

This was very problematic for us, because as you know the European Union was very eager to conclude the new basic agreement between Russia and the EU, and certain parts of this agreement already dealt with the spheres of competency that were already transferred to the Eurasian Economic Commission. That was why Russia was no longer in a position to discuss it on its own, in the same way as the United Kingdom, for example, is no longer in a position to discuss certain trade arrangements on its own with foreign partners. We tried to explain our position to the European Commission, but in vain. Until now, as I have already said, there were no official contacts. I heard, as you all heard recently, the very optimistic words of the German Foreign Minister, Steinmeier, that the EU will be ready to engage in certain relations with the Eurasian Economic Union. There were also remarks by the
outgoing Commissioner, Füle, in this regard. Hopefully, things will change after the official establishment of the Eurasian Economic Union on 1 January next year, but we will see. For us, it is very important to see such kinds of relations. Russia will continue to have good relations with the EU; we will continue to develop our co-operation, but the spheres of this co-operation are limited, and on certain issues we already have to develop it in the format of three, four or five countries, the members of this union.

Q241 Lord Radice: In your view, how far is the Eurasian Customs Union compatible with EU free-trade agreements?

Dmitry Polyanskiy: It is compatible with EU free-trade agreements. Our customs union is totally compatible with the WTO, so if EU free-trade agreements are WTO-compatible, they should be compatible with the customs union. For example, if country A has an FTA with the EU, it may conclude an FTA with the Eurasian Economic Union without any problems. We have a practical illustration of such a situation. Customs union countries have been involved for many years in FTA negotiations with EFTA. EFTA, as you all know, not only enjoys a free-trade regime with the EU but has common economic space, and there were absolutely no contradictions during these negotiations. The customs union members pursue common trade policies vis-à-vis third countries, and in the EU or any customs union it is the same. They have a common, unified customs tariff, and they conduct free-trade agreement negotiations together. We now have FTA negotiations with a number of countries, and we believe that they are all compatible with WTO norms and practices.

Lord Radice: So you think that there are, therefore, avenues for co-operation between the EU and the Eurasian Economic Union.

Dmitry Polyanskiy: Yes, of course.

Lord Radice: Can you give us some suggestions?

Dmitry Polyanskiy: For the two blocs, the two unions, of course there are avenues for co-operation, and since the very beginning and for many years we have spoken about common economic space, for example. There was a working group on common economic space 10 or more years ago, co-chaired by Christopher Patten and Kristenko, who is now Chairman of the Eurasian Economic Commission. There was a report, based on which four common EU-Russia road maps were elaborated on and adopted. The first road map tackled specifically the issue of common economic space. This is more about the streamlining of technical regulations, for example comparing trade regimes. This is possible right now, and in the medium or long-term perspective we would be ready to negotiate even a free-trade agreement between the two unions. This is the only format where this free-trade agreement is possible right now. It is not possible between Russia and the EU any more.

Q242 Lord Jopling: You told us that Armenia is of a mind to join the EEU, and that is obviously a matter for them, but there are highly controversial territories. I wonder if you could tell us what relationship there will be between South Ossetia, Abkhazia, Transnistria, and the EEU.

Dmitry Polyanskiy: The establishment of the EEU, as far as I am informed, does not change anything in the situation of these territories. You are absolutely right to call them problematic territories, and their status is not very well defined. The establishment of the Eurasian Economic Union does not contribute to the further definition of their status. It
does not give any idea of whether they would be involved in the common work within this union or not. I do not think that these issues are really interlinked.

**Lord Jopling:** It is not only their status but their relationship. What relationship will those territories have to the EEU?

**Dmitry Polyanskiy:** They will not be members of the EEU. While Russia acknowledged the independence of Abkhazia and South Ossetia, and we have embassies there and diplomatic relations, Belarus and Kazakhstan did not acknowledge their independence. That is why they are not participating in the union. There are certain rules, for example rules of origin, and based on these rules of origin it is very easy to detect the origin of goods if they come from these territories. For example, if Belarus and Kazakhstan do not want these goods to enter their markets, they have means and tools to prevent that, if that is what you mean.

**Q243 Lord Maclennan of Rogart:** I would like to ask you a question about the history of the conflict over Ukraine. We have had different views expressed to us. Could you set out your understanding of the prelude to this crisis? What mistakes were made by the European Union and Member States, and in turn what mistakes do you think were made by the Russian Federation?

**Dmitry Polyanskiy:** These are, of course, very tragic developments that we see right now in Ukraine. We are very worried about this. We cannot help being worried, because there are a lot of things that link us with Ukraine. We have very close and clearly seen people-to-people contacts with them; we have a lot of relatives in this country. This is why we cannot ignore what is happening there. At the genesis of the crisis, Russia’s mistake was that we were not very insistent when we tried to convince our European partners that our common neighbours should not be put in a position of choice between Russia and the European Union. For many countries, like Ukraine or Moldova, it is impossible to make such a choice. These countries should be in a position where they can develop the best possible relations with both Russia and the European Union, or now with the Eurasian Economic Union and the European Union. I mentioned already these four road maps. If I am not mistaken, there was a third road map on external security, and in the preamble to this road map we specifically stated, together with the EU, but in a very mild form, that there should be no competition of integration processes in Europe.

We tried to help Ukraine. We subsidise, to a large extent, the Ukrainian economy; we maintain specific tariffs for Ukraine, and we were absolutely ready to preserve the best possible relations with this country. A very common misperception that I came across during these days was that Russia was blackmailing Ukraine and forcing it to join the Eurasian Economic Union and that Ukraine only had the choice to pretend to be a candidate to join the European Union or to join the Eurasian Economic Union, which was not true. I was involved in this work with the Eurasian Economic Union since the very beginning, and the issue of Ukraine as a member was never on our table. We were not establishing this union for the sake of Ukraine. We had, and have, enough problems in the triangle between Russia, Belarus and Kazakhstan. There were certain opinions, and you know that there are figures showing that it would be beneficial for Ukraine to join the Eurasian Economic Union, but this is only statistical data. It is no political incentive. It was, and it is still, for Ukrainians to decide.
Dmitry Polyanskiy—Oral evidence (QQ 240-252)

We made a clear signal to the EU that we were happy with Ukraine as it is. We were not pushing it to join the Eurasian Economic Union; we just wanted to point out that if Ukraine, as we heard on several occasions, wants to preserve the same level of relations with CIS countries, namely with Russia, and if Ukraine wants to fully enjoy all the benefits of the free trade area of the CIS, there are certain provisions in the draft Association Agreement that would hinder this. It would not be possible for Ukraine to sign an Association Agreement and preserve its current situation as a privileged partner.

**Lord Radice:** Do you mean the EU Association Agreement?

**Dmitry Polyanskiy:** Yes, the EU Association Agreement. That was our point, and that was the only reason why we were criticising the EU-Ukraine rapprochement. It was not possible for us, unfortunately, to examine the Ukraine-EU association agreement for quite a long time. When the Eastern Partnership was launched, we contacted the EU, of course. Since the very beginning, we made it clear that this partnership was not good for Russia, because Russia is not planning to join the European Union, and this programme is for countries that are EU-oriented. Russia, given its size and importance and its geopolitical situation, cannot afford to be part of this programme. It does not mean that we are hostile to this programme; we just think that it is not well tailored for Russia.

We contacted the EU on several occasions, trying to ensure that this programme would not lead to exactly the situation that we have right now, where our common neighbours are put in a position of choice and can no longer maintain the level of relations they want with the Russian Federation and our partners in the customs union. We got reassurances from the EU on several occasions, on technical and political levels, that everything that was being done within the framework of the Eastern Partnership would not affect Russian relations with these countries—that they would have absolute rights to continue like this.

Unofficially, the Association Agreement was published in December 2013, I think, but officially the version that was worth analysing appeared to be published last summer. Only then could we examine not only the text of the agreement but the annexes, which are very important. There were specific quotas in these annexes; there were specific, very technical data, which clearly showed to us that with such an agreement Ukraine would no longer be able to maintain the same level of relations with us on the one hand. On the other hand, there was a big risk of either EU products entering Russian markets at lower rates than we have now, or Ukrainian products being pushed from the domestic market to enter the Russian market. We made these calculations, and showed our partners in the EU on several occasions what our concerns were. But the EU tried to present this situation as geopolitical pressure from Russia: that Russia, if I simplify it, does not want to lose Ukraine, which is why Russia is involved in this struggle, and that Russia wants Ukraine to join the Eurasian Economic Union, which was the only target of Eurasian economic integration. As I told you, that is not true.

There is also one very important point to make. I am sorry, I may be deviating a bit from answering, but it is important for me to say this. There was a question about free-trade agreements and whether they were compatible with the Eurasian Economic Union. The Deep and Comprehensive Free Trade Agreement that is part of the Association Agreement goes much further than any so-called standard free trade agreement, and this is a problem. For example, if Ukraine signed with the EU a treaty comparable to, let us say, the EU-South Korea FTA, there would have been absolutely no problems for Russia, because it does not
contain provisions for South Korea to adopt EU regulations, for example, or EU technical standards. This is an agreement between two equal parties, whereas in the EU-Ukraine Association Agreement the situation was absolutely different. Those were the reasons why we were critical of this agreement, because you may also very frequently come across criticisms vis-à-vis Russia that Russia is criticising a free-trade deal between the EU and Ukraine.

Q244 Lord Maclellan of Rogart: Can I ask how you communicated these differences of opinion to the union and to its members, and when you did that?

Dmitry Polyanskiy: As I have already said, we started to do this the moment we saw the agreement.

The Chairman: Can you say that again?

Dmitry Polyanskiy: It was last summer, officially. Unofficially, of course, we were meeting the EU experts. We were saying that we had very good reasons to believe that we were facing a big problem with the EU on Ukraine, but when we asked to be given a copy of this draft agreement, we got a refusal both from Ukraine and from the EU. They said that it was a question of negotiation tactics that these agreements are not published until a certain point in time. There was, by the way, the same problem with Moldova. Moldova was eager to conduct negotiations with us on the possible consequences of signature of this agreement, but we never got the text, and without the text there is nothing to negotiate, because the devil is in the detail. We need to see the annexes, the exact figures, and these were, as we were told by the EU, secret until a certain point in time. It was revealed to us only last summer.

Since then, my colleague Ambassador Chizhov, whom you also met, was very active in communicating these concerns to the European Union. I myself was in Brussels twice, and I met Mr Gunnar Wiegand, whom I think you also know. We were trying to show with concrete figures, with concrete data and information, that we were heading towards a big crisis, but instead we got only reassurances that this was the free choice of Ukraine, that Russia should not interfere, and that Russia was trying to re-establish the Soviet Union and bring in Ukraine and our behaviour was not decent. The only practical result was achieved in September of this year, when our Minister of Economic Development, Mr Ulyukaev, visited Brussels and held talks with his colleague Mr de Gucht. They agreed on the suspension of the implementation of the CFT parts of the Association Agreement until 1 January 2016, which means that next year there will be no immediate danger from these provisions to the customs union, because, we hope, they will not be introduced. Again, this was not written; it was just a gentlemen’s agreement. I hope it will not be violated. We, on the same occasion, submitted a very lengthy paper not only to the EU but to individual Member States. I am absolutely sure that in the UK your colleagues in the Foreign Office also received this information.

Lord Maclellan of Rogart: When was the paper submitted?

Dmitry Polyanskiy: September, or maybe the beginning of October. In this paper, we summarised all our concerns about this agreement, where we saw dangers, and what the reasons were for our position. There was also a written message from our President, Vladimir Putin, to his counterparts across the European Union, with an appeal to start common work and see what can be changed in this agreement, because our position is that
suspension of this agreement is of course a good decision—it is better than nothing—but it does not solve the problem. The problem is in the text, so if we want to reword the text, given the fact that Russia was not consulted at the very beginning about these provisions that affect us directly, we should find a common formula for how to change these provisions of the text and the problem will be solved.

Until now, what we have heard from the EU side has not been very encouraging, because the position is that suspension is one thing but changing the text is absolutely unacceptable to the EU. I need to say that this was mostly the position of the previous commission. The new commission, I think, was not very clear about its position vis-à-vis this agreement, but this will happen quite soon, I think. Commissioner Malmström will formulate her position on this issue. We already proposed a number of meetings with our EU counterparts in the new European Commission, and we hope that they will help us to understand what the new position is of the new group that has come to leadership in the European Commission. This is more or less the situation.

The mistakes of the European Union are quite clear, from what I am seeing. The problem with the European Union approach in general is that it is very difficult for the European Union to accept that there are countries in Europe that are not EU-oriented, if I can put it that way. Russia is a big country. We want to have as friendly relations with our neighbours as possible. The same is true for the EU, but there should be equal relations with Russia. We cannot afford to change our legislation, and the partnership does not work one way. The EU is not eager to change anything in its ways of behaviour or its legislation because of Russian interests, for example. I have been dealing with the EU for more than 10 years, and the only time I remember the EU changing something in its legislation was the situation with Kaliningrad transit, when two transit documents were introduced with EU regulations: a facilitated rail travel document and a facilitated transit document. Two pieces of legislation were introduced because of Russian concerns. All the other things are limited to “take it or leave it”: if you want it, you accept it; if you do not like it, well, that is your problem.

This is a problem for us, because we live on the same continent and we do not want to become a member of the EU, for many reasons. We are a big country. I may be mistaken, but my perception is that the EU does not view this situation as normal. The EU cannot accept that there can be other countries, such as Ukraine, Moldova and Georgia, that can be neither in the EU nor in the Eurasian Economic Union. They can live like they are, and there is no problem with such a situation. This mentality pushes the EU towards certain moves vis-à-vis these countries, towards trying to embrace them into the European family without any reason. It is up to Ukrainians, of course, to decide, but they do not have a concrete prospect of membership in the European Union, and at the same time they are forced to make concessions that are comparable to the concessions that countries like Poland or the Baltic states made on the eve of EU entry. These countries—Poland and others—had Europe agreements that consisted of many financial instruments that are not available to Ukraine, so the logic is the same but the situation is different. That is the problem for the European Union, in my understanding.

**Q245 Baroness Young of Hornsey:** Briefly, because you have already covered some of the points I would expect from you, given your account of the build-up in tensions and your ascribing particular characteristics to the EU and mistakes that have been made on both sides, and with the benefit of hindsight, was there a point that you could identify where the
escalation could have been stopped? Was there a point at which the tension could have been de-escalated, and what kinds of actions might have been taken in order to take some of the heat out of what was building up?

Dmitry Polyanskiy: You mean the specific situation with Ukraine?

Baroness Young of Hornsey: Sorry, yes.

Dmitry Polyanskiy: Yes. My understanding is that we had a good chance to avoid these problems, and you may not agree with me, but this was the situation when former President Yanukovych decided not to sign the Association Agreement. He explained that he did not want to do so because the consequences of the implementation of this agreement were not clear, and were doubtful for the Ukrainian economy. He clearly stated this, and he also proposed a three-party format for discussion between the EU, Russia and Ukraine for how to move forward. But instead of accepting this proposal and creating such a mechanism, which it was not too late to establish at this point, the EU—again, this is my estimate—did everything to facilitate the power change in Kiev, and the team that came to power after that seemed pro-European. But at the same time if you thoroughly analyse even the declarations that were made by Prime Minister Yatsenyuk, he was also doubtful about the effects of this agreement, so he also understands that it is not 100% clear how this agreement will affect relations between Ukraine and Russia, or Ukraine and the customs union. Again, the message was the same: let us sit together and compare notes, and let us see what we can do to avoid such a problem.

Was it really worth losing a lot of innocent people’s lives to come to this situation once again, where this agreement is de facto suspended? The arguments are the same. The genesis of the problem is the same, but you are absolutely right: the situation has now gone very far. My opinion is that back in November, when there was the Eastern Partnership summit in Vilnius, and before the summit President Yanukovych made a U-turn that was very surprising to many when he said that he was not going to sign this agreement in Vilnius, that was the point at which we could have avoided everything that is happening right now.

Lord Jopling: Mr Polyanskiy, I do not follow your arguments, quite frankly. You have twice this morning used the phrase—I wrote it down—“It is for Ukrainians to decide”. You have twice said that, implying that Ukraine as it is is a sovereign nation and that it is for them to decide. When this Committee took evidence from Mr Demarty, the Director General of DG Trade, he told us that the implementation of the free-trade area would mean, “gradual development of a level playing field in the Ukrainian market. That means that EU and Russian products would compete on equal terms”. He went on to say that, “that is what Russia means by detrimental impact on its economy”. It seems to me that on one hand you are saying that Ukraine can make its own decisions, and then you are telling us that you do not like a situation where the Ukrainian market will be open to both sides on an equal footing. I am totally confused as to what your argument is. If you think that it would mean a fair and open market in Ukraine for both sides, and that is what you do not like, will you tell us why?

Dmitry Polyanskiy: Thank you for this question. Such questions are quite frequently asked of us, and I reiterate with pleasure for the third time that it is up to Ukraine to make such decisions as a sovereign nation, and we respect these decisions. I have pointed out since the very beginning that our whole approach towards this situation was based on the declarations of the Ukrainian leadership at that time—President Yanukovych and Prime
Minister Azarov—that they wanted to keep the same level of economic relations with the EU and with Russia. If they were not saying this—if they were saying, for example, that they were interested only in the development of good trade and economic relations with the EU and that they would sacrifice their interests in the Russian market—we would have absolutely no reason whatever to voice our criticism. But we tried to analyse whether it was compatible to move in both directions, as Prime Minister Azarov and President Yanukovych wanted. Was it possible to create specific economic relations with the EU on the basis of the draft Association Agreement, and to preserve the same level of economic relations with Russia? We came to the conclusion that it is not possible.

I will explain it to you, and it may be a bit primitive. It is more sophisticated than I put it, and this sophistication is well reflected in the document that I mentioned. We transferred this to the European side. It is about 40 pages, so I do not think I need to enumerate all of these problems. We now enjoy free-trade relations with Ukraine, so there is a zero tariff. As for the EU, we apply the “most favoured nation” treatment. There is a certain tariff for goods that enter from the European Union. If we take, for example, Ukrainian agricultural products, the free trade zone is established between the EU and the Ukraine in this regard. But when you try to analyse this agreement, you will see that, first of all, only the Ukrainian products that meet European technical requirements are entitled to enter the European market. Secondly, for many such products, there are very small—even laughable—quotas. After the implementation of this agreement, Ukraine will be able to export quite a lot of agricultural goods in much lower quantities than it does right now.

On the other hand, there are no limitations for EU products entering Ukraine. Let us take butter, for example. European butter will enter Ukrainian markets. Ukraine, having the right to export butter to the European market, will use only a tiny fraction of the possibilities, because the production of butter does not meet EU technical regulations, and the quotas are laughable. Then, of course, Ukrainian butter will be pushed from the Ukrainian market by European butter, because it is more competitive; you know that there are subsidies in the European Union, and the initial price of butter is lower than in Ukraine. Also, Ukrainian consumers—it is a psychological phenomenon—will try to buy new products, so where will Ukrainian butter go? Where do you think it can go? Of course, it will go to Russia. Almost the whole quantity of butter that is now domestically produced in Ukraine will try to enter the Russian market, and we also have our producers of butter.

We thought that this situation was covered by Annex 6 to our free-trade agreement within the framework of CIS. It means that when we see that there is the great danger of inflow of goods to our market, we can introduce certain defensive, protective measures in our market, and that is what we were speaking about. We were planning to downgrade, I would say, instead of zero tariffs, to introduce most favoured nation treatment to Ukrainian butter. That is quite legal, and it corresponds to the requirements of the WTO and at the same time the requirements of the CIS free-trade agreement. No one could criticise us for this. It is not only butter, of course, but other products. I am not even speaking about the danger of smuggling of European butter through the Ukrainian border. We unfortunately faced this situation in Moldova. When Belgian butter came to Moldova, it simply changed cover and went to Russia. They did not even bother to change the contents of the package, which said that the butter was produced in Belgium, but the cover said that it was Moldovan butter. Of course, there will be people who are tempted by such illegal practices, but I am not mentioning that right now.
There are also problems in, for example, industrial production. When Ukraine introduces EU technical regulations, it will no longer be able to export many products of the steel industry, for example, or railroad vans to Russia, because they will not meet Russian technical regulations or customs union technical regulations. We are always for dialogue between the European Union and Russia—now the European Union and the Eurasian Economic Union—to make these technical regulations compatible, but they are far from being so at the moment, and in practice this will mean that these plants, which account for quite a big portion of Ukrainian GDP, will simply cease to exist, because their production will not be welcome in the European Union and will be no longer welcome in Russia. It is up to Ukraine to decide. We do not even raise these points when we speak with our EU counterparts, but we are afraid of the social implications of such a situation—unemployment, social protests, the impoverishment of the population, and so on and so forth—because we are neighbours. You know that there are quite a lot of Ukrainian migrant workers in Russia who are interested in continuing to work in Russia.

If I may just continue this idea, you say that it is the choice of the Ukrainian people and that we need to respect it. We will respect it, I assure you, but let us take another situation. Let us take Moldova, for example.

Q246 Lord Jopling: Can I just come back to you on the point that you have just been making? Does it not occur to you that there are factories around the world that are producing different products within a factory to match the market that they are supplying? It is perfectly possible that if Ukrainian businesses are making whatever it is, they would, in the same plant, be making equipment that was necessary for the European market, and different equipment, altered slightly, to deal with regulations in Russia. There is nothing new in that, and I do not see why you have to make a point about it.

Dmitry Polyanskiy: You are absolutely right. There are such factories, but the only question is about money and investment. You need a lot of money to be invested in such plants, and there is no such money for Ukraine, I think, in this Association Agreement. There was such money for Poland, for example, when it joined the European Union, but not for Ukraine. The financial scheme of such a situation was not elaborated on. This is a good solution, but our technical experts, when they met our European and Ukrainian counterparts, could not find a magic formula that would accommodate our concerns, Ukrainian concerns and European concerns.

Lord Radice: When was this?

Dmitry Polyanskiy: Again, after we saw the text of this agreement for the first time, in the summer of last year or sometime in the autumn. I myself was present at a conference in Kiev maybe two weeks after the publication of the official text of the draft Association Agreement. It was the first conference that the Ukrainian Government conducted on this topic, and for me the situation was very strange. There were very optimistic declarations from Ukrainian officials, which were met with absolute, industry-specific criticism from the point of view of business, agricultural associations, fishermen, and so on and so forth. They were all trying to show their concerns, because these issues were very badly elaborated on before proposing this agreement. Business was not involved in the negotiations, the trade unions were not contacted during the negotiations, and so on and so forth. I got the picture, being in Kiev, in Ukraine, in July, I think, last year, that for Ukrainian society this agreement and its contents were a total revelation. Of course, certain people are in a position to make
a choice for the whole country. They are elected and they enjoy certain power, but when an elected President says that there are enough reasons to believe that this agreement needs a second thought, this opinion should also be respected.

If I may say several words about the will of the Moldovan people, of course we respect the will of the Moldovan people as well, and we are absolutely sure that Moldova will take the right steps and decisions according to the interests of the country. But we all saw the latest parliamentary results in this country. You all saw that despite very active efforts—I would not use the word “propaganda”—to show the Moldovans the benefits of the European choice, this country is still divided almost 50:50. You can also add to these votes the number of people who could not vote, for example, in Russia. There was a scandalous situation in Moscow. There are about 1 million Moldovans working in Russia, 700,000 of them in the Moscow region, and there was only one polling station there. About 600,000 people could not cast their vote, and there were, if I am not mistaken, only five polling stations in the whole of Russia. For comparison, in Italy, where there are about 200,000 immigrants from Moldova, there were 27 polling stations. It means that these 600,000 votes, which presumably could have been cast in favour of the customs union, simply were not mentioned. They were not counted properly.

I am not criticising the result of the elections. I am telling you this to show that no matter how active the agitators are for the EU choice, these countries are still divided, and when a certain option is being forced on them, it leads to problems. Russia, the Eurasian Economic Union and the European Union should simply accept the reality that our common neighbours should not be put in a position of choice. They should enjoy similar good relations—trade, economic and others—with the European Union and with the Eurasian Economic Union.

The Chairman: Lord Trimble has a supplementary. Could I ask you to be a little briefer? Time is passing.

Lord Trimble: Just following on from what you have just said about people making a choice, and the choice being respected, do people also have a right to the territorial integrity of their state, and should that not also be respected?

Dmitry Polyanskiy: Yes. Do I need to comment, or was that your opinion?

Lord Trimble: I just wanted to get you on the record saying that you were going to respect the territorial integrity of Ukraine.

Dmitry Polyanskiy: There is also people’s right to self-determination, which is part of the UN charter as well, and this right should also be respected. I know that this is a dilemma of international law, but there are still such provisions.

Q247 Baroness Coussins: We have heard from other witnesses that within the institutions of the EU there has been a decline in Russian language skills and in analytical capacity on Russia. Would you agree with that? In the context of the discussions that you are involved in with the EU and Ukraine on the DCFTA, how would you assess the capacity and the expertise of your counterparts within the EU?

Dmitry Polyanskiy: I think the problem is a bit different. On language skills, I do not think that there is a problem with EU experts speaking the Russian language, for example, because there are a lot of new EU member states whose citizens still speak or understand Russian. I
know that a lot of them now work in EU institutions, and my experience shows that in every negotiation we came across certain persons speaking Russian at the same level as we do, so it is more or less their native tongue. This is not the problem. The problem is that when the EU was about to enlarge, we spent many hours with our counterparts in the European Commission showing them that the degree of rhetoric and the arguments used in certain Eastern European or Baltic states were too critical vis-à-vis Russia, and too unjust. These countries were, if I may use this expression, playing the Russian card for their internal politics. We asked the European Union what the forecasts were—what they thought would happen after these countries joined—because we were afraid that this would be the voice of the EU. We got reassurances that these countries were, at this point, alone. Russia is a big country. They were vulnerable because of their proximity to Russia, and when they joined they would be calmer and the rhetoric would change, and of course the EU would speak to Russia with the same voice. But unfortunately this never happened.

What happened is that first of all the EU is now speaking the same language that I heard 10 years ago in the Baltic states or in Poland. Very importantly, also, a lot of specialists from these countries try to be employed in the DGs or units dealing with Russia. Of course, they introduced their own understanding and experiences of how to deal with Russia and how to solve problems with Russia. I do not know whether it is deliberate or not, but there are fewer and fewer citizens of Germany, Great Britain, France and Spain—the so-called older member states—working in these units. This contributes to the fact that the analysis of situations in Russia during recent years has changed a lot from what it was five, six or seven years ago. That is maybe a more correct explanation of what is happening right now.

**Q248 Lord Foulkes of Cumnock:** Can we go back to relations between the European Union and Russia? You gave us lots of detail about problems in trade and economic relations, but we have heard from other witnesses about the decline in relations between the European Union and Russia over the last decade in particular, and it has been suggested that Russia has grievances about NATO expansion and that perhaps the European Union is trying to exploit the fall of the Soviet Union. Do you, personally, think that the European Union has had a malign attitude towards Russia?

**Dmitry Polyanskiy:** I would not single out the European Union in this regard, because the European Union is an economic bloc, and a bit political as well.

**Lord Foulkes of Cumnock:** I mean as well as the union itself—the Member States of the European Union.

**Dmitry Polyanskiy:** That is quite a personal question, and I will try to give my opinion of what is happening and what has happened. The fact is that we had a very good chance after the break-up of the Soviet Union, after the end of the Cold War, to turn a new page in our relations with the West and to integrate Russia into the whole big European or trans-Atlantic family. I remember how enthusiastic we were at this time, how new everything was to us, and how we were astonished to discover that another world existed behind the Iron Curtain. But the fact is that not one of us really had the feeling that we lost this Cold War. Everyone thought that we were also the winners, because the whole world was the winner. We got reassurances—at least, that was how Mr Gorbachev translated them to us, or others, such as Minister Kozyrev, translated them—that there would be no further expansion of NATO: that NATO was something from the past, that there would be new mechanisms, that there
would be inseparable security for everyone, including Russia, and that this mechanism would be created and so on and so forth. Everyone was very optimistic.

But then it turned out—and now this is very clearly felt—that the main starting point of the new antagonism was that one nation was the loser in the Cold War, and as a loser it has to bear certain consequences of this defeat. This opinion is not popular in Russia; I am not even speaking about the leadership of Russia, but about common Russians. We are now, more or less, the same as you are. If you visit Russia, you will see that we are normal people. Of course, we have certain peculiarities in our democracy, but no one will compare the Russia of today with the Soviet Union of the past.

Lord Foulkes of Cumnock: I agree with that.

Dmitry Polyanskiy: There are economic freedoms in Russia. We are ready to engage in this co-operation, but we are now on the brink of a confrontation comparable with the Cold War, and we are also asking, “Why is this so?”. Nothing has changed for us. We are different, so how can the same approach be taken 20 years ago and now to us common Russians living in this country?

Lord Foulkes of Cumnock: I am not sure that you are right in assuming that there has been this attitude—that we are the winners and you are the losers. I remember the Soviet Union very well; I visited different parts of it on a number of occasions. I have also been back, since it is now Russia, and I can see the differences, and I am very encouraged by many of the differences, but I just wonder if there is an attitude there that there has to be a loser and a winner. We can both be winners, and we both should be winners. That is the whole idea of how we see it, but do you think that Mr Putin sees it that way, or is he somehow concerned that the Russian people will blame him if he does not, figuratively as well as literally, flex his muscles?

Dmitry Polyanskiy: Mr Putin is our President. He is an elected President. He enjoys big support in Russia, but these are not merely figures; you can see in Moscow and in other places that he is very popular. He is very popular also because he preserves Russian dignity. It is not that Russia wants to dictate its will to the whole world, but Russians want to be respected. We have our own interests. We think that there can be a partnership of interests between us and the West. That is why President Putin put forward quite a lot of initiatives that are now on the shelf that could have helped to solve this situation. You will remember the treaty on European security, for example. It was put forward by Medvedev, but we all worked on this. You will remember a lot of initiatives on how to use the OSCE format, for example. But in any case they were rejected, and Russia felt a bit cornered and in a situation where it had to somehow defend itself, not physically but to give arguments for why it was doing this or that thing.

Lord Foulkes of Cumnock: Who do you think are the antagonists, or the agitators, in the West? I do not like the phrase “the West”, so who in the European Union and America? Who do you think are the main problems as far as recognition of the position of Russia is concerned?

Dmitry Polyanskiy: My personal perception—and there are a lot of people who share my position—is that the role of the United States is quite clear and quite negative in the whole situation now about Russia. The United States’ role in Ukraine, for example, is quite clear for us. We had very many situations where we got the clear impression that the EU was acting
because the United States had a strong urge for the bloc to act like this. We do not know why. Maybe it is because we do not have such big trade and economic interests with the United States as we do with the European Union.

**Lord Foulkes of Cumnock:** What do you think of the German role specifically?

**Dmitry Polyanskiy:** You know that Germany is one of our most important partners in Europe, or in the world. We have very big interconnections in business. We feel that Germany is now a bit frustrated because of what is happening, but we all hope that common sense will prevail and that our German friends will play the role that they usually played in the European Union and elsewhere, when they understood our positions and how to present our positions and our arguments. What is very disappointing is that we are now losing the channels for dialogue with Germany. The Petersburg Dialogue is now at risk, and when we need to solve problems we need to speak. When you do not speak, of course, you do not solve problems.

**Lord Foulkes of Cumnock:** There are a lot of mutual problems that you have and we have: Islamic terrorism and how to deal with Iran, for example. We should be working together on those. If the channels are not there, what channels, or what mechanisms, would you suggest?

**Dmitry Polyanskiy:** My opinion is that a lot of principles of international behaviour that were somehow formed during these 10 or 15 years could have been revised to make these things possible. We absolutely share your position that we have a lot of challenges in front of us to tackle, and these challenges are far more important in comparison to what is happening right now. We are now losing channels and roads to dialogue to deal with these important problems. That is why we think that a certain rethinking of what is happening right now, a certain brainstorming about why we are in such a situation, is necessary, and the sooner we do so the better but, of course, without any preconditions. Some sort of reset of what we are having right now, including the situation with NATO and the situation with European security, would be helpful, and I think it is inevitable at some point.

**The Chairman:** What do you see as the United Kingdom’s role in this?

**Dmitry Polyanskiy:** Our countries have been linked with each other during history. It is very difficult to cast a shade on our relations with the UK or with other countries because of what has happened over only 10 or five years. The Chinese, for example, think in centuries. For them, 10 years is nothing, and they need to look forwards and anticipate problems. We know that the United Kingdom is a very influential member of the European family—and of the western family, if I may put it this way. We see that a lot of people understand, and try to make their own impression of, what we are doing. That is very encouraging. We think that the United Kingdom can be one of the locomotives of such change, and of course any scheme for a way out of what we have right now would need the United Kingdom, that is for sure. My colleagues from the embassy will also confirm that we are in favour of very good relations with your country, and we have a lot of mechanisms and means to ensure this.

**Q249 Baroness Henig:** What was just said rather leads to my question, so maybe I will put it in next, because I am very interested in everything you have had to say. My question concerns the future, which is, in a way, what you are talking about as well. You have told us why the Russian Federation was critical of the Eastern Partnership, but you also referred to the new Commission team in Europe, and I think you said that you hoped that might bring
some change in approach. Now, we know that the EU is going to undertake a review of the Eastern Neighbourhood Policy, including the Eastern Partnership. In your view, what do you think the review should consider, and what could be the possible principles of a revised EU Neighbourhood Policy that could serve to bring the sides together rather than perpetuate the problems?

Dmitry Polyanskiy: Thank you for this question. I already mentioned that the EU needs to understand that there can be other countries in Europe that do not try to be, or feel like being, in the orbit of the European Union—that do not put in front of themselves the target of becoming a member of the European Union. This situation is not a danger for the EU. That is a basic assumption from which our European friends can proceed when revising the Neighbourhood Policy. It is not the expansion of the bloc. I do not think that the only way forward for EU-Ukraine relations in the long term should be membership of Ukraine in the European Union, or membership of Turkey in the European Union. There can always be a formula for the interests of all parties to be respected without becoming a member of the European Union. That is my perception.

As for the Eastern Partnership, we know that there will be a summit in Riga next year, where the EU seems to be preparing a revision of this programme, but my humble opinion is that it would be very difficult to proceed with the Eastern Partnership as it is right now. There are three countries that signed Association Agreements, or were, since the very beginning, preparing to do so: Ukraine, Moldova and Georgia. You all know the situation of Armenia. Armenia hesitated for a long time, because it also wanted to preserve the best possible relations with the customs union, and then it decided to join the customs union, but it could not find in the draft Association Agreement provisions that would allow it to act so. That is why it had to reject it. It means that the whole concept of the Eastern Partnership, in my opinion, was a bit erroneous, and maybe the EU should think of something new—some idea that would be closer to the frank and mutually beneficial dialogue between the two unions, a so-called integration of integrations. We would be very helpful here, and very eager to make our contribution to such a dialogue, but of course it requires a certain boldness on the part of the EU, and I do not know whether it is possible to do so in such a short period of time.

Q250 The Earl of Sandwich: Mr Polyanskiy, you are obviously a very patient negotiator. You have been at it for 10 years with the EU. I hope it is not going to be 10 more years, because we need a breakthrough at a high level. Some of us have just been in Berlin, and we are very impressed by the commitment of Chancellor Merkel. Now, is it going to be settled over the question of territorial agreements in Ukraine? That is what I am increasingly thinking. There is no trade content in the big breakthrough, and we have to have a breakthrough. Do you see that being at a European Council level, or just between Heads of State? Chancellor Merkel and Mr Putin are trying that, but they seem to have failed so far. Or is it going to be at a higher, UN level? How do you think it is going to be resolved?

Dmitry Polyanskiy: Only through dialogue, that is for sure—dialogue between all the parties that want to make a contribution. Every input is very valued. I would not limit it to discussions between my President and Chancellor Merkel, for example. There can be discussions with the UK, with Italy and France, so why not with Poland and other countries? We need to find a long-term solution. It is not only finding a way out of the Ukrainian crisis. The way out of the Ukrainian crisis is rather in the hands of the Ukrainians. You may
Dmitry Polyanskiy—Oral evidence (QQ 240-252)

disagree with me, but none of the keys is in Moscow or in Brussels. Some of them are in Washington, and most of them are in Kiev. If Ukrainians want to solve the situation in their country, they have all the possibilities and means to do so. That is my opinion.

Q251 Lord Trimble: When do you think Russia will withdraw its troops that have invaded Ukraine?

Dmitry Polyanskiy: What troops? Do you mean in East Ukraine, or in Crimea?

Lord Trimble: You have acknowledged that there are Russian troops inside Ukraine as we speak.

Dmitry Polyanskiy: There are Russian troops in Crimea, of course, and they were there even before the situation with the peninsula. As for the troops in the east of Ukraine, frankly speaking I have never heard about this. NATO generals sometimes show us certain very vague maps that turn out to be part of some computer games, or something with very low resolution, but personally I never came across real proof that there are Russian troops. I do not expect you to agree with me in this regard. I know that you have a different position.

Lord Trimble: It is not a question of position. It is a matter of the truth, and it is a pity that you cannot speak it.

Q252 Lord Maclennan of Rogart: You have talked about the need for dialogue. Not all 28 members of the European Union have identical views, and in particular, considering the issues of partnership, that may be especially so. What forum do you think might be set up in order to have a continuing understanding of each other? The trade directorate of the European Union may not altogether work closely with the political sections, but we do need to have a continuing and directed dialogue so that we can all understand each other, and so we do not have calamities such as we have had in Ukraine in respect of other countries. What sort of forum would you like?

Dmitry Polyanskiy: Well, we need to find out a certain format for dialogue between the two unions, that is for sure. It does not mean that there will be no Russia-EU relations. Of course there will be, but as I told you there are certain limits to our interactions with the EU in our national capacity in certain spheres that have been transferred to supranational competence. There are now quite good mechanisms that should be revised, or somehow better used, maybe. I do not think that we have totally explored the potential of the OSCE, for example. It is a very good discussion club, and provided there are no preconditions and no set positions based on erroneous data, which unfortunately happens very often, this organisation could serve a role.

I would also say that we should base it very much on the Security Council. The Security Council remains the pillar in our understanding of world stability and prosperity. We have very strong diplomats in New York. We are ready, absolutely, to engage in negotiations and discussions, formal and informal, on all these topics. The history of diplomacy knows quite a lot of examples of international conferences, for example, that somehow help to reset international relations and solve problems.

Lord Maclennan of Rogart: I was speaking about a continuing forum.

The Chairman: We have been going for nearly an hour and a half. If you could just answer quite briefly, then we will terminate.
Dmitry Polyanskiy: One of the solutions is the OSCE. There should be discussions within this organisation, but of course we can think of some special format. It will not emerge tomorrow. It is very difficult to say that we want this or that format, because it should be the result of negotiations from different positions. The main thing is that all the parties need to not have preconditions, and they should respect each other. They should really want to find a solution and not blame this or that party for some things that are questionable, doubtful or not proven.

The Chairman: Mr Polyanskiy, thank you very much. We have kept you a long time, and we have, I think, a clear understanding of your point of view. Thank you very much indeed.

Dmitry Polyanskiy: The pleasure was mine. Thank you.
Dr Alastair Rabagliati, Alexander Graf Lambsdorff and Peter Sondergaard—Oral evidence (QQ 123-133)

Transcript to be found under Alexander Graf Lambsdorff
Shona Riach, Tracy McDermott and Vladimir Kara-Murza—Oral evidence (QQ 87-109)

Transcript to be found under Tracy McDermott
TUESDAY 28 OCTOBER 2014

Members present

Lord Tugendhat (Chairman)
Baroness Billingham
Lord Lamont of Lerwick
Lord Maclellan of Rogart

Examination of Witness

Mr Pedro Serrano, Adviser on External Affairs, Cabinet of the President of the European Council

Q165 The Chairman: Mr Serrano, thank you very much for coming. I am afraid that we are going to have to cut the meeting a bit short. We must make sure that we get to the station in time to catch our train. We will not go through too long a list of questions. To start with a very general one, we are going to have a new Commission and President of the Council. We have a new Parliament. Do you anticipate any significant changes in emphasis as a result of the change of personnel?

Mr Pedro Serrano: You mean in general in EU policy?

The Chairman: Towards Russia. I am so sorry, I should have made that clear.

Mr Pedro Serrano: The European Union has a very clear position towards Russia and very clear interests: ensuring that Russia helps in solving the crisis that we are having in Ukraine, so I do not foresee any changes there. It is a very well established policy that has been agreed at the highest level, at the European Council. I believe that this policy will be pushed forward and maintained without hesitation.

The Chairman: We saw the Russian ambassador to the EU earlier today, and he was at pains to suggest that the recent speech by Mr Putin was an invitation to dialogue. It is open to other interpretations. What would be your interpretation?
**Mr Pedro Serrano**: I think everyone would agree that dialogue is the only way forward. That is the agenda that the European Union has been putting on the table from the outset. The only way in which we are going to sort out the crisis in Ukraine, and the only choice in our relations with Russia, is dialogue and co-operation. Unfortunately, what we have witnessed in the last months has not been dialogue and co-operation but unilateral actions that have led Ukraine deeply into a crisis, that has led to the violation of its territorial integrity with the annexation of Crimea, and to major disturbances and conflict in eastern Ukraine.

**The Chairman**: You did not feel that President Putin’s speech marked the beginning of a change, as the ambassador indicated?

**Mr Pedro Serrano**: There have been many words that those who follow international relations want to be taken as an indication in one direction or another. I have also read interpretations of this speech that would match what the Russian ambassador has said. It is good that the Russian ambassador portrays it in this sense. I think whatever willingness on President Putin’s side to advance through the path of dialogue and co-operation and to renounce the path of conflict would be welcomed on the European side. That is what we want; we want to ensure that the aggression stops in eastern Ukraine, that Ukrainian law is respected in eastern Ukraine, and that a political process is launched in eastern Ukraine that will allow the country to heal from its wounds and to start moving into normalcy. That is what everybody wants, but obviously we need not only Russian words but concrete action to ensure that its border with Ukraine is not used to transfer arms and fighters into Ukraine, and that the ceasefire is respected. Russia is a key player in ensuring that this happens.

**Q166 Baroness Billingham**: Why do you think Russia was emboldened and changed tack, and has taken on a much more aggressive stance? What has changed outside Russia, within the EU, outside the EU and within the USA that makes Russia confident that it can take the stance it is taking and say, “What are you going to do about it?”

**Mr Pedro Serrano**: I think the general understanding is that none of this was carefully planned in advance.

**Baroness Billingham**: By whom?

**Mr Pedro Serrano**: By the Russians.

**Baroness Billingham**: Okay. I just wanted to be clear. I do not think that we were very clear, either.

**Mr Pedro Serrano**: The summit that the Presidents had with Russia in June 2013 was totally normal. No one was talking about DCFTAs, and they were talking even less about Ukraine. This was not discussed. Everything else was discussed at that summit—all the elements of our bilateral relationship—but this question was not dealt with. The first inklings we had of trouble were when both Presidents met President Yanukovych in September in New York. He started indicating that it would be difficult for him to sign the DCFTA.

**Lord Lamont of Lerwick**: He was meeting with whom?

**Mr Pedro Serrano**: With President Barroso and President Van Rompuy.

**Lord Lamont of Lerwick**: When you said “both Presidents”, I was not sure who you meant.

**Mr Pedro Serrano**: There he was suggesting trilateral meetings with Russia in order to clarify the consequences of DCFTA. All this led to President Yanukovych’s statement ahead of the
Vilnius summit that he would not be in a position to sign the DCFTA on that occasion. Then there was real upheaval in Ukraine. No one foresaw this. I do not think that Yanukovych foresaw it, I do not think that the European Union foresaw it, and I do not think that Russia foresaw it. Things evolved with a degree—

Lord Lamont of Lerwick: You do not think Russia foresaw it. Surely Yanukovych was doing it because of Russian objections and spelling out of the implications.

Mr Pedro Serrano: Maybe some in their wisdom foresaw everything, but my feeling is that no-one expected such a popular reaction among the Ukrainian population to the non-signature. This was not foreseen by Russia. Then there were ups and downs in this mobilisation, and one of these also led to President Putin offering a very advantageous gas deal to Ukraine, towards the end of November or early December. This, again, could have led in a different direction. If the popular mobilisation had calmed down at that point, we would not be where we are. Did this happen because there are forces over which no one has sufficient control and that move and lead to these kinds of developments or not? Was it intended? My personal feeling is that it was not intended. It happened, and then you obviously had reactions from the different players which, at the end, led things in one direction or another. But in the latter part of 2013 I do not think anyone was thinking that this was going to evolve as it finally did. Of course, one could speculate, but I do not think that things were clear at all.

The Chairman: When you say that about the reaction of the Ukrainian crowd, it is an issue that we have not heard about from other people we have spoken to. Do you think it was entirely spontaneous, or was there an element of organisation about it? If so, what was the purpose of that?

Mr Pedro Serrano: I have no knowledge, nor have I seen any information that would allow me to say that this has been promoted.

The Chairman: One of the things that I find surprising about almost every aspect of this is that, in relation to both Russia and Ukraine, the western capitals seem to have been so much taken by surprise. We the British and the French and Germans, and I am sure the Spanish, have huge embassies in Moscow. The European Union has its own experts in Moscow. There were embassies in Ukraine. It is astonishing that the things that happened in Ukraine and Russia seem to have taken people so much by surprise when we had embassies, missions and all the rest of it there.

Mr Pedro Serrano: I agree with you, but this would not be first or the last time that such things have happened. Everybody was surprised by the Arab spring as well. There was another summit with President Putin in January 2014, which was a very good summit. There was a frank discussion between Presidents Putin, Barroso and Van Rompuy. Nothing at that point would have allowed us to think that we would find ourselves three months later with the annexation of Crimea. You are right: things moved and developed in a way that no one foresaw. That is unfortunately the reality—or maybe fortunately because if people had foreseen this, it would mean that someone had maybe intended to move in that direction, which I think was not the case.

Q167 The Chairman: Given that there are so many links between Russia and Ukraine—I mean personal links, many of which are difficult for us to follow—would you expect, since
we had the elections in Ukraine, President Poroshenko to deal with President Putin behind the scenes and without us knowing what is going on?

Mr Pedro Serrano: It is very normal for Presidents Putin and Poroshenko to have an active dialogue, and this would be part of the solution. Obviously we are supporting the national sovereignty and territorial integrity of Ukraine. Therefore, we expect to work in a very open and transparent manner with President Poroshenko.

Q168  [Unallocated]

Q169  [Unallocated]

The sitting continued in private.
Members present

Lord Tugendhat (Chairman)
Baroness Billingham
Baroness Coussins
Baroness Henig
Lord Jopling
Lord Lamont of Lerwick
Earl of Sandwich
Lord Trimble
Baroness Young of Hornsey

Examination of Witness

Dr Lilia Shevtsova, Senior Associate, Russian Domestic Politics and Political Institutions Program, Moscow Center, Carnegie Endowment for International Peace

Q1 The Chairman: Thank you very much. The picture is clear and your voice is clear. This is a formal meeting of the Select Committee. It is one of the first meetings we have in our inquiry into EU-Russia relations. It is therefore on the record. It is very appropriate that at our first evidence session we should be in touch with Moscow, even if down the line rather than in a physical presence. I will ask the first question and my colleagues will have a number of others. Do let us know if anything is unclear.

My first question is very general. How would you characterise EU-Russia relations prior to the crisis in Ukraine? Where were there shared areas of co-operation between the EU and Russia?

Dr Lilia Shevtsova: Mr Chairman, ladies and gentlemen. It is a great privilege and a great honour to take part in this inquiry. Regarding your question, it is such a complicated picture. In order to define the relationship between the EU and Russia before the Ukrainian crisis I
would use the metaphor: this relationship before November 2013 looked like the dating of two actors who were mutually interested in each other and who had a lot of shared economic and international interests, but at the same time had different norms, principles and understandings of the policy. By the end of last year, they felt more mutual frustration, disappointment and even disgust regarding each other. This relationship had a kind of paradoxical twist about it because Europe definitely is the key partner for Russia in the economic area. Eight European countries account for more than 70% of foreign investment in Russia. On the other hand, Russia gives Europe around one-third or 25% of its gas needs. In any case, Russia needs Europe but, at the same time, Russia behaves and looks like a much more proactive neighbour forcing the EU to be complacent and acquiesce to Russia’s policy. Russia has proved tremendously successful and very able and deft in dividing Europe, in finding the Trojan horses within Europe and in pursuing bilateral relationship with European states. Do you need me to specify the exact areas of co-operation between Russia and the EU during this period?

The Chairman: We will let that come out.

Q2 Lord Jopling: Can you tell us how Russia has reacted to the signing of the Association Agreement between the European Union and Ukraine? What do you think its views are with regard to similar arrangements with Georgia and Moldova? How do you think this will develop? What will be the reaction from the Kremlin?

Dr Lilia Shevtsova: Thank you for the question. Let me divide Russia into at least two parts: there is official Russia, the Kremlin position, which is currently supported by the Communist Party and forces on the left. This position is also very energetically supported by Russian nationalists and imperialists. On the other side are liberals who are a tiny minority. I belong to the liberal experts and liberal politicians. There are different views of Russia’s reaction, but Russia’s official reaction to the Association Agreements between Brussels and Ukraine, Moldova and Georgia has been negative from the very beginning. In 2013, official Russia, the Kremlin, started several wars, including the August trade war with Ukraine, trying to force the former President Yanukovych to reject the Association Agreement with Brussels. Two years ago, before the country started to actively be engaged on the road to association, the Kremlin declared the formation of the so-called Customs union and then the Eurasian Union as an alternative to the European Union to counterbalance the European Union. Moscow anticipated that Ukraine and other newly independent states would join the Customs union. So it was a declaration of war and a declaration that Moscow is ready to fight for Ukraine and other states to keep them in the grey zone, or rather, in the zone of the interests of Russia. Such specific details are, for instance, Putin offering a $15 billion loan to Yanukovych before the November Vilnius summit where Yanukovych had to sign the Association Agreement. The loan was a kind of carrot that Russia was giving to Ukraine to seduce it and keep it within Russia’s limits. Russia gave $3 billion out of Putin’s pocket in one day to Ukraine to keep it from signing an agreement. Today, of course, it is much more difficult after Ukraine signed an Association Agreement in June in Brussels. It is much more difficult for Russia to keep this grab of Ukraine and other states. So different tactics will be used, not only punitive sanctions. For instance, there is the embargo on Moldovan wine, Ukrainian chocolate, milk and dairy products and wine and water from Georgia. There are other measures that will be used, some of them much more conciliatory, and much more flexible, among them tactics to co-opt or bribe part of the Ukrainian elite and to co-opt and
penetrate the Ukrainian political forces. The fact that Ukraine has signed the Association Agreement does not mean that the Kremlin is ready to let it go.

**Q3 Lord Lamont of Lerwick:** I fear that my question overlaps a little with what has just been said, but I will put it and then if you have left anything out you can come back. How does Russia view EU actions in what is called the shared neighbourhood? I sometimes think we forget that it is shared. What are Russia’s anxieties regarding EU action? What are Russian strategic goals in the European neighbourhood?

**Dr Lilia Shevtsova:** I will respond in a couple of brush strokes. At the beginning, the attitude, even Putin’s attitude in 2001 and 2002, towards Europe and European activity was rather promising. It was a warm season in the relationships between Moscow and Brussels and Moscow and European countries. There were quite a few steps that the European Union took in order to facilitate turning Russia into a market economy, getting most-favoured status, entering the WTO and resolving the crisis over the Kaliningrad region, which is surrounded by different EU states. There were quite a few promising steps. It was after 2003 and 2004—maybe after and Putin’s backlash in Munich in 2007 where he accused the West, the United States and Europe of confronting Russia and holding back Russia—that the problems started. A lot of mutual dissatisfaction emerged between the European Union and Moscow.

What the official Kremlin—but not my minority, the liberal minority—fears regarding EU activity is that the newly independent states that now constitute a buffer zone between Russia and Europe (these states include Belorussia, Ukraine and Moldova) will move toward Europe. There are other states that do not have a common border with Europe which the Kremlin does not want to have a pro-European vector. The Kremlin does not want them to move towards Europe with the possibility of becoming the EU members and letting NATO forces enter their territory. The Kremlin does not want these countries to become what, for instance, Poland became for Ukraine: a kind of icon and point of attraction, the embodiment of economic success and of a rule-of-law state. The Kremlin does not want this.

Moreover, I want to mention one very important thing. Despite all the evidence that Putin continues to be the same leader who has been running Russia for more than 15 years, he has changed the political regime. Before 2013, the Russian political regime was based on one premise: “we are with Europe”. Even if Russia imitated the values, “we are with Europe”. This was the premise: we are moving towards Europe, we want to be in Europe. So foreign policy was based on the assumption that Russia was in Europe and was integrating into Europe. Today, Putin’s doctrine of survival is based on a different principle, a different premise: “we are not Europe. We do not want to be in Europe. Russia will be containing demoralised Euro-Atlantic nations whenever and wherever it can, inside Russia and outside Russia”. The intent is not a land grab. It is not about a land grab, it is not about old imperialism; it is about crushing the idea of Maidan in Russia, Ukraine and all other newly independent states. This is how the Russian system is working today. To control Ukraine and other newly independent states is the problem of survival for the Russian system. I am not sure that Putin is the primary instrument of policy. Putin is—I am thinking about the metaphor—in a bobsled mood. He cannot jump out of the trajectory of the Russian system.

**The Chairman:** Thank you. I have a supplementary. You describe very well the changes taking place. Do you regard this as a change directly related to Putin or is it a change to which the Russians in general and the Russian elite would also subscribe? Is Putin here
representative of the country? If he goes, would Russia continue in this respect on the same lines?

_Dr Lilia Shevtsova_: I would say yes to both options. On the one hand, Vladimir Putin, the Russian national leader, enjoys 83% to 85% approval ratings. He is the personalisation, the embodiment, of Russian power, of the Russian system, of the Russian matrix. On the other hand, he has the support of different elite groups,—not only the warmongers, the military-industrial complex, but technocrats, liberals, et cetera, people and groups who are afraid of this society, who are afraid that Russians will take to the street and create a kind of Maidan in Moscow. So there is a huge basis for Putin’s regime, his personalised power and his doctrine of making Russia tough, arrogant and aggressive, a superpower that will be bullying smaller nations. So there is the elite support.

There is support among society, too, because up to approximately 30% of the population have populist, paternalistic feelings, are dependant on the state, wish the leader to be the “State” and are still hoping that Putin will bring them well-being, normality, stability et cetera. This type of power, this type of policy, has popular support, but at the same time the question is: how numerous are people like myself? We are a tiny minority. Approximately 15% to 17% of the Russian population are in favour of Russia becoming a rule-of-law state and part of Europe, and approximately 30% of the population would say that they would support this way, this option, if it were offered to them. We are in a minority, but our minority has a very strong position in big Russian cities such as Moscow and in cities with more than 1 million people. There are more than 17 million of us, but the problem is that at the moment we have a very fragmented composition and we have been defeated.

Q4 _Baroness Billingham_: How do you assess the EU’s policies, the eastern partnership and the Association Agreements in the light of recent events? Should the EU approach in the neighbourhood or, in particular, the strategic and sensitive neighbourhood, be reconsidered?

_Dr Lilia Shevtsova_: I have to admit that this is a very complicated and difficult question for me because I have to give you my view of how the EU should behave, and it will appear arrogant for me to give any kind of evaluation of the EU. Let me answer you in the following way. We, the Russian liberal, democratic minority would anticipate help from the EU in our efforts to make Russia a rule-of-law state. Until recently, especially during the Ukrainian crisis and now as the crisis continues, we do not see a viable, coherent foreign policy agenda from Brussels. We do not see signs that Brussels has some kind of strategy that would make the European neighbourhood effective. The fact that Brussels adopted the strategy of the Eastern Partnership is proof that the European Neighbourhood policy was apparently not very successful. It is shattered today. There are bits and elements of the Neighbourhood policy—the ENP, as we call it—left, but it is hardly a vision or package of coherent policy instruments.

Regarding the Eastern Partnership, regretfully I must say that even recipients of this policy in Ukraine, Georgia, Moldova, Belorussia and Azerbaijan are sometimes in doubt and have controversial views about it. Why? First, can you imagine Belorussia, Ukraine and Azerbaijan? They are different countries. Meanwhile, we have the EU’s Eastern Partnership concept which is nearly the same for Belorussia, Azerbaijan and Ukraine. Meanwhile they have different agendas. The countries are different in their type of rule and their readiness to accept European norms. As far as I know, the concept for Ukraine is the model for
Dr Lilia Shevtsova—Oral evidence (QQ 1-8)

Georgia, too, but Georgia is much readier for economic liberalisation than Ukraine, for instance. Different countries have been lumped in one basket whereas if I were a bureaucrat in the EU I would discuss a separate pattern for each country. Perhaps it was too difficult a task. I do not see much transparency while the Eastern Partnership model is being discussed, formulated and implemented. I do not see that there are independent voices that could have been useful in discussing it.

Moreover, you reminded me of the statement by the Estonian President Toomas Ilves. When he was asked what was the most useful recipe from Estonia’s path to Europe, he said that without the prospect from Brussels that Estonia would become a EU member at some point in the future, they would have never crossed the “Valley of tears”. In this situation the Eastern Partnership, and all these recipes for independence that are offered without any kind of hope. It is a very difficult process of transformation that gives no hope that at some point Ukraine will be with Europe or in some kindergarten of Europe. Of course, it constrains the efforts and energy of Europeans.

Firstly, what I would anticipate from Europe first of all—I am already switching the roles, for which I apologise—would be efforts to sort out the European crisis of identity and the European crisis of the model of integration. I would dream about a situation in which Europe will again become an icon for us, a model to pursue efforts to be like you. In fact, in Russia and some other states the European model has stopped being a pole of attraction. So, “Practise what you preach”- is my major slogan now.

Secondly, it is not just the economic instruments that are very important because everybody discusses the issue of energy diversification in Europe. It is clear that you have to diversify the energy. I, like the Russian citizen, would endorse this idea and strongly applaud the idea of diversification, which would be a blow to the Russian Gazprom. Why? Not because I am not a patriot but because I believe that in the situation where we inside Russia cannot demolish the petrostate, where Gazprom is ruling the country, having the President as its representative, I would hope that the external shock and impact, could help us to transform the Russian petrostate. So we need energy diversification and liberalisation.

Of course, we also need visa liberalisation, in order to allow Russians—not only members of the Russian political class—to travel freely to Europe. But it is not only visa liberalisation. When I see former Chancellor Gerhard Schroeder, who is one of the best paid Russian apparatchiks in Gazprom, I would say that all sanctions on the part of Europe regarding Russia, all attempts to preach values to us, will be now hardly be effective if you, the European Community, still have this laundry machine, this lobbyist machine that includes the highest former representatives of your political elite lobbying for the Kremlin interests.

So there are at least a few touches—brush strokes—of what we could expect, but most of all, of course, we should like to have an understanding of what the EU is: what the EU strategy regarding Russia and Eurasia is; whether you are able to have coherent policies or whether Russia can influence you through the policy of “divide and rule” and form “Trojan horses” such as Austria. Look: the EU is preparing a list of sanctions against some tiny individuals in Russia; on the other hand, Austria and Serbia are striking a deal with Gazprom regarding the South Stream pipeline. So we simply do not know where the EU stands.

Sorry for this very emotional statement, but I want you to know what we in Russia feel. Strangely enough, despite the differences between liberals and other political forces, everybody is disenchanted with the EU at the moment.
The Chairman: Thank you. I think Baroness Coussins’s question has been largely answered.

Q5 Baroness Coussins: It partly follows on from what you were saying. You mentioned Gazprom. I wanted to ask you about our trade relationships and the economy more generally. How should the EU structure its economic and trade relationships with Russia and other countries in the neighbourhood? I was going to ask what the nature of the EU’s engagement with the Eurasian Economic Union should be. You have already said that you are looking for more clarity from the EU about its aims and objectives, but perhaps you could say a bit more about whether you think the two models are in competition or are potentially compatible?

Dr Lilia Shevtsova: I will start with the final part of your question, regarding the EU and the Eurasian Union. I do not want to elaborate too broadly on that. There is one truth and axiom about the EU and the Eurasian Union. The Eurasian Union and its basis, the Eurasian Customs Union, formed by Russia with the participation of Byelorussiya and Kazakhstan, is an alternative to the European Union. It is viewed by the Kremlin as an alternative—an antithesis—to the European Union. The Eurasian Union and the Customs Union are about the status quo—of autocracies, of economics based on fusion, on marriage, between power and property, power and economy. It is a totally different mechanism and model from the European Union. The Eurasian Union and the Customs Union are about the preservation and reproduction of authoritarian regimes and economies under state control in member countries.

I do not see any grounds for compatibility between the Eurasian Union and the European Union. I am reading a lot of articles, essays and statements, especially comment from Brussels, that make me—well, I start to shrug my shoulders at what I see and hear. I hear statements from the important European bureaucrats about the need to discuss how to bridge the European Union and the Eurasian Union. I am at a loss because even if you put aside the issue of the different standards, different models and different goals of each union, there is one technical thing, which is very important. The Eurasian Union and the Customs Union are unions of members, among which Byelorussiya and Kazakhstan are not WTO members, so they do not follow WTO rules. This means that we cannot put into one basket the EU, which follows WTO rules, and non-WTO members. It is simply impossible. All rhetoric about their compatibility is mystification and a bogus argument.

Regarding the economic structure of the relationship, there are positive and negative things. The positive is the fact that Russia and European nations, despite of the fact that we follow different standards and have different views—regretfully—still have some shared economic and international interests. So both actors have a shared interest in trade. Trade is huge. I am very bad with numbers but here I have a number anyway: 60% of Russian trade goes to Europe. It is huge. The European market is the only possible huge market for Russian goods.

At the same time, we have a very particular, weird situation where Russia is a much weaker partner or actor than the European Union but allows itself to be recklessly arrogant and in breach of WTO standards. Russia still behaves as it pleases. For example, it installs higher tariffs than are allowed by WTO rules. Russia could include, for instance, a ban on livestock et cetera and EU countries timidly just watch this breach of the rules, trying not to anger or irritate the Kremlin. There are a lot of problems within the trade area as a whole, not just in terms of energy. Apparently, in order to structure effective economic co-operation, especially trade co-operation, for both sides there should be some means for the EU and
WTO to force Russian traders to follow WTO rules. Forget about the exceptional status of Russia when Russia trades with Europe. That would be useful not only for Europe but for Russia and Russian markets. It would teach Russian entrepreneurs and Russian state companies to follow the rules. Regretfully, the EU allows Russia to play the ball as it wishes.

The Chairman: Thank you. I think, Baroness Henig, that a lot of the ground you were going to cover has been covered but you might wish to pursue this.

Q6 Baroness Henig: I want to switch more explicitly to foreign policy thinking in the Kremlin. What is your assessment of the goals and driving forces of Putin’s foreign policy? To what extent do you think it is driven by domestic considerations and to what extent by strategic and economic objectives? As for Putin’s objectives in Europe, you mentioned the ambition to divide and rule but are there other issues that are equally important?

Dr Lilia Shevtsova: This is my favourite topic but I am not so sure that I can give a clear answer to your questions, especially regarding the implication of Russian foreign policy. I definitely support part of your question strongly. Foreign policy in Russia is, and has been for a long time but now very strongly, the servant of a domestic agenda—point blank. That is why all these Western attempts to make a “de-linkage” do not work. For instance, during the reset, Obama has been trying to base US policy on the principle of the de-linkage which is, “Let us sort out international issues with Russia, while forgetting about its domestic developments”. It is not only the United States. A lot of other western European countries followed the de-linkage principle, and they have been shocked and baffled at what happened during the last six months. Yes to your question: foreign policy is the servant, instrument and means of a domestic agenda. What is the Kremlin domestic agenda? To survive through to 2018—that will be the election year when the current presidential term is over—and indefinetely, and keep stability and status in Russia. It is their interest, paradoxically, when we talk about the domestic situation in Russia, to keep the status quo of the country. Putin and the elite do not want any kind of change. They forgot the words “modernisation” and “reform”. They do not need them. They do not want any change or opening of the window which could create some disturbance, ruin the balance of powers or open the door to some unwanted feelings on the part of society. It could bring the mighty down, for God’s sake. That is why they need a stable system and regime. What about the outside? Here is our paradox. This is the status quo of a country that has become revisionist when it looks outside. In order to keep the boiling kettle closed, foreign policy has become the most dominant actor. The Kremlin is playing across the global spectrum in terms of Soviet space, in Europe, across the globe, for instance, in Venezuela, and with international authoritarians such as China. It has played pretty successfully for a weak country with weak resources, for a country in decay. We have to think, regretfully for me as a liberal, that the Russian system is in decay. It is an obsolete, outdated, outmoded and ossified system based on subjugation of the individual in society to the leader and elite. This system, however, has a huge field for manoeuvre. It can manoeuvre, first, using the energy stick and embargo which it will use this winter. I hope the UK has its own resources but other countries could be threatened. Secondly, the regime and system can use the co-option and penetration mechanism. I mean penetration into European structures. Russia is a member of the Council of Europe and of the OSCE, which is turned into a kind of theatre by the Russian political delegation. It is co-opting business in Europe and outside, though mostly in Europe. It is co-opting media people, experts and former politicians. At some point, I have looked at the boards of key Russian state companies and saw major politicians on them, including Brits.
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That is a kind of legitimisation of their activities. Finally, Russia has invented—Putin’s Russia, not my Russia—an absolutely, fantastically deft, skilful and amazingly effective instrument. Guess what it is: the information war that is pretty successful with “Russia Today”. Every time I come to London and switch on the TV I see CNN first and then “Russia Today” pops out, bringing its own narrative of how Russia feels and whatever. Russia still has a huge field for manoeuvre, having built a powerful machine which works to pursue the Kremlin’s interests. This is the success of Russian foreign policy. I am sorry, maybe I forgot some element of your question.

Q7 Lord Trimble: Turning to look at the way in which Europe conducted diplomacy with Russia, do you think that the European Union’s institutional structures are adequate to facilitate a strategic dialogue? Is the European Union actually coherent in its approach? As you mentioned, are there ways that certain individual member states conduct their own bilateral relationships which somewhat undermines that coherence?

Dr Lilia Shevtsova: I have to admit that I am at a loss because I have to evaluate the European political and administrative structure. I do not know how to respond to your question. What we have seen so far is the possibility, along with pretty effective efforts on Russia’s part, of pursuing bilateral relations with two tiers of European states. The first tier includes Germany, of course, because Germany is number one. It also includes France and the United Kingdom. The second tier would be, say, the Mediterranean countries. The third tier is made up of the Trojan horses. The Trojan horses are the weaker states that can easily be subjugated and harassed. They include Hungary and Serbia. Just last week, Serbia signed a gas deal with Russia. Bulgaria was forced to sign a deal with Russia on the basis of non-European rules.

From my Russian perspective, I do not know how to restructure the European mechanisms in order to pursue a unity of effort and coherence in European policy. That is why, as I understand it, the best European minds are deliberating on how coherence and a common vision should be achieved. From my Russian perspective, I do not know how to solve this issue, but the result I see is that, regrettably, there may be a structural deficiency. Perhaps it is a bureaucratic deficiency. Maybe there is a reluctance on the part of the key players on the European scene to have a united policy. We are not seeing an effort to form a united policy and thus we are the victims of the EU not having a strategic vision and a united policy.

At the same time, I have to praise at least one part of the European structure—diplomacy. I understand that European diplomacy has to be an instrument of the EU, so when the EU has no strategy or coherent vision, diplomats and ambassadors here in Moscow have to fight for an understanding on how to proceed. So far, we have had the best and most brilliant representatives of European diplomacy here in Moscow. They are doing what they can within the circumstances of European paralysis.

Q8 Earl of Sandwich: Dr Shevtsova, you have touched on the next question, but perhaps I may reshape our query about the business model in Russia. We have already heard from you that it is very personalised and politicised. What advice can you give to us as a Committee about understanding the business model in Russia?

Dr Lilia Shevtsova: To put it in a very crude form, first, Russia is being ruled by the people who own Russia. Secondly, Russia has the typical characteristics of a huge petrostate. The rent-seeking elite controls the power resources that have been personalised by Putin and his
very tightly knit team, while at the same time each controls the economy through its monopoly. That is typical of a petrostate, but Russia is a unique one because it is a nuclear petrostate. Russia is a nuclear petrostate that is a member of the Council of Europe and of the UN Security Council. We must relate that to the business model—a kind of merger between power and property and between power and the economy. Of course there is strong monopolisation, along with the lack of competition and a lack of transparency. We do not know what is happening or who owns what. It brings raiders and rent-seeking together in an attempt to legitimise rent-seeking through joint ventures with the West. Regrettably, I was very naive 10 years ago because I was welcoming western businesses that came to operate in Russia. I thought: the more western businesses here, the better. When I looked at western businesses operating in Russia, I thought that they had to give Russian business—the Russian political elite—an example of how to pursue a framework for the rule of law, how to pursue the principle of transparency, how to pursue the demonopolisation process, and so on. But I could see the absolute opposite happening. I saw that western business was amazingly ready to accept the Russian rules of the game in which you have to rub political shoulders and massage political emissaries and rulers, the regional elite and the Kremlin elite. You are then left in peace—although not always.

Regrettably, western business has accepted the Russian model of doing business. An example of that would be, for instance, those trials involving Siemens from Germany and Daimler-Benz that we all remember. These companies admitted that they gave huge bribes to Russian officials in the Government and elsewhere. They were made to pay fines according to the American legal process. If those two companies were caught, can you imagine how other companies are operating? I want to remind the Committee of the pretty pathetic example of BP. Even “accepting” the Russian rules of the game as dictated by the Kremlin—they are the same in other authoritarian countries; I am not sure whether they might be different in China, but they might be—western business is still not safe. That is why BP lost its contracts for Sakhalin and Kovykta. But the fact is that BP came back, while ExxonMobil has already done so. It means that apparently they have political room so they can be sure that there is a kind of safety-net. But having a political safety-net does not mean that they are playing according to the western model of doing business.

**The Chairman:** Thank you. I think we are now getting close to the end. You said earlier that foreign policy in Russia is the servant of the domestic agenda. Do you agree that from the point of view of Russia, economic relations are the servant of strategic interests?

**Dr Lilia Shevtsova:** Yes, absolutely. Everything connected to Russia’s economy, even the non-military/industrial sectors such as oil—Gazprom—are strategic assets and strategic weapons. Commodity policy is one of the most important elements of Russian foreign policy. It means that Gazprom is much more important than the Ministry of Foreign Affairs or the Minister for Foreign Trade. We do not have a Minister for Foreign Trade, but we do still have a Minister of Foreign Affairs. It means that, on the one hand, I would not call on you to come to the conclusion to stop all economic relations with Russia and thus isolate her. Russia due to its policy would be an isolated, reckless state that is fearful and apprehensive of its future. Personalised rulership would definitely become much more threatening. At the same time, the West has, first, to build its foreign policy on the premise that after Putin declared his doctrine of containment of the West, Russia is not a partner and all conversation about partnership is more about acquiescence to the Kremlin’s wishes. Secondly, all economic, energy, cultural and information ties—to use the popular term, “public diplomacy”—are the
means by which the interests of the state are pursued, but not the interests of Russia. So my call to you would be to see the divergence. You must divide the state and the nation, and the state and society. But I understand that it is very difficult to formulate and build a relationship with a society that is currently in a state of what could probably be called paralysis.

**The Chairman:** Dr Shevtsova, you have been very eloquent indeed. You have given the Committee not just factual responses to the questions, but you have also managed to demonstrate the intellectual, cultural and emotional underpinning to what you have said. This has been a very successful evidence session and I can see my colleagues nodding in agreement. Thank you very much indeed.

**Dr Lilia Shevtsova:** Thank you. Perhaps I may add one brief comment. I am an associate of the Russia and Eurasia Programme at Chatham House. It is the best European think-tank and I am very proud to be a part of it. Thank you for your patience.
Transcript to be found under Neil Crompton
Peter Sondergaard, Dr Alastair Rabagliati and Alexander Graf Lambsdorff—Oral evidence (QQ 123-133)

Transcript to be found under Alexander Graf Lambsdorff
Transcript to be found under Dr Tom Casier
TheCityUK—Written evidence

Introduction

1. TheCityUK works to champion a globally competitive UK-based financial and related professional services industry, building evidence to demonstrate the sector’s contribution to society and sustainable economic growth. We bring together the highest levels of Government and the sector, domestically and internationally, to influence better policy decisions, open markets & create business opportunities for our members, their customers and clients.

2. A key objective of TheCityUK’s activities focus on Russia is to improve prospects for business in financial and related professional services industries in both countries. It involves understanding opportunities arising from and barriers related to the development of Moscow as a financial centre, as well as wider co-operation on UK-Russia sectoral issues. This is subject to full compliance with relevant sanctions orders.

3. We also have active contacts and initiatives with a range of countries in the shared neighbourhood. These are designed to encourage links and share experience as they develop their respective capacities.

EU, Russia and the shared neighbourhood

4. The Russian economy is part of the global economy. In addition, many companies have traditionally seen Russia as the headquarters location for their regional operations. This means that the degree of inter-dependency and concomitant impact of any measures or approaches taken as part of the political response to recent events in Ukraine need very careful calibration and consideration.

5. In the shared neighbourhood, Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine and Uzbekistan vary greatly in terms of economic capacity and development. Russia and the shared neighbourhood countries are members of the World Trade Organisation (WTO), except Azerbaijan, Belarus, Kazakhstan, Turkmenistan and Uzbekistan. The fact that only Russia and six of the eleven countries are WTO members, participating in WTO agreements such as the General Agreement on Trade in Services (GATS), inevitably impacts on their relations with each other and on the ease of concluding rule-based arrangements for market-opening and non-discriminatory national treatment with some of the counties concerned. In addition, Russia signed the Organisation of Economic Co-operation and Development (OECD) Anti-Bribery Convention in 2011; it applied to become a full member of the OECD, but that process was postponed in March 2014.

6. In terms of financial services, these differences are also apparent in the extent to which they are integrated into international organisations responsible for setting and maintaining standards of financial supervision. These standards have been set in recent years at the highest level by the G20, and adopted and implemented through various
global standard-setting organisations. In many regions of the world, a significant number of countries belong to such bodies or participate in regional groups implementing their standards. In the shared neighbourhood, the picture is much more varied and incomplete. Only the Russian Federation belongs to the G20, the Financial Stability Board (FSB) or the Financial Action Task Force (FATF).

7. The picture is similarly varied for these sectors:
   - banking - only the Russian Federation is a member of the Basel Committee, although Georgia and Kazakhstan are members of its outreach body, the Basel Consultative Group
   - accountancy - no country is represented on the International Accounting Standards Board (IASB)
   - insurance - all neighbourhood countries and Russia are members of the International Association of Insurance Supervisors (IAIS), except Kyrgyzstan, Turkmenistan, Tajikistan and Ukraine
   - securities – Russia, Armenia, Kazakhstan, Kyrgyzstan, Ukraine and Uzbekistan are members of the International Organisation of Securities commissions (IOSCO).

8. The Eurasian Group on combatting money-laundering & financing of terrorism, which is akin to FATF, brings together Belarus, India, Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan, Turkmenistan and Uzbekistan, together with 16 more states and 17 international and regional organisations with observer status.

9. This degree of variation and variable geometry reflects the extent to which Russia and the shared neighbourhood countries are at different points along the spectrum of progress towards becoming rule-of-law states with well-developed supervisory structures which meet international standards and are capable of catering for more advanced forms of financial services provision. The depth and extent of financial services provision is itself illustrated by indices such as insurance penetration or insurance density. In turn, there is an inevitable effect on the role, extent and depth of financial services relationships between the EU and its Member States and shared neighbourhood countries. Russia itself has achieved success in reforming and aligning its financial markets to international best practices over the past decade, although current dynamics threaten to de-rail progress. We also note that reform of Russia’s capital markets and its regulatory environment has encouraged some other shared neighbourhood countries to follow similar progressive agendas.

**The Russian economy and current factors**

10. According to last year’s World Bank rankings, the Russian economy ranks eighth. But in trade terms Russia’s reliance on commodity exports differentiates it from most in the top ten, particularly in terms of vulnerability to boom and bust cycles following volatile swings in global prices. Since 2007, the Russian government has embarked on an ambitious program to reduce this dependency and build up the country's high technology sectors, with variable traction so far. An average 7% growth per annum in the decade from 1998 was accompanied by a doubling of real disposable incomes and the emergence of a middle class. The Russian economy, however, was one of the hardest hit by the 2008-09 global economic crisis as oil prices plummeted and the foreign credits that Russian banks and firms relied on dried up.
11. The crisis in Ukraine has led to a downgrade in Russia’s potential economic growth. Poor economic performance in the first half of 2014, which limited hopes of an economic recovery, was also a major contributory factor. For 2014-2015, GDP growth forecasts are minimal, with a small rise predicted in 2016 (HSBC, 2014).

12. In evidence given to the House of Commons Treasury Committee in May 2014, TheCityUK noted that direct correlation between sanctions and economic effect is subject to debate. The following trends have, however, been observed:

- depreciation and volatility of the rouble against foreign currencies
- increased volatility and uncertainty in the Russian stock markets
- foreign investors delaying or withdrawing from deals in Russia out of concern of further sanctions or turmoil
- intensified capital outflows fuelled by rising geopolitical tensions
- increased costs of borrowing for Russian corporates and more difficult access to funding
- Russia’s sovereign rating and credit ratings for major state-owned companies downgraded
- uncertainty for Russian individuals in terms of savings and investments
- strong evidence that Russian citizens are switching out of the rouble in favour of foreign currencies.

Trade and investment issues

13. Against the broad economic background and recognising global realities, Russia became the WTO’s 156th member in 2012. But Russian trade policy is affected by a number of particular factors:

- Russian readiness to take trade measures as an instrument of wider policy
- trade sanctions against Russia resulting from the Ukraine crisis
- Russian geopolitical aims which are designed to build up the Eurasian Economic Union (EaEU) as an economic union with Russia as its centre and to dissuade neighbouring countries from joining other trade blocs such as the EU.

Russian accession to the WTO

14. Russia joined the WTO after some eighteen years of on-off negotiations. It was a major accession and the first really major accession since China’s a decade earlier. Accession was the subject of political controversy within Russia and required contested Russian constitutional procedures including a much-debated vote by the Russian Federation’s State Duma. The constitutionality of ratification was questioned, partly because not all accession texts had been translated into Russian and partly on the grounds that accession might itself constitute a perceived threat to Russian security.

15. The political manoeuvres in mid-2012 were symptomatic of the Russian approach to WTO accession. Neither the government nor the Russian private sector seemed to
present any strategy for making the most of WTO accession. It did not appear to be seen as an opportunity for economic reform.

16. On financial services aspects, Russian accession commitments are not up to the standard of more recently negotiated accessions – partly because they were mainly negotiated some years before accession, but also because of restrictive provisions, for example on overall caps on foreign direct investment, reflecting specific Russian concerns. Russian attitudes to WTO financial services commitments reflected wider debate in Russian policymaking for the sector.

**Disputes between Russia and other WTO members**

17. Since joining the WTO, Russia has been subjected to a range of investigations and complaints from the EU, Japan and the United States. It is reportedly seen by WTO partners as one of the main actors in the imposition of unjustified trade restrictions on other countries, including WTO members that are its near neighbours. Some have launched complaints against Russian actions taken in response to EU sanctions.

18. In 2014, Russia launched two WTO dispute settlement cases against the EU, one on levies on steel products and on ammonium nitrate (mainly used in fertilisers), and the other related to the EU Third Energy Package.

19. Although the second Russian complaint has not progressed very far, it seems to centre on EU provisions which prevent a single company from both owning and operating a gas pipeline. These rules, covering ownership unbundling, were introduced in 2009 as part of the Energy Package of rules governing the EU gas and electricity market. The Package aims at stimulating competition in the EU’s gas market to yield lower prices.

20. In opposing the Package, Russia claims that Gazprom is the only Russian company with the right to export gas and that any EU rules should not be backdated to cover contracts signed before 2009. It believes these rules contradict the obligations of the EU in WTO on basic principles of non-discrimination and market access”. Under WTO procedures, consultations between EU and Russian trade officials must now take place before any decision on further dispute settlement proceedings.

**WTO member criticism of Russian trade policies**

21. The Russian reaction to the Ukraine crisis led to heavy criticism earlier this year from several of its trading partners. At the WTO General Council in May 2014, they raised sharp questions over whether Russia was indeed adhering to its WTO accession commitments. Unusually, eleven WTO members spoke against what they saw as potential Russian violations. The US Ambassador, Michael Punke, was quoted as saying: “The United States worked hard to support Russia’s accession to the WTO, believing that having Russia as part of the rules-based global trading system would benefit all,
but at this point we are very concerned, both with what appears to be a lack of seriousness on the part of Russia in implementing some of its WTO accession commitments and, in fact, a general rejection by Russia of one of the underlying goals of the WTO – the reduction of barriers to global trade, acutely demonstrated by recent trade actions aimed at members particularly reliant on trade with Russia.”

22. The EU had placed the issue of Russia’s trade restrictions on the General Council agenda, given that Russia is the EU’s third largest trading partner, and the EU is Russia’s largest. Echoing earlier EU criticisms at the April meeting of the WTO Council for Trade in Goods, EU Ambassador Angelos Pangratis said:
   “We expect Russia to change gear so that its membership to WTO becomes an asset to the whole organisation, not just to Russia alone. This is an issue of systemic importance. A WTO member cannot serially fail to respect its obligations without undermining the rules-based multilateral system we all believe in.”

23. Other members with concerns over Russian trade practices reportedly included Australia, Canada, Japan, Norway, Korea, Switzerland, and Taiwan, and Ukraine, among others. They cited Russia’s use of trade remedies such as anti-dumping measures; insufficient notifications to WTO bodies of its trade measures; alleged import restrictions and local content requirements; unexplained border delays; lack of implementation of sanitary and phyto-sanitary (SPS) and technical barriers to trade (TBT) commitments; and questions of whether Russia is raising some tariffs above their bound rates, the ceilings agreed when Russia acceded to the WTO.

24. These are strong and unusually strident criticisms, particularly given that the WTO is a consensus-based organisation, with a degree of tolerance towards challenges commonly faced by newly-acceding members.

Eurasian Economic Union (EaEU) and the EU alternative

25. Set up by the Treaty on establishment of the Eurasian Economic Union signed in May 2014, the Union - initially between Russia, Belarus and Kazakhstan, with Armenia joining later - will come into operation on 1 January 2015. The EaEU brings about a single economic market of 171 million people and a gross domestic product of US$ 3 trillion. It codifies the existing Customs Union and road maps towards a single economic space with free movement of goods, service, labour and capital. However, much remains to be agreed, and ten-year transition periods will apply in a number of areas. The republics of Kyrgyzstan and Tajikistan have also expressed interest in joining. Kazakhstan has, however, more recently expressed doubts about the concept. Before the Ukraine crisis, Russia had placed pressure on it to join the Union: this was a trigger point for the crisis, as domestic Ukrainian opinion became polarised between links with Russia through the EaEU or with the EU through the EU’s Eastern Partnership programme.
26. The EU policy has made advances in the neighbourhood countries. In June 2014, three former Soviet republics, Georgia, Moldova, and Ukraine, signed free trade treaties creating a Deep and Comprehensive Free Trade Area (DCFTA) between the EU and each country, with a possibility of future EU accession. This concluded seven years of technical negotiations. These FTAs oblige the three states to make far-reaching reforms to comply with EU Single Market rules on market liberalisation, competition and consumer protection. All three leaders have warned that the FTAs will mean years of potentially painful economic and political reforms. Under WTO rules, the EU and Russia are holding consultations on the potential impact of these agreements on the Russian economy.

27. Following the signature of the FTAs, Russia reportedly began to lay the groundwork for retaliatory measures, including the withdrawal of preferential treatment for Ukrainian exports to Russia under prior agreements between former Soviet republics. News agencies were quoting the Russian deputy foreign minister as warning that “serious consequences” would follow. There has since been moves by Russia that banned imports of processed beef, horse meat, lamb, and pork from Moldova with effect from 27 June, the date of the DCFTA with the EU. It remains to be seen whether Russian measures of this kind could themselves be faulted as counter to WTO rules, given that all the countries concerned are WTO members.

The CityUK’s position on sanctions

28. TheCityUK supports the UK Government’s desire to explore all avenues to ensure the crisis does not escalate. We also take this opportunity to reinforce our view that there should be a clear and consistent policy on sanctions and their operation. This includes the following elements:

- sanctions should be carefully considered and, if the Government deems them necessary, they should be given clarity by the full force of law rather than being expressed as voluntary codes of conduct or foreign policy objectives
- sanctions should be multilateral and consistent, particularly with key partners, ensuring that the UK is not disadvantaged internationally and avoiding placing conflicting requirements on business
- sanctions should be as targeted as possible with respect to both individuals and entities, smartly designed, thought through for all their implications and reviewed regularly. We believe an impact assessment process based on input from business & its representative organisations as part of the design of any future sanctions measures would assist this goal. Equally, measures should be capable of ratcheting up or down depending on evolving circumstances and context. Business input has an important role to play here too.

29. In seeking to ensure that sanctions orders are complied with, business is operating heightened due diligence processes, screening contracts and individuals, and deploying additional methods of assessing the impact of various sanctions regimes on their operations. TheCityUK will continue to monitor the position of our membership on
the effect of sanctions and will remain in close contact with the Government as the situation evolves.

**Costs of sanctions compliance to UK financial and related professional services**

30. Corporates operating internationally today have stringent and complex Anti-Money Laundering (AML) and Know Your Customer (KYC) guidelines in place, ensuring that they are in compliance with regulations across their markets of operation.

31. It is compulsory to investigate the Ultimate Beneficial Ownership (UBO) of their clients and counterparts; general market practice recognises that UBO can only be a natural person and evidence related to the investigation should be available on file. Corporates are not allowed to conduct business with counterparts where personal UBO cannot be identified, save for the exception of publicly listed companies with disbursed individual ownership.

32. Companies operating in and with Russia already have established and maintained strong and effective governance mechanisms to ensure compliance with international regulatory requirements. In the escalating enforcement climate associated with sanctions and other AML and trade control regimes, it is critical for any company with a global footprint - and not just financial institutions - to review its corporate compliance processes and corresponding compliance profile. It is difficult to provide any precise estimate for heightened due diligence and compliance costs but it would be a composite of the following factors:

   - monitoring systems need to be upgraded and processes reviewed to ensure effective control is implemented
   - increased personnel costs as more compliance personnel are hired and employees at all levels need to allocate more time on due diligence
   - higher legal and consultation fees.

33. In addition to the above outlined cost factors, businesses experience loss of earnings and potential profit as they have to cease conducting business with counterparties owned by or related to sanctioned individuals.

**Russia’s response**

34. Russia has responded in a number of ways. For example, it has used the WTO as a forum for questioning some of the sanctions imposed on it in the wake of the Ukraine crisis. At the May WTO General Council, the Russian Ambassador questioned whether recent measures were in line with global trade rules, particularly measures affecting the Russian banking sector, such as travel bans and asset freezes. The WTO members imposing sanctions have made clear that the measures are regarded as fully in line with their WTO obligations and with international trade rules.

35. More recently, three major Russian banks and a significant oil company have started legal proceedings in the General Court of the European Court of Justice to challenge the
EU’s sanctions measures against them. They are seeking to have these sanctions orders lifted.

36. Furthermore, there has been evidence of resurgence in Russian nationalism, including in such areas as trading platforms or financial transfers where a proposal in the Russian Parliament to establish a domestic platform has received renewed attention. This was in response to speculation that such activities might be targeted in future sanctions. We believe this type of speculation is not appropriate. If implemented, these measures could lead to unintended consequences for global financial security.

Conclusion

37. TheCityUK trusts that this evidence is helpful to the Committee and its Inquiry. It expresses a willingness to provide further information or insight if the Committee would find that useful.

31 October 2014
Transparency International UK—Written evidence

The UK Anti-Money Laundering and Asset Recovery Regime

SCALE OF THE PROBLEM

In 2011, the UN Office for Drugs and Crime estimated that the global detection rate of illicit funds by law enforcement is as low as 1% for criminal proceeds, and the seizure rate globally is only 0.2 per cent. All countries are failing at this task.

According to an OECD report in March 2014, ‘Measuring OECD Responses to Illicit Financial Flows from Developing Countries’, the UK froze 34% of the global total related to the proceeds of corruption for 2010-June 2012. This is a good performance relative to other OECD nations, but insignificant in response to the scale of the criminal proceeds. It amounted only to USD 412 million, only USD 67 million of which was recovered.

However, the Russian Central Bank estimates that in 2012, USD 56 billion left Russia as the proceeds of crime. Considering just this figure, the total UK asset freezing over 2010-June 2012 (which is 34% of the global total) is only 0.7% of the annual illicit flows from Russia alone.

Why is the UK a destination for corrupt capital?

The UK is the world’s largest centre for international banking, with an 18% share of cross-border bank lending in September 2011. UK lists banking sector assets that are, collectively, the second largest in the world after the US. Foreign banks held 48 per cent of total assets, which is a higher proportion than in most other major economies. In addition, 251 foreign banks were physically located in the UK in 2011, more than in any other country. London is the largest currency trading centre in the world, with nearly 41 per cent of global foreign exchange trading going through intermediation of dealers in the UK.

In early 2013, the UK Financial Services Authority provided an estimate on its website, using an IMF methodology, that £23-57 billion was potentially being laundered in the UK each year.

It is not surprising that, in the same way that the United Kingdom attracts legitimate business, it is also a target for organised crime and corrupt politicians and officials.

WHAT IS NOT WORKING?

There is inadequate action on PEPs. The Government appears to turn a blind eye to high net worth Politically Exposed Persons (PEPs). There are no official figures on the total value of assets held by PEPs in the UK.
Ukrainian gas billionaire Dmitry Firtash was arrested in Austria on a US warrant for corruption and is awaiting extradition. UK media reporting indicates that Firtash visited the FCO in London on 24 February to meet officials and appeal for financial support for Ukraine and its businesses in the wake of the recent upheaval.

The Independent has learned that Firtash owns a luxurious house on a discreet side street.

**Private sector detection is inadequate.** Banks and other private sector institutions, assisted by professional intermediaries such as lawyers and accountants, are the front line in detecting and reporting suspicious transactions. Yet the UK financial regulator has found widespread evidence that the sector is failing in this role.46

**Freezing assets is slow.** The administrative process to freeze assets in the EU is relatively slow. In addition, meeting the evidential threshold for criminal orders to freeze suspicious transactions in the UK, within the timeframe allowed, is often not achievable. Switzerland, Austria and Lichtenstein all put in place sanctions against Ukrainian assets over a week more quickly than the UK and the rest of the EU.

**Seizure is difficult.** UK authorities often rely on a conviction in the origin state before they are willing or able to seize assets. This is very difficult to achieve, notably where the individual concerned has or had a powerful position in the origin state, or the state is just emerging from revolution.

**Costs are a deterrent.** Asset recovery investigations for grand corruption are expensive and, in the UK, are limited both in geographical scope and in terms of budget.

**WHAT NEEDS TO CHANGE?**

Major changes are required if the UK is to detect, freeze and seize the corruptly-obtained assets that are flowing undetected through the financial system.

**Administrative sanctions** The UK should follow the lead of Switzerland and Canada and introduce legislation to enable the rapid freezing of assets in post-revolutionary situations.

**Unexplained Wealth Orders** There is no power in UK law to require owners of unexplained wealth involved in a suspicious transaction to prove that the source is legitimate. In practice, suspicious transactions, assets and ownership in the UK of politically exposed persons are not restrained apart from a handful of cases where there is strong political support, and which relate to a limited number of countries.

UK authorities often rely on a conviction in the origin state before they are willing or able to seize assets. In addition, meeting the evidential threshold for criminal orders to freeze suspicious transactions in the UK, within the timeframe allowed, is often not achievable.

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46 The Financial Service Authority’s 2011 thematic review of banks’ management of high money laundering risk situations revealed systemic failings in anti-money laundering compliance by financial institutions with high risk customers and PEPs. The report found that around a third of the banks reviewed dismissed serious allegations about their customers without adequate review.
The most effective way to improve freezing of corrupt assets in the UK in the short to medium term would be to introduce an instrument known as Unexplained Wealth Orders. Such a law would require the owner of unexplained wealth to prove its legitimacy when a suspicious transaction is identified. If law enforcement is not satisfied that the funds are legitimate, and need more time to progress the necessary proceedings, then they apply to a judge for an order to serve on the bank, requiring the bank to continue to freeze the customer’s funds.

**Improve the front-line defences in the private sector.** The Government needs to radically improve regulatory monitoring, enforcement and meaningful sanctions of Money Laundering regulations 2007, across all relevant sectors, particularly in the property sector. The private sector – including banks, lawyers, accountants and estate agents – needs to be engaged as an ally in asset recovery.

**Pursuing corruption cases even where the origin state is defensive against the corruption allegation.** Largely as a result of the systemic shortcomings, the UK has not pursued cases where the origin state is defensive against the corruption allegation. In contrast, both France and Switzerland have recently developed investigations and frozen assets in relation to individuals associated to active and incumbent regimes or officials. These investigations are taken forward despite diplomatic pressure and a defensive origin state.

**Anti-money laundering regulations at the EU level**

**EU CAPACITY TO ENFORCE MEMBER STATE COMPLIANCE**

There is no EU level equivalent of the FCA. The responsibility to monitor compliance lies with national level competent authorities. There are also international monitoring mechanisms implemented by the Council of Europe, OECD and FATF.

Article 37 of the (3rd) AML Directive requires Member States to ensure that competent authorities effectively monitor compliance with the Directive. Transparency International recommends that Member States be required to carry out regular regulatory reviews of relevant financial institutions in their jurisdiction to actively assess rates of compliance. The European Commission, however, does sponsor studies to analyse Member States compliance.

**FOURTH MONEY LAUNDERING DIRECTIVE**

Positive changes put forward by the Directive include increased cooperation between Financial Intelligence Units and a risk-based approach.

However, the European Commission proposal falls short on beneficial ownership transparency, as it only calls for companies to hold their beneficial ownership data and provide it to authorities upon request. Transparency International recommends the establishment of public registers of beneficial ownership for companies, which would be interconnected and build on existing business registers.

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47 TI EU submission to the European Commission consultation on 4th AMLD
Transparency International UK is the UK’s leading anti-corruption organisation and part of the global movement against corruption, Transparency International (TI).

TI is the leading, global NGO working against corruption. The international movement of Transparency International operates in more than 100 countries through a network of National Chapters. TI National Chapters are locally established and fully independent national NGOs that are strongly rooted in their own country; they have local boards and staff, and set their own priorities and strategies according to national context and needs.

November 2014
Pierre Vimont, Luis Felipe Fernández-de-la-Peña and Gunnar Wiegand—Oral evidence (QQ 154-164)

Evidence Session No. 10 Questions 154 - 164

TUESDAY 28 OCTOBER 2014

Members present

Lord Tugendhat (Chairman)
Baroness Billingham
Lord Lamont of Lerwick
Lord Maclellan of Rogart

Examination of Witnesses

Mr Pierre Vimont, Executive Secretary, European External Action Service, Mr Luis Felipe Fernández-de-la-Peña, Managing Director for Europe and Central Asia, European External Action Service, and Mr Gunnar Wiegand, Director for Russia, Eastern Partnership, Central Asia, Regional Cooperation and OSCE, European External Action Service

Q154 The Chairman: Mr Vimont, thank you very much for coming before us. I think you know that we are engaged on an inquiry into relationships between the EU and Russia. We have been taking evidence in London from a wide variety of people. We are here in Brussels and we will be going to Berlin. Meeting you is obviously a very important part of that. The evidence will be on the record, but if there is anything you wish to say off the record, we will certainly respect that.

We have a number of questions and I am sure that there will be supplementary ones, but perhaps I could start with a general one. There has been a certain amount of criticism that the Commission, on behalf of the EU, proceeded with all these technical matters over a DCFTA with Ukraine, without being aware of the strategic and geopolitical implications from the Russian point of view. Do you think that is a fair criticism? Secondly, as everybody seems to have been taken so much by surprise when the Russians raised objections, I cannot understand why the missions in the British, French and German embassies in Moscow did not pick up that this was a sensitive issue in Russia and report back to their capitals. There seems to have been some sort of failure of analysis in this respect.
Mr Pierre Vimont: You have to look at the whole record, right from the beginning when we try to assemble all this, because this is a long story that started a long time ago. In fact, if I look at the record of where we were, it was back in October 2003 that we proposed that Russia joined the European Neighbourhood Policy, so as to be part of that. We had not defined what the status would be but we were ready to discuss that with them. They declined the offer, and therefore we agreed instead with them what we should do in the framework of the European-Russian relationship. We had four common spaces that we decided to agree upon.

We went on with this and when we set up the Eastern Partnership, which was inside the Neighbourhood Policy as one part of it, we also proposed and organised an information group. What we created was in fact called the information and communication group, with the intention of informing and having exchanges with some of the partners outside the Eastern Partnership that we thought would be interested in knowing more about this partnership. We had partners such as the United States, Turkey and Russia, so Russia participated. We had four of these meetings and they (the Russians) never said a word, so we went on from there with our negotiation of the association agreement with Ukraine. At any of the meetings we had with Russia—summits twice a year, and several other meetings at ministerial and at a more technical level—they never said a word about what was going on with the association agreement or its negotiation. I took part, as did Luis Felipe, in some of the summits twice a year, as I was saying, and President Putin never raised the issue of the association agreement with Ukraine. Had he wanted to be, he could have been very forthcoming with criticism about, for instance, the third package on energy matters or other issues of that sort. Never did he raise the issue of association agreements.

It was only when we came near to the Vilnius summit in the summer of 2013 that we suddenly started to see the attitude of Russia changing from what it was before. If you look again at the figure, I have to remind you that the DCFTA—not the association agreement—had already been initialled. That took place in March 2012. Then during summer 2013 we saw Armenia, who told us first of all that they were having difficulties with our project of that association agreement. Then we could see easily on our screen meetings take place between President Yanukovych and President Putin, and as we were moving towards Vilnius we saw that things were getting worse. But from 2003 up until 2013, we had in fact proposed that Russia should be on board and participate in a Neighbourhood Policy and then to be part of the information group meetings. There were the regular meetings that we had with them, but never was this issue raised and it was only around the Vilnius summit that the Russians became very vocal.

I could add—but here again, this has become part of the history that you know very well—that, since the Vilnius summit, we have taken unprecedented steps to inform Russia and create a sort of direct bilateral with Russia and later trilateral exchange also with Ukraine on the issue of the association agreement, which is normally bilateral. We usually do not talk with a third party about a bilateral agreement, but we made an exception precisely because of Russian insistence and the fact that they were complaining that we had not taken them into account. First, we created a channel of bilateral meetings in November 2013; we had two at senior expert level starting in March 2014, and we had two meetings until June. Then, at that time, we decided to go for a trilateral meeting with Ukraine. It is in the framework of that trilateral meeting, which took place at technical level and then at what I would call ministerial level—with Commissioner De Gucht involved—that we managed to find an
agreement between the three parties, which was to ratify the association agreement but leave aside for the time being the commercial part, the DCFTA, and postpone it until the end of next year while keeping on with the autonomous trade measures.

Our impression is that we never really had any clear warning, on behalf of the Russians, that this was unacceptable to them, for many years; it came only at the last moment. As much as we could, leaving aside the fact that this is a bilateral agreement, we decided that we would go into discussion with them to try to alleviate some of their concerns and understand better what they were talking about. When we had those bilateral meetings where our trade people explained all the intricacies of the DCFTA—we had some even before Vilnius—we never really got from our Russian counterparts any clear and precise indication of what was wrong for them with the DCFTA.

The Chairman: Do you think this was perhaps because they thought that, in the end, the Ukrainians would not sign? It is rather strange that the Russians should have behaved in this manner.

Mr Pierre Vimont: Looking at how President Yanukovych behaved, that could go along with your line. But it is always very difficult to make accurate assumptions about what the Russian strategy really is and what they had in mind.

Q155 Lord Lamont of Lerwick: Some of the witnesses to our inquiry have said that they regarded the EU foreign policy as being Utopian and full of “wissy-wissy good intentions”. One of our witnesses, a former British ambassador, said that the EU was good at trade but was not a geopolitical player. Consistent with that, others have suggested that things like the four spaces and the partnership for modernisation were too vague and relied too much on Russian good will.

Mr Pierre Vimont: First of all, the proposals that we put on the table, the four common spaces and the partnership for modernisation, were agreed by our Russian counterparts. We have been working on this with their full knowledge and agreement, and we have had many meetings with them on these issues—even at ministerial level, with Minister Lavrov at the Foreign Affairs Council. These were informal meetings, taking place at lunchtime. Minister Lavrov was very much committed to the partnership for modernisation, but underlined that this needed time; it brought many challenges for the Russian side, because it meant having many important reforms, and they were going through that as much as they could. Therefore, they needed time, instead of what the European Union was asking for, which was to push forward as speedily as we could. So I do not think it was so wishy-washy. We were clear about this; we went into this open-eyed, with a clear understanding of what our interests were, and the common interests with Russia and ourselves.

We managed, by the way, to get some tangible and significant results in those discussions, in the way we moved forward. It was certainly about trade, because we managed to increase our trade exchanges threefold in 10 years; but it was also about moving into some other issues on which we were both eager to move ahead, such as the Tempus Erasmus Mundus, and the research programmes. We have had some concrete issues and results in different fields on which we were eager to move ahead. We should look at this, maybe with a broader perspective than only looking at Ukraine, which was a specific aspect on which we could come back and forth—and I am sure that we will go on with that. But one has to understand
that we had many other issues that we discussed, and on which we put up a strong defence and had a positive attitude, which allowed us to get some good results.

**Q156 Lord Lamont of Lerwick:** This goes back to the discussion that we had the last time that I met you, when we were doing an inquiry on the European External Action Service. The expertise of Europe is on trade and development, so its external policy tends to consist of trade matters and spending money for development. That is a very different skill from diplomacy or dealing with wider political issues; diplomats who are doing that day to day develop a different sort of expertise. Yet here we were using the trade weapon and expertise and the development expertise, and almost sleepwalking into what became a very dangerous situation.

**Mr Pierre Vimont:** It is something of a contradiction for me to respond to that, because I am a diplomat.

**Mr Luis Felipe Fernández-de-la-Peña:** Me too.

**Lord Lamont of Lerwick:** I know that you have been a very distinguished one.

**Mr Pierre Vimont:** Luis Felipe will certainly intervene on that. But first of all, you have to understand that, even before the setting up of the EEAS, on the Partnership and Co-operation Agreement with Russia there was already political dialogue; it was not only about trade or, going a little bit further, about education. It was for instance and it has been since then, about visas, which is a very political issue. So we have a certain tradition and habit of working on this, and I think we knew perfectly well the difficulties and dangers—we can go back into this—because even on this, member states were divided, and we had to bring them all together back on the right course. So we knew that all this had a very strong political component; we were very much aware of that. Without pretending to be too smart, we had a pretty good idea of where Russia wanted to go.

What was to some extent not really surprising but perhaps explained how, at that time Russia accepted it, was that there had been a change of leadership during those years. During many of these years from 2003 until the Vilnius summit in 2013, what was interesting was that Russia seemed ready to move along with this idea that we were going to have upgraded association agreements not only with Ukraine but also with other members of our Eastern Partnership. They went along with that. It is mostly in the last few months that they decided to change their attitude, which seems to indicate a change of heart in Moscow, but that was not there before.

**The Chairman:** Can you hazard a view as to why they would suddenly have changed their position?

**Mr Pierre Vimont:** It is difficult to say. There you get into what policy and strategy are being followed by President Putin, and for what reason he is following them. Even if you look at a crisis like Ukraine—leaving aside Crimea, which went very swiftly, and which indicated a clear mindset about what the Russian authorities and the Russian president wanted to do—it is a bit more complicated with regard to eastern Ukraine. It is a less clear picture that we are witnessing there, with moves from the Russian army in one direction, and then moves backwards, and so on. I find it more difficult to try to give a clear explanation about what is the ultimate goal of the Russian Government.
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Q157 Lord Maclennan of Rogart: Thank you. From the outside, it seems as if there is not quite the interconnection and structural organisation that we now need, if we are to make progress on these issues. We have seen to some extent a downgrading of the Russian expertise in national embassies. We do not seem to have compensated for that in the European institutions. In your initial statement, you indicated that you had been taken by surprise, although what you subsequently said was that you had not been totally surprised by the changes in the Russian position. How do you think we should build up expertise to have strategic discussions with Russia? After all, they have raised strategic issues in the past—for example, the question of free trade from Lisbon to Vladivostok, European security, and the question of a Eurasian customs union and European partnership organisations. How do we make it possible for us to get together and resolve these problems before they blow up in our face?

Mr Pierre Vimont: There are two parts in your question, my Lord. I will take the second part first. We have been dealing with many of these challenges for many years. For example, on Lisbon to Vladivostok, we have discussed the idea of a European economic area for many years with the Russians. The precise issue, which is a difficult one, is how to get into the details and practicalities of such an idea. We have always been very open to this idea. Even recently, at the last summit meeting that President Barroso and President Van Rompuy had with Putin, once again the Russian side said that they were interested in that discussion. Many of our colleagues who have been dealing with their Russian counterparts on this issue for many years have come back from Moscow with the impression that this was a very nice motto, but as soon as they wanted to get into a more practical and concrete move and to take action, it became very difficult because we could not find real common ground on which to have discussions with our Russian counterparts.

What you said about this European economic area, you also could say about the idea of the new architecture for European security that was launched in the framework of the OSCE a few years ago. This was mostly within the competence of the member states, but most member states had great difficulty in grasping the reality for the Russian side behind this. Many times at all levels, at European levels, we have said to our Russian counterparts that we were interested and ready to see how we could move ahead and try to see what this would mean. At the end of the day, we have never got very far.

The second part of your question was about expertise. I do not want to look too self-assured about our expertise, but we have some rather good experts—Luis Filipe, the former Spanish ambassador to Moscow, and Gunnar Wiegand who has been working on this issue for many years, both present here today. We have a lot of Russian-speaking experts in our team and people who have been travelling back and forth to Moscow. At present, in our delegation in Moscow, we have an ambassador who speaks fluent Russian—how old is he?

Mr Luis Felipe Fernández-de-la-Peña: Old enough.

Mr Pierre Vimont: He is old enough to have taken part during the Soviet Union and the Soviet Union army. So he knows the system rather well from the inside.

Coming from my country, I was rather impressed by the level of expertise we found at the European level compared to the expertise I could find in the French Foreign Office. So we are well equipped. The problem remains that it is not an easy political situation to read in Moscow. Even our delegation, the embassies and the missions of our member states in
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Moscow may have difficulty, which is understandable. It is not all that easy to come out with a clear understanding and a definitive assessment and analysis of what is going on. You have different circles and perhaps different trends in Russian power, which need to be taken into account.

Lord Maclennan of Rogart: Could you make any recommendations as to how to improve our understanding of what is going on?

Mr Pierre Vimont: Luis Felipe who comes from Moscow could certainly tell you more about this. But what we are trying to do for the time being is share information as much as possible between the heads of mission in Moscow. They have regular meetings and they are very open. They send reports here and to their capitals. As always, it is best to put everything we know together to see if we can get some new ideas about how to understand what is going on.

Lord Maclennan of Rogart: Does the External Action Service feed in to this collectivity of views that is expressed to the other divisions?

Mr Pierre Vimont: We also keep very much in touch with the think tanks which report regularly on Russian affairs. Luis Filipe and Gunnar frequently go to those meetings. We are very much in touch with civil society to get a better understanding of what is happening on the ground. It is about going out of our inner circle in Brussels as much as we can because that is very important too.

Q158 Baroness Billingham: You have just mentioned civil society and engagement with it. Communication is imperative in that area so that people know what is going on and the themes. I want to know what processes are in place for communicating the aims and means of EU policy vis-à-vis Russia to interested stakeholders and in the interests of EU solidarity.

Mr Pierre Vimont: The whole issue of the civil society organisation is an important component of our relationship with Russia. As you know, we have the EU-Russia Civil Society Forum. Something like 120 CSOs engage from the EU and from Russia. It was set up in 2011 and is being supported by us. We have regular contacts with the CSOs on the European and the Russian sides. We participate in all kinds of events organised by NGOs and think tanks. With the help and assistance of the European Parliament, we have also participated in many meetings and conferences with these civil society organisations.

Of course, this is very much related to the whole issue of human rights. There also, as you know, we have regular consultation with Russia. Since 2005, we have had a biannual exercise, either formally through preparatory meetings or informally through papers. We are in touch with NGOs who give us their opinion about what is going on on the ground. We take that on board in order to deliver it afterwards when we meet our Russian counterparts. The problem is that the last round we had with Russia was in November 2013, one year ago. Since then we have not had a meeting, although we should meet twice a year. Although we have not been able to have another meeting with our Russian counterparts, we are still pushing hard.

Baroness Billingham: I am interested in what you are saying. Could you give an example of a recent conference or an exchange of views that you had that uses the format you have just outlined? It includes people coming forward from the European Parliament, which is vital. Have you got anything recent that you can give?
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**Mr Gunnar Wiegand:** In the next month, there will be the EU-Russia Civil Society Forum—civil society organisations from all member states and from Russia will meet in Tallinn. Unfortunately, currently the conditions prevent such a meeting taking place in Russia.

The interaction with the European Parliament is very close through the delegation for relations with Russia. There are very frequent meetings between them and the Duma, as well as meetings where only European parliamentarians participate. They frequently call on us to join them. There is not a lack of contact with parliamentarians or civil society, and there is business.

**Baroness Billingham:** What is the follow up? Where do the outcomes get promoted? Within the European Union or within your service, how are those ideas promoted and supported?

**Mr Pierre Vimont:** Usually, we exchange on a regular basis with all member states in different working groups or whatever. When there is a particular case that appears or comes up about human rights, we then go and make representations in Moscow if necessary. This is kind of regular work that we are doing with regard to human rights.

**Mr Gunnar Wiegand:** The NGO legislation in Russia is an important case in point. From it arose a particular interest in our services among parliamentarians. We took this up not only with the Ministry of Foreign Affairs but also with the Ministry of Justice, which was the relevant body, as well as with individual members of the Presidential Council for Civil Society and Human Rights of the Russian Federation.

**Baroness Billingham:** I am sorry to hog this, but just to follow up, do you give these deliberations and the examples you just gave the full weight of publicity, so that not only people within the EU hierarchy but the general public know what is going on as well? It is in their interests that that information is shared.

**Mr Gunnar Wiegand:** Sometimes the sharing of that information is important with stakeholders but not necessarily the wider public. The moment you go public, the partners with whom you discuss become less inclined to change either the legislation or implementation. That is a dilemma that we face in many of these cases.

**Q159  Lord Lamont of Lerwick:** I just wanted to ask a general question following on from that. The EU lays a lot of emphasis on promoting human rights and democracy. Countries such as Russia or Iran are very sensitive about this. How do you strike a balance—you must have thought about this many times in your career as a diplomat—between doing this promotion and trying to persuade people that you are not interfering in their country or going for regime change? What is the right balance when you have to live with authoritarian regimes?

**Mr Pierre Vimont:** It is a very delicate balance, I agree with you. But coming back to what you were saying previously, it is also a work in progress inside this new service that we call the EEAS. I agree with you, my Lord, that the way the previous framework worked, where you had on the one side the member states and on the other side the Commission, was more about defending the values of human rights in the context of human rights itself. Now that we are in the broader context of foreign policy, we have to think about this delicate balance. How far you can go is something you learn by acting, by practice. Sometimes your counterparts are very unhappy and tell you so, but that is part of what we have to do.
By the way, one has to recognise that quite often member states are very happy with this division of labour where they leave it to the EU to promote and defend human rights, whereas they remain sometimes a little bit silent on that. We have to be aware of that and to play our part as we should do. As Gunnar said, sometimes it is about saying plainly what we think about the violation of human rights, but doing it in a way that is not made public. In other cases we need to do it publicly when we think it is important to make it public. It very much depends. This is on a case-by-case basis, I guess.

**Lord Lamont of Lerwick:** Russia is very sensitive about interference in internal affairs and the threat of regime change, is it not?

**Mr Pierre Vimont:** It is.

**Lord Lamont of Lerwick:** Rather like Lady Billingham, I find it difficult to imagine what a conversation would be like with whoever Mr Lavrov deputed, where you say, “Now, we want to talk about the death of Mr Magnitsky”. What are they going to say to you? I would be amazed if they wanted to or were prepared to discuss that, because they have done nothing at all about his death.

**Mr Pierre Vimont:** Precisely. They are usually very unhappy, and you have seen how they reacted, for instance, towards the position taken by the US Congress and US Administration, but this is part of our relationship with Russia. We know about this. It should not prevent us from stating our point of view when we need to. We have other ways and channels, also, such as doing it through the Council of Europe, the European Court of Human Rights, and so on and so forth. We have the possibility to use different instruments, but I think it is about coming back to what was said by Gunnar a few minutes ago about this new Russian legislation on NGOs. We were very forceful in stating our position because we thought that it was not acceptable, but all the European member states with an embassy in Moscow had a direct interest with their own NGOs. They came in also on this one and made very strong démarches and remarks to the Russian authority. It was a gathering of forces on an issue like that.

**Q160 The Chairman:** You mentioned a moment ago about a division of labour. In that context, could you express a view as to the importance of the Council of Europe and the European Convention on Human Rights in helping to promote this cause in Russia?

**Mr Pierre Vimont:** I do not know what else I could say, other than that they are playing their full part and that they can sometimes be a useful way of pushing some of these cases.

**Mr Gunnar Wiegand:** It is of course binding law. They are bound by these conventions and they face many cases in Strasbourg. Russia has by far the largest caseload in terms of human rights violations of any member of the Council of Europe.

**The Chairman:** Would it be possible, do you think, to produce any chapter and verse about the impact that the Convention on Human Rights has had in terms of promoting human rights in Russia, or is it too difficult to document?

**Mr Gunnar Wiegand:** I think the constitution and the laws are reflecting this, and they know that they are bound by those. The judgments are also followed up. However, the practice of the implementation of the laws is the problem.

**Mr Pierre Vimont:** But it is a very important instrument for all members of the Council.
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Q161 The Chairman: Can I change the subject and ask a different question? You were an ambassador for France, and that country, generally speaking, knows what it is trying to achieve—

Lord Lamont of Lerwick: You mean unlike other countries?

The Chairman: More so in my experience than some other countries. However, in the case of the European Union, not all 28 member states are pointing in the same direction. In the particular circumstances that we are talking about, there are countries such as Hungary—not only Hungary—that have a rather different view than others. The Russians, I understand, have been quite active in trying to promote dissension in some of the south-eastern members of the European Union. Obviously that makes your life more difficult, but does it make it much more difficult or is this something that you can live with reasonably well?

Mr Pierre Vimont: I would say that the whole issue of Ukraine and our relations with Russia was certainly an issue whereby the position of the different member states could be rather diverse—no doubt about it. What was striking during all our debates that we had, and at whatever level we had them—the European Council, the Foreign Affairs Council, COREPER or the PSC—was that there was a sense of a clear need for unity, and that was always overcoming everything else. All member states stated that from the beginning, which is why, if you look, for instance, at the whole issue of sanctions—whether individual sanctions, or the decision to suspend political dialogue or summits—the situation is all the more complicated on the difficult issue of economic sanctions, we have always managed to get and retain unity, and to go ahead. You were referring here and there to some statements made by some of the leaders of the member states. What was quite interesting was that at the end of the day, they were all coming back to a common position. So far—touch wood—we have managed to do that.

Lord Lamont of Lerwick: Is there not a Hungarian view, though, that is slightly different?

Mr Pierre Vimont: I do not know, and you should ask them. What I detect and recognise is that around the table, at the time we needed to get a unanimous decision, we got it every time—maybe with some reservations from a few member states. However, at the end of the day, they have voted in favour—it is about voting for or against—and they have all voted for, even with some reservations, but they thought that unity had to prevail above some of their reservations. This was quite interesting and something that I have never found perhaps to the same level on other issues. It was very important, and it is an interesting testimony to the importance of the crisis we were facing, and the fact that all member states did recognise that above anything else it was important to show unity.

The Chairman: We have the imposition of sanctions, but then there comes the point where there is the renewal. Of course, the circumstances when that comes up may be different. It may be very difficult to carry through a renewal in March or whenever it is that they come up.

Mr Pierre Vimont: You will have a first renewal, mostly related to individual sanctions, in March, and the renewal of economic sanctions will come later on in July. We will see; it is very difficult to say. One has to remember that the decision to adopt the first set of economic sanctions came just after the shooting down of the Malaysian airline and, as you can imagine, emotion was high. This explained, to a large extent, why the 28 decided to move along. The second set of economic sanctions came just after there was an upsurge in
Pierre Vimont, Luis Felipe Fernández-de-la-Peña and Gunnar Wiegand—Oral evidence (QQ 154-164)

Russian troops inside eastern Ukraine, which also brought a lot of emotion among member states. So in both cases, there were some dramatic events taking place in eastern Ukraine that brought all the member states together on the same line. Where will we be in March or July of next year? A lot depends on Mr Putin, I guess, and maybe on other events, but we will have to see. It may be somewhat difficult at this stage to foresee exactly how things will unfold.

Q162 The Chairman: Could I put a rather crude question, because I cannot think of a way in which to frame it more delicately?

Baroness Billingham: I am all ears.

The Chairman: One could argue that Mr Putin’s primary concern is to ensure that the group of countries—Ukraine, Georgia, Moldova and the rest—do not become too involved with Europe, that he puts up a shutter to ensure that they do not progress towards membership, that they look more towards Russia than the EU. Another interpretation might be that, having begun with Crimea, he is now looking towards a more expansive policy and safeguarding the position of Russian minorities, encroaching on the Baltics and altogether raising more Cold War-type issues. Would you incline to one view or the other?

Mr Pierre Vimont: It is difficult to give a clear and definite analysis on this. Going back to what I was saying previously, if one looks at the way events have been unfolding since February this year—the Maidan revolution and what happened either in Crimea or in eastern Ukraine—one has difficulty in detecting anything that looks like a clear strategy along the lines of what you were referring to. There is certainly on the part of the Russian Government a willingness to keep some close links with Ukraine, but this is something that the European Union can understand and it has never been disregarded by us. We have even said that there was no incompatibility between the DCFTA that we were pushing forward and the kind of trade agreement that Ukraine could have with Russia—

Mr Gunnar Wiegand: Has with Russia.

Mr Pierre Vimont: Has, sorry. Those could work together. They may need to make some arrangements here and there, but this is possible. Therefore, we have never been of the opinion that our association agreement was a decision about being on one side or the other. The question of enlargement that you ask is quite different. Even among the member states, it is a question on which they do not have exactly the same position, and I guess that will be the case for some time, as you know. It seems to me quite difficult to be able to give a clear assessment of what Russia is really thinking about.

Q163 The Chairman: I think that it was Churchill who said that Russia was an enigma wrapped in a mystery, or words to that effect. But not only is Russia rather enigmatic but Ukraine is quite enigmatic as well. This is my own last question; my colleagues may have another one. Do you feel that the Ukrainian Government are concerned equally with the east of Ukraine on the one hand and Crimea on the other, or do you feel that, looking forward, the Ukrainians may be willing to do a deal with the Russians that involves the east, of which, in a sense, Crimea is part?

Mr Pierre Vimont: Based on our discussions and dialogue with the Ukrainian authorities, I think that they are quite adamant both on Crimea and on eastern Ukraine. They are quite ready to discuss openly with democratically elected leaders from eastern Ukraine—because
that is the problem at the moment—the kind of decentralisation or autonomy that they might be willing to give to eastern Ukraine, to the Donetsk and Lugansk provinces, admitting that all this would take place inside the framework of the Ukrainian state. That is what is really important. They do not want to go towards something that would start jeopardising the sovereignty and territorial integrity of Ukraine. On this, they are adamant. That goes not only for eastern Ukraine but for Crimea. They may be quite aware of the need to be realistic that the end of the annexation of Crimea may take some time, but I think they will stick to this position of principle and not move away from that.

Q164 **Lord Maclellan of Rogart:** Do you think there is any possibility that, in order to build up trust between the European Union and Russia, we might focus a little more on the issues which are not causes of anger and discontent and could be seen as productive? I am thinking of things like cultural co-operation, educational co-operation, scientific research and maybe other global issues. If you think there is something in that, could we provide some kind of a forum that enabled these matters to be discussed and publicised so that we could reduce the tensions?

**Mr Pierre Vimont:** Yes, I think we can and should. We all agree on that. We still have at the moment, in the short term, the problem of creating or recreating the kind of trust—you used precisely that word—and confidence that is indispensable if you want to be able to launch new initiatives in the field of education or research. This is why it is so important to see whether the agreements that have been reached so far between President Poroshenko and President Putin—namely, the Minsk protocol and subsequent memorandum, which means genuine implementation of the ceasefire, a genuine system of border control, humanitarian assistance being able to flow in and the withdrawal of military equipment and foreign troops and so on—are really implemented. Day after day, we are watching this very carefully, because we would all be happy if we were able to move ahead towards a more positive mood. It is very difficult to do that as long as we see that even the agreements that have been reached are not being implemented properly. Fighting is still going on around Donetsk airport and there are every day more people being killed in the field. Many member states are telling us at the moment that they do not have the impression that the situation is ripe for moving to a new stage of co-operation. At the end of the day, it is about building confidence again between the EU and Russia.

**The Chairman:** I am receiving signals that we have another witness and then we have a train. Mr Vimont, thank you very much indeed and thank you for the frankness and the comprehensiveness with which you answered. I think that I speak on behalf of my colleagues when I say that we are most grateful to you.

**Mr Pierre Vimont:** I hope that it was useful, my Lord.
THURSDAY 6 NOVEMBER 2014

Members present
Lord Tugendhat (Chairman)
Baroness Bonham-Carter of Yarnbury
Baroness Coussins
Lord Foulkes of Cumnock
Baroness Henig
Lord Jopling
Lord Lamont of Lerwick
Lord Maclennan of Rogart
Lord Radice
Earl of Sandwich
Lord Trimble
Baroness Young of Hornsey

Examination of Witness

Denis Volkov, Head of Development Department, Levada Center

Q191  The Chairman: Mr Volkov, first of all I thank you very much for agreeing to appear before us and for the inconvenience you have undertaken in going to the embassy and all the rest of it? As I think you appreciate, this is a formal meeting of the Committee, which means that the evidence will be recorded and used as part of the report that we are preparing. We have a number of questions for you, of which I think we have given you notice, but I am sure that my colleagues will have a number of supplementaries as well. If you do wish to say something that is completely off the record, please indicate that, and we will abide by that, but the more that is on the record the better, and we will assume unless told otherwise that it is on the record.

If I may, I will ask the first question and you can then answer it in whatever way you choose. We are all familiar with opinion polls and polling data, and we follow them in this country, the United States and elsewhere, but there is some evidence to suggest that polling data
Denis Volkov—Oral evidence (QQ 191-199)

may be less reliable in an authoritarian context such as Russia, where people might be more reluctant to express their true opinions than in a society such as this one. Could give us some guidance on how to interpret the meaning of the data you collect and how your audiences, particularly in the West, should interpret the meaning and reliability of Russian polling data in general?

Denis Volkov: Yes, there is some concern about the polling data, and we are thinking about them here as well. Our own data show, for example, that about 25% of the people who we survey think that there can be repercussions when people are answering questions. Still, our methodology is that we come to people and first ask the questions. Only then do we ask for personal data, and people are free to give or refuse to give their name, their surname and their telephone number so that we check that their interview was conducted. The absolute majority will give their name and telephone number. We think that at least the recent trends that we have been observing could not be explained by people just starting to refuse to answer our questions or to be sincere. We saw, for example, how the rating of Vladimir Putin and other ratings rose by more than 20 percentage points in one month. We would say that we should look for other explanations.

We have been using this technology for 15 or 20 years. It has not changed much. We see the trends. With this technology, we saw how the rating of President Putin went up at the very beginning in 1999, and in two months it went up again by almost three times. We always have to have a better interpretation of what is going on. You have to look at many figures and many trends and be able to compare not only over one year but over several years. If you have a considerable amount of data—I mean a considerable amount of surveys of the one issue—and if you can check them and put them in the broader context of many more figures and many more questions, you can come up with some understanding of what is going on. You should not look at the figures as the exact truth and the exact situation, because it is about opinions; it is about how people understand actions and what other people think. It is more about this mass attitude, so it is not the exact truth, but having this broader picture you can come up with an idea of what is going on.

Q192 Lord Macleannan of Rogart: Could give us any indication from the data, or the polls, as to the public support for President Putin’s policy in Ukraine? Could you distinguish between the actions in Crimea and eastern Ukraine? Could you perhaps indicate whether there has been change, and in what direction, since December 2013, and whether Russians have become more or less supportive of actions in eastern Ukraine?

Denis Volkov: Our polls show that, yes, we can distinguish between the cases of Crimea and eastern Ukraine. I would say that one of the major differences is that already at the end of the 1990s, well before Russia took Crimea from Ukraine, about 80% thought that Crimea should be with Russia and that Crimea going to Ukraine was considered unfair. It was not, though, on the political agenda; rather, it was on a kind of cultural agenda—this topic was present in some films and some songs. One song says, “Sevastopol will always be Russian and will come back one day”, and some films exploit this topic. Crimea was an issue, but it was not on the political agenda. Here, I think Putin and the Government acted on some existing expectations.

There were no such expectations about eastern Ukraine. There was some understanding that there were different opinions, but we never asked about it. At the very beginning, right after all these developments at the end of March and the beginning of April, more than 70%
Denis Volkov—Oral evidence (QQ 191-199)

said that if Russia sent troops to eastern Ukraine they would support the Government. In August we had a survey that showed that support had dropped from around 70% to 40%. The question was, “Will you support the Government if they send troops?” Now it is only 40%. What is also different is attitudes had not changed towards Crimea. About 88% say that it should be part of Russia and that is it. There are no changes there.

What has also changed slightly is the understanding that sanctions will affect the broader structure of society: that having Crimea has brought some problems and the problems are multiplying. The majority is still not much concerned about these problems, but we see that the understanding that the price can be rather high is growing slightly, step by step. At the very beginning, what also influenced the assessments about eastern Ukraine and Crimea was the fact that it did not cost anything. With growing understanding of the cost of the politics, we see this change towards eastern Ukraine. Fewer people now want it to become part of Russia, but I would still say that about 40% of people in Russia think that eastern Ukraine should be an independent entity.

I would describe it this way: there is a completely different understanding of what is going on in Ukraine and what the policy of Russia in Ukraine is. I can go into details later, but to the majority it is a kind of humanitarian mission, with Russia saving the Russian-speaking population. They see it as a problem that in eastern Ukraine people are under threat, and they are willing to help these people. I would even say that the majority welcomes the refugees from eastern Ukraine in Russia, maybe in not the regions that are accepting them, but overall the attitude is that people are welcoming these refugees. But they do not want to make eastern Ukraine part of the Russian Federation—I would put it that way.

Q193 Lord Trimble: A recent poll indicates that 84% of respondents believe that Russia has enemies. What I find interesting about that is that we also have data going back to March 1999, and the percentage who think that Russia has enemies never gets below the mid-60s. It has peaks in the high 70s and now has a particular peak at 84%. I find it interesting that there is this settled view of at least two-thirds, maybe 80%, of people that Russia has enemies, so it is not just a result of the last few months. How do you interpret that figure? Why do we have this settled view of threat?

Denis Volkov: We can trace this question—not this very question but a similar one—to the beginning of the 1990s. Right up until the Soviet Union collapsed, the majority said there were no enemies and the main problem was in Russians themselves. Again, I am elaborating on the work of our team and it is my interpretation, but still there is the work of the entire team of the Levada Center behind what I am trying to present. Our understanding is that in maybe already the late Yeltsin years but certainly with Putin coming to power the Government began to exploit the situation if not of conflict then of controversy between Russia and the West. It was one of the tools of initiating, or provoking, the conflict, or at least describing the situation as Russia trying to re-establish some credit that the Soviet Union had. I would say that it was part of official policy to place Russia in contradiction with other countries and to exploit the idea of Russia as a kind of besieged castle, so it was on the agenda and it was exploited by the Government. We saw these numbers go up in the recent crisis, but you are right that they were high already.

It is also interesting to understand who Russians see as their main enemies. Well before this crisis, at the top of the list was the United States, second was Chechen terrorists, and third was NATO. For many years these top three were the same. For example, in October 2012,
56% considered the United States to be the main enemy, 39% Chechen terrorists, and 35% NATO. Almost the same was true, for example, in 2008. In July 2008, before the Georgian war, 51% considered the United States to be a large enemy, 45% considered Chechen terrorists to be an enemy, and 39% NATO. In all these years, 27% or 28% considered some circles in the West to be enemies of Russia. You see that although we saw this considerable change in attitudes towards the United States and the European Union quite recently under these developments and under the influence of state-run television, there has still for many years been some underlying distrust of the United States and NATO and this kind of western structure. The Government are trying to highlight and exploit this topic in explaining the conflict that is going on.

**Lord Lamont of Lerwick:** I wonder if you could just enlarge on what you were saying about the EU and how far the EU itself was seen as a threat. Was enlargement of the EU seen particularly as a threat? Coming to NATO, which you mentioned 35% in October 2012 thought was a threat, did they see enlargement particularly as a threat? Did your polls—the questioning—go down that deep?

**Denis Volkov:** I would say that Germany in particular was considered one of the allies of Russia until at least now. Now, for example, Angela Merkel is seen in a negative light—not as negative as Obama, but still. General attitudes towards the EU were rather positive. They were always more positive than attitudes towards the United States. I would say that the average Russian does not go much into what the European Union is; it is more about a general understanding of Europe—not even the European Community—because not many are interested in politics. It was a rather general, positive view, but the attitudes have changed during crises like the war with Georgia and Crimea, with western leaders criticising Russian politics. It was always broadly televised, I would say rather one-sidedly, because the official point of view dominates all the TV channels—all four main stations of state-influenced TV channels.

There are definitely differences between the EU and NATO. NATO was always considered a threat. Not only that, but since 2004/2005 we have also seen a change in how people see co-operation with NATO. Until 2004—we have been asking these questions for several years—about half the population said that co-operating with NATO on security issues in the world was in our interest. After 2004, we saw that about 50% were against co-operation and only about a third were for co-operation. Overall, attitudes were negative. The enlargement of the EU is perceived negatively, although I do not have exact figures right now. NATO is a military bloc and still the European Union was seen more in terms of cultural and economic co-operation, so it was not on the agenda as an enemy. There was a clear distinction between these two bodies.

**Q194 Baroness Coussins:** Good morning. You have mentioned the difference between Russian public opinion towards the EU and towards NATO. Could you also say whether there are any trend data that show a difference between attitudes to the EU and to Europe more broadly? Within that, are there any distinctions between people’s attitudes towards Europe and the UK specifically? Finally, just to push that a little further, when the term “the West” is used, do Russians, according to the evidence of your polls, distinguish between the United States and Europe? If they do, can you characterise those differences in attitudes?

**The Chairman:** There are a lot of questions there.
Denis Volkov: There are several broader issues here. For example, only about a quarter of the population consider themselves Europeans and feel European. Right now, even fewer—about 15%—feel themselves a person who has strong connections to European culture. At the same time, western countries were considered very wealthy countries with high standards of living and a goal for Russia in raising standards of living, because many would like to live as in western countries. At the same time, we saw this distrust in the West generally and, I would say, a prevailing attitude of mistrust towards the West. For example, when asked about democracy in Russia, the majority are sure that there should be democracy but not a western kind of democracy. Again, it is only some general attitudes, because not many people know what the West is, how it operates, what laws it has or how government works there. There is no broad understanding. Here it is only about general perception.

Speaking about Great Britain, we have a list of friendly countries and not friendly countries, I would say—enemies or adversaries. Every year, or every two years, we ask people to name the friends and adversaries. Great Britain does not come high on either list. It comes only at number 15 or something. Our top friends were always Belarus, Kazakhstan, Germany, quite recently China, and so on. Our adversaries were the United States, and after that it depended on the current crisis. One year it was Estonia when there was this bronze-soldier not conflict but scandal. Another time it is another Baltic state, another year Georgia—when there is a war with Georgia. Then it is Ukraine. The number is changing, but it is still about the United States and the independent former Soviet republics that somehow betrayed the cause, in the eyes of the majority, of the Soviet Union.

We had one recent poll about western leaders, and there we compared Obama, Merkel, Hollande and Cameron. About one-quarter of the population had never heard of David Cameron or had heard his name but did not know who he was. The overall attitude was a little more negative than neutral. Negative attitudes were about 35%. That is less than negative attitudes towards Merkel, for example. Fifty per cent of Russians felt negative about her, and 76% expressed negative feelings towards Obama, for example. Although David Cameron also proposed rather harsh measures, I would say he was not the focus in the Russian media; the main focus was the United States and now Germany.

The framework in describing attitudes towards the West—towards what is going on—is that people are not very much interested and they do not quite understand what is going on. For example, at the very time the majority—it might be 70%, more or less—are following the news about what is going on in Ukraine, an absolute majority think that the Russian media is objective but at the same time the majority confess they do not understand much about what is going on. They have only vague negative feelings towards the West, with not much distinction between the countries and between different entities within the West.

Q195 Baroness Bonham-Carter of Yarnbury: I am interested that you have now mentioned twice how Germany has fallen from grace in the eyes of the Russian people. Why has the media, which is, after all, state controlled, targeted Germany within the European Union to the degree that you seem to be suggesting?

Denis Volkov: I can only speculate here. Although I do not have any figures here, she is one of the top figures on Russian TV who is responsible for the European Union. It is always about talks between Vladimir Putin and Merkel, Merkel talking to Putin, Merkel asking whether he is “still in touch with reality”, and so on. It is more about how the media, not
only state-run media but independent media, covers the conflict. There is much more information about what Angela Merkel and Germany are doing and proposing and so on than about other countries. I do not know how negative the effect will be on the overall attitudes towards Germany, but I think Germany will also suffer some losses in this way in our polls that will come.

Q196 Earl of Sandwich: Mr Volkov, thank you for this fascinating information. Going back to your 15% who are sympathetic to the European Union—I think you said 15% or so—can this be explained very simply by levels of education and awareness, or do you think it is more socioeconomic: that it is the people who are able to be in touch with Europe?

Denis Volkov: It is more about direct contacts—the direct experience of going to the West or the ability to speak a foreign language, which is usually English in Russia. To give you a sense of the figures, about 20% of Russians overall have had the experience of going abroad, and almost 60% of those living in Moscow travel to the West, usually to have holidays. At least in our recent poll about the extent to which people feel themselves Europeans and welcome a western type of democracy, the figures were twice as high for those who had had this direct experience of communication and of going abroad and seeing for themselves what life in the West is and who are more familiar not only with the life but maybe with how western countries operate. But I would say that again it is more about having only a general impression about life, because not many people are interested in politics: only several per cent have a deep interest in politics. Only maybe 15%, or even less, follow different international news closely, are engaged in what is going on and are trying to understand what is going on. The absolute majority I would say are passive consumers of what is being broadcast and televised.

Q197 Lord Maclennan of Rogart: Do you have any polling evidence to suggest Russian attitudes towards the Eurasian Economic Union? Given what you have said about the lack of identification with Europe among most of the population, is there any polling evidence to suggest that there is a turn towards Eurasia in general?

Denis Volkov: We do not have specific questions about economic union; it is more about Europe and the European Union as a whole. If we ask about, for example, a proposal to choose between this or another economic integration project, it is more about integration itself, not about economics; it is a symbolic understanding of broader integration within the former Soviet Union. The majority prefer this variant, but it is not about the economy; it is about symbolic issues, not trying to re-establish the Soviet Union itself but the greatness, of which there is a lack. When Putin says that the collapse of the Soviet Union was one of the major catastrophes of the 20th century, the majority of Russians would agree with him. I would suggest that he said that exactly because he knew this and because he was trying to be more engaged with what the public think and trying to be the representative of common people. Yes, it is about only general understandings; average people do not go into that much detail because they pretty much just do not understand and they are not interested in it.

Q198 Lord Radice: Were President Putin’s approval ratings falling before the crisis? Following on from that, how durable is the present surge of support for Putin? Is it just rallying-round-the-flag support that will die down? What are your views on that?
Another source of boosting popularity was international conflicts. In the very first year, 1999, the Chechen war happened, which provided legitimacy to him just from that couple of months. Then there were the major conflicts—Georgia, then Ukraine and Crimea—but also many more smaller conflicts that were exploited in the Russian media to boost popularity.

Another pillar and a very important mechanism of manufacturing support around Putin is that there is no alternative. There is no informational alternative, because there is almost no alternative to state-run TV channels. The independent media have an audience of maybe 15%—no more—when the state-run TV channels maybe influence 90% of the public, and to half of the public they are the only source of information. There is almost no alternative economically, when the majority depend on state spending—state budgets. There is also no alternative politically when alternatives do not emerge within the system and alternatives in opposition are marginalised; they are not allowed to run for election. Before Crimea we asked, “Would you like some new person to become President or Putin?”. Half the population said they would like to have somebody new, and only 20% said they would prefer Putin. But as the very next question we asked, “If the election takes place next Sunday, who will you vote for?”, as an open question. Putin came first and he was four or even five times more popular than any alternative. It is more about creating this no-alternatives situation.

Speaking about the future, I would say that it will last for some time, but this negative mobilisation has usually not lasted that long, and the economy has been the main driver. Again, the Putin regime has so many other safeguards—the main ones I have tried to name—so even if there are more economic troubles the decrease in popularity will not be dramatic; it will be more gradual, I would say.

Q199 Lord Jopling: Mr Volkov, you have explained very clearly how the sponsored operations in Ukraine and Crimea have been popular both among the public and in the support for Putin himself. Could you tell us to what extent you think the Russian population would welcome more of these sponsored operations in the northern Baltic states in particular: in Georgia, where Russia already has a toehold in Abkhazia and South Ossetia; and in Moldova, where, again, you already have a toehold in Transnistria? To what extent do you think the public would welcome and encourage further operations like the one that we have seen in Ukraine and Crimea?

Denis Volkov: I can only say here that for every such kind of operation, such as taking over Crimea and the Georgian war, public attitudes were ready. For example, attitudes towards Georgia were already more negative than positive several years before the war. Again, 80% were welcoming Crimea back to Russia. I would say here that what we have seen from what has already happened is that the Kremlin was somehow exploiting existing conditions inside the country as well as outside the country. That is my understanding of how the situation happened in Ukraine but also, for example, in Iraq and some other countries: they were trying to exploit a crisis that had already been created, so exploiting existing conditions.
I could not tell you whether there are any intentions to go into the Baltic states, but, again, what we have from our polls is that the Baltic states are somewhere at the top of the not enemies but at least adversaries of Russia. Again, it is also important that in this crisis as well as other crises it is the West that is seen as responsible, and predominantly the United States, which, according to mass attitudes, were responsible for the Georgian war and are responsible now for what is going on in Ukraine. It is the ability to put the blame on to their adversary and the ability to convince the public that they somehow are the victims, as the majority see themselves. It is the state’s ability to present it this way that enables the support of the operations of the Government within Ukraine and within Georgia. I do not know whether there are any ideas or plans to go into the Baltic states, but at least some pre-requisites are already in place, I would say, if we just compare the data that we had before the war with Georgia and before the conflict about Crimea—not about Ukraine generally but about Crimea. But I do not know what will happen.

The Chairman: Mr Volkov, thank you very much. We have now reached the limit of our time, but you have really given us a very clear set of answers and you have helped to clarify our thinking. I am very grateful to you for taking the time to give this evidence and for the frankness with which you have given it. Thank you.

Denis Volkov: You are welcome. Thank you.
Professor Richard G Whitman—Written evidence

The evidence is submitted in response to the questions posed in the call for evidence concerning the Framework for Relations

EU-Russia relations were atrophied prior to the occupation of Crimea and the war in Eastern Ukraine. EU-Russia relations have not made substantive progress in the period since Russia's invasion of Georgia since 2008. Russia has become progressively more hostile to the EU's agenda of seeking to deepen the economic relationship with the EU's neighbours via the European Neighbourhood Policy (ENP) and the Eastern Partnership (EaP). Russia's policy moved from discontent to active opposition during 2013 and as demonstrated by its interventions to discourage the EU's Eastern Partners to upgrade their economic relationship with the EU in the run up to the EaP summit in Vilnius in November 2013.

The Strategic Partnership between the EU and Russia was neither Strategic for either side nor was it a partnership in terms of its content and operation. Rather events in recent years have demonstrated that Russia sees the EU as a competitor, rather than a partner, and the agenda set within the EU's Strategic Partnership with Russia has become unrealised and with the summitry between the two sides as cosmetic rather than substantive.

The EU made a strategic error in decoupling Russia from its ENP/EaP rather than finding a formulation that would have recognised its significance for the region and for the realisation of the EU's goals. The EU (and most especially the EEAS and the Commission), alongside a number of member states, gambled that Russia would gradually reconcile itself to the EU's attempt to lock its Eastern Partners into a deeper relationship with the single market. There was the absence of a clear sighted diplomacy with Russia that recognised its clear and publicly articulated opposition to such a development and provided Russia with an attractive alternative economic and political offering that would have mitigated its opposition. In the absence of a Strategic Partnership Russia constructed an alternative economic and political vision for the neighbourhood which runs counter to the interests of the EU and its member states.

The EU’s Russia policy needs a reset. It also needs to be be located within a broader Transatlantic policy and alongside reformulation of NATO, US and individual European country strategies which recognise the new strategic reality of the relationship. For the EU a reset of relations needs to be subordinated to a settlement of the conflict in Eastern Ukraine and Crimea and with the road map for a substantively developed partnership in place as an incentive for conflict resolution. This road map needs to be calibrated to find areas of opportunity for substantive cooperation whilst also acknowledging there will be substantive ongoing difference. This requires a reformation of the infrastructure governing the EU-Russia relationship.

The existing EU-Russia Strategic Partnership needs to be completely abandoned. It has not delivered substantive benefits to the EU and its member states and the form of the agreement (implying that the EU and Russia have established a dialogue on key strategic issues) flatters the substance of what it has achieved. Russia's recent behaviour in relation to Ukraine also demonstrates that the EU does not enjoy a meaningful partnership relationship with Russia.
‘Re-set’ EU policy should be informed by a new pragmatism which recognises the reality of the values gap with Russia, that Russia does not seek compatibility with the EU economic space or its single market. EU policy over the last decade has been based on the premise that Russia can make the transition to a relationship with the EU based on the normal principles of relations between market economies. Russia’s model of capitalism has evolved in a matter which is not fully compatible with the EU member states’ market economies or with the single market. EU policy needs to operate from the premise that leveraging greater compliance with market principles by Russia may also require the need to restrict the access of Russian companies’ activities in the single market where reciprocal access and compliance with market principles is not available to EU business.

Implications for EU policy towards Russia are institutional, the architecture of the economic relationship, and a more combative public messaging/diplomacy.

The Institutional framework for relations needs to be reconfigured. There should be a reduction in the number of annual EU Russia summits to one per annum (there has been a struggle to fill the agenda in the past) and with the suspension of all summits until there has been a resolution of the situation in Eastern Ukraine and Crimea on a basis that is acceptable to the government of Ukraine. Post-political settlement with Ukraine the summits need to be focused on substantive issues of EU concern and that cover security issues in addition to economic-related agenda items.

The architecture of the economic relationship needs to seek compatibility between the EU’s aspiration for a boarding and deepening of the EU economic space with a developed relationship with the Eurasian Customs Union as a fact of life.

Recognise that a successor relationship to the Partnership and Cooperation Agreement, and that meaningful progress with the Common Spaces, is unlikely to be agreed within the medium term;

Recognise that the energy interrelationship with Russia cannot be managed through the expectation that it will become more market-orientated across time and that substantive policy adjustment is required that treats EU market access for Russian hydrocarbons as negotiable rather than a given;

A more assertive use of trade defence policy instruments when EU businesses encounter problems operating in Russia.

A more combative public diplomacy that seeks to recognise that there is a values gap between the EU and Russia and places stress upon an aggressive message on the costs of non-EU Europe for Russia.

Professor Richard G. Whitman
Director, Global Europe Centre
University of Kent

24 October 2014
Gunnar Wiegand, Luis Felipe Fernández-de-la-Peña and Pierre Vimont—Oral evidence (QQ 154-164)

Transcript to be found under Pierre Vimont
MONDAY 10 NOVEMBER 2014

Members present
Lord Tugendhat (Chairman)
BaronessBillingham
BaronessCoussins
BaronessHenig
LordLamontofLerwick
LordTrimble
BaronessYoungofHornsey

Examination of Witness

Sir Andrew Wood, GCMG, Russia and Eurasia Programme, Chatham House

Q200 The Chairman: Sir Andrew, thank you very much for coming back. You were here on an informal basis earlier and, although we remember very well what you said, it was not recorded. As you will appreciate, it is important to get things on the record if we are to form conclusions.

As you know, this is a formal meeting of the inquiry. We will be reporting in the new year, and that is about that. I think that you would like to make a brief opening statement and then we will put questions to you. We have to conclude by 11 o’clock because Mr Vaclav Klaus is coming at that time. Over to you.

Sir Andrew Wood: Thank you very much indeed for your welcome. I would like to make three brief opening points, if I may. The first is that it is obvious—or it ought to be obvious—that the European Union is a values-based organisation. We have to defend those values or the European Union is absolutely nothing. Those values include the rule of law, the essential equality of the states within the European Union and the democratic accountability of their rulers. There are of course others but that is a brief list.
My second point is that Russia has never fully accepted those values. Indeed, it now proclaims a set of Russian values whose practical meaning is that might is right. There could not be anything more different than those two fundamental beliefs. The prevailing view up till now in the EU has been that with time and experience, and economic and other necessities, Russia would become a more “normal” state. That has proved to be a misplaced hope but, without it, “strategic partnership” are pretty words but they lack concrete meaning.

Thirdly, the drift towards arbitrary and central rule by a hermetic group at the top has markedly accelerated since Putin’s return in May 2012. The scale of domestic repression and arbitrary rule is, in my view, quite contrary to Russia’s real interests, although it is a short-term interest for the ruling group itself. It is that cycle of refusal to tackle the difficulties of economic and political reform, as well as favouring domestic repression and statist manipulation of the economy, which lie at the root of the quarrel with Ukraine. The Russians present that as an East-West issue, but the truth is that the West certainly has an interest in Russia behaving towards its neighbourhood in a rational and acceptable way, as we would think it. However, it does not have a particular ambition to rule Ukraine. That is not the issue; the issue is the way that Russia is behaving.

I think that European Union opinion is changing. If it is true that an overall strategic partnership is an illusion, then we will be forced back on to dealing with individual issues on a case-by-case basis. That is particularly important because the present state of rule within Russia is impermanent. In the future, Russia faces a crisis of instability both economic and political. Even supposing—which perhaps is not a good basis for decisions—that Putin’s rule will last for ever, it will be replaced. One day things will change, and the greater the repression the greater the risk of instability, which will be a cause of concern to us all. Those are my three points and my conclusion.

**Q201 The Chairman:** Thank you very much. I should also have thanked you for the paper which you submitted to us beforehand, which was very interesting. There, you cover a number of issues which I think will recur, but thank you for the clarity.

Following on from what you say, what first steps would you recommend towards trying to reopen a relationship between the EU and Russia? You have set some very interesting parameters, but here we are, face to face with each other and with the sanctions in place. What steps would you recommend for starting a new relationship?

**Sir Andrew Wood:** At the heart of it is the way that Russia behaves. We are trying to influence her behaviour through sanctions. We are trying to insist on our values in dealing with Russia. There are of course issues which the EU and Russia must deal with, however ghastly we might think each other to be. Those are energy, commercial relationships and, on occasion, judicial relationships. Whether we think that the Russian judicial system is reliable or not, there are international tribunals and so on. Once you break it down and—for the time being at least—eschew over ambition, then you can deal with issues like that. I would not suggest that we are going to be able to have a joint effort against terrorism in the Middle East or, as Putin has suggested, that we should together work out a new world order, although what exactly he meant by that is not very clear to me. Issues of disarmament and so on will come only when there is more stability in where Russia is headed.
**The Chairman:** I have one supplementary question and then Lady Billingham will also have a supplementary question. We will be reporting, as chance would have it, shortly before the sanctions come up for renewal. Can you give us any guidance as to what steps by Russia you think would be very helpful in terms of beginning to run down the sanctions?

**Sir Andrew Wood:** Russia has invested a huge amount of immoral capital in what is done in Ukraine and in the seizure of Crimea in particular. It has also entered into a contract which will cost it huge amounts of money. The sheer expense is something which ought to daunt the Russian leadership, although I do not think that any economists are included in the group which took the central decisions. There are also risks to Russia from the military anarchy it has created in eastern Ukraine, because it is very difficult to arm “volunteers” and then prevent them coming across the border to expropriate property and whatever in Russia itself. This is now an area without a border, so the anarchy risks spreading into Russia.

I think that that limits our options quite severely. People say that sanctions will give a greater solidarity to the Russian people because Putin will be able to blame economic failure on them. I do not think that that is going to be a tremendously powerful feature within Russia. Russia was already in considerable economic difficulty before Ukraine and before the sanctions. The sanctions have played into those difficulties very severely. The pressures on the system will therefore mount. I believe that it was the Australian Prime Minister who, in pointing out that kangaroos cannot jump backwards, remarked that Putin was a kangaroo in this sense, and I am afraid that that may well be true. I do not think that that is any reason for us to hesitate or to renounce the only weaponry we really have. If we said, for example, that a rational solution would be for Russia to retract its claim to Crimea, and if we said that we required it—as we would require it—to withdraw its forces from eastern Ukraine and, at the same time, we offered no support to its proxies there, it would be difficult for that to be represented by Putin as a success from his point of view.

So I am afraid that we are in a considerable bind as regards the central issue of Ukraine, and it is more likely to get worse than better. There are stories—and they are probably accurate in that the OSCE has in part affirmed them—of increasing military intervention in Ukraine by forces which are obviously Russian, however much they are not wearing uniforms. Therefore, I would be surprised if, come January, we could honestly say to ourselves that things had improved so much that lifting sanctions would be possible within that sort of framework.

**Q202 Baroness Billingham:** My question follows on from what you have just said. Yesterday, I heard Mr Gorbachev saying that the only way forward for the West is to remove sanctions and that that would be an open door to improving the situation. What is your view?

**Sir Andrew Wood:** I think that is nonsense. Of course I understand it—

**Baroness Billingham:** He is a powerful man still.

**Sir Andrew Wood:** Yes, but to take that view you have to accept that Russia has a right to secure parts of Ukraine for itself. You have to accept that the people in Crimea, for example, are entitled to seize property from the Crimean Tatars and generally to try to repress them. You also have to accept that the use of armed forces beyond a country’s borders, however disguised, without legitimate cause is a legitimate thing and that Russia has a right to rule in Kiev. I do not think that that is a solution.
Q203 Lord Lamont of Lerwick: Perhaps we could go back to what you said in your opening statement about values—Russian values being, as you put it, inherently different from those of the West and the European Union. You said that it had proved to be a misplaced hope and—I think you implied—an illusion that Russia could ever become a normal state as we would define it. Of course it is theoretically possible—I am not saying that it is right—that what has happened has been a combination of Putin-specific factors, circumstances and perhaps some mistakes made by the West. In the speech that Mr Gorbachev made to the Alliance Institute—the longer version, not the shorter version—he went out of his way to detail what he thought were mistakes by the West that had helped to produce this situation. But coming back to the values, the Russians do, at least to some extent, pay lip service to the same values that we do, with the Council of Europe and some dialogue—you may say that it is completely hypocritical—about human rights; and, of course, there are people in Russia who demonstrate against the regime and obviously have an aspiration for the same values as us. I realise that there are many Russians, not just one. But I am questioning whether this view that au fond they have completely different values from us is actually right.

Sir Andrew Wood: I did not mean to imply that. There are plenty of people in Russia, in the Soviet Union before it, and in Russia before that—tsarist Russia—who have displayed notable courage and bravery in standing up for rights that we would all recognise. I would not for a moment claim that if I were a Russian and living in the Soviet Union, or Russia today, I would necessarily be standing up for what is good and right. It is the regime that claims—as regimes often do—that it has a special set of values. What I was trying to say in that regard is that the only material element I can distil from that is that as a “great power”, Russia has the right to use force or dominate others, and that the central Government of Russia ascribe to themselves—and almost always have—the right to impose their views rather than to distil or reflect the views of the people at large.

A notable fact of life in Russia is that the majority of the population regard what the Government do as not their business at all. The Russians are no less attached to justice. The rule of—I hate to use the word “fairness” because it is one of those words that sounds good but is rather empty—justice in the wider sense towards individuals is just as inherent a value in Russia as it is anywhere else. It is just that the Russians do not expect it from their authorities, which is something rather different. That was the values point.

You mentioned Gorbachev. Of course, western policy has not been perfect. It has been too accommodating and so on at times, and less clear at others. I suppose that you could argue—although I would not—that it has harped on too much about human rights instead of allowing time for the Russians to come round. I do not think that that is true, and I do not think that it is a valid policy. In particular, people argue that the expansion of NATO was a fundamental insult to Russia. That is very much the story and the central grievance that the Russians themselves proclaim. But in point of fact Russia has not been threatened directly by NATO at all. The countries that have asked to join it have joined it because they wished for stability and because they wished to reassure themselves to some degree against possible Russian pressure. It is claimed by some Russians that in 1990, when the unification of Germany was agreed, there was a promise by Britain, France and the United States that NATO would not expand. Such a promise was never asked for and never put down in writing. In any case, even if it had been—which it was not—it would be invalid; you cannot bind the future. The Baltic states have good reason to feel leery about Russia. So does Poland. So, now, does Ukraine. It is Russian behaviour that has been at the heart of this. I know that
there are natural feelings within Russia that it is somehow—as was the Soviet Union, at least notionally—a natural counterpart to the United States that deserves the same sort of status in the world that that would imply. That is factually just not so. Russia is a major regional power that—under Putin especially—has managed to attract the enmity, either direct or hidden, of all its neighbours. It is notable, for example, that Kazakhstan and Belarus have been extraordinarily reserved about what is going on in the Ukraine. It is very hard for me, at any rate, to believe that the Eurasian Union, on which Putin set great store, is now going to prosper. I cannot believe that Ukraine would ever join it—and that, obviously, is important. As an economic proposition, it may be fine, but as a political proposition, it is dead.

**Lord Lamont of Lerwick:** Just taking up the point about NATO, Sir Rodric Braithwaite said that a definite pledge had been made on several occasions. Admittedly, as you said, it was absolutely not in writing, but Sir Rodric said it had been made. The NATO enlargement of course took place with Hungary, the Baltics and the Czech Republic—and that expansion of NATO was accepted at the time. But might it not be that the inclusion of Georgia, absolutely on the border of Russia, and the possibility of Ukraine joining NATO, was just one step even further, and that while Russia had been prepared to accept some expansion of NATO, this was more menacing from a Russian point of view? I put that point because it certainly was a point made by Mr Gorbachev in his speech about NATO. He went out of his way to make that point and I think that he did envisage a partnership between Russia and the West. He may have had illusions, as you say, about the position and power of Russia, but I think that he did genuinely believe in that partnership.

**Sir Andrew Wood:** Yes, and I think that it is very legitimate to believe in that partnership as a very desirable thing. My only point in my introductory remarks was that Russian behaviour and the way Russia has developed makes it extraordinarily difficult to think in terms of a partnership. Co-operation on individual issues is something rather different. We are tied together by fate and geography, and so on; that is all true. But to believe in a set of common values and purposes is rather difficult to uphold.

Gorbachev himself, in the same speech, said that there had not been an agreement about the further enlargement of NATO. I know that Rodric is very wedded to this view. The Committee might like to look at a recent article by Steven Pifer—I will give you the details later—which goes over the history of this and draws in particular on a piece by Mark Kramer. They are both US scholars. The article goes through all the records and shows that there was never any such agreement. I was in Washington at the time. I do not recall it. It was all about the reunification of Germany and about the inadmissibility of stationing NATO troops in the eastern part of the country. There was no supposition then that the Soviet Union was going to break up and that eastern Europe was going to become a collection of normal states. So the question did not arise, and I can only repeat that, however citable Rodric may find some particular remarks by people, even a treaty, which would have been necessary, would not have enshrined those rights against the wishes of the newly independent states. That is what drove it; it was not—and is not—a western wish to dominate the world. I do not myself know of any aggression in any form by NATO as an organisation against Russia. The record shows, on the contrary, more of an effort to try to include Russia. So there I rest my case. I have the highest respect for Rodric; he is learned, scholarly and thoughtful. I just do not agree with him on this point.
Baroness Henig: Can we move to EU-Russia business diplomacy, on which you have written very clearly. If we look at the alleged links between European political elites and the Putin regime in terms of business, we were told by a previous witness, Professor Guriev, that the view that Russia has managed to corrupt the western elite is not correct. How would you judge the interdependence between the two sides at the level of the political elite? Is it necessarily a malign influence? We also of course have the issue that media attention and public perceptions of this issue are of Russian corruption of the EU. Therefore, do EU Governments look out of step if they are not endorsing that?

Sir Andrew Wood: I agree with Sergei Guriev that you cannot possibly say that Russians have managed to corrupt the business structures of the EU. That would be a heroic task. However, I would not say that all structures in the EU are uncorrupt; that would be a brave assertion. Certainly, Russian business in the way it operates has a degree of malign influence. It takes advantage of opportunities and does not see any reason why it should not. I can understand that. We all have a particular need to be careful about the origins of money that arrives in this country and in other countries of the European Union. That is a subject which from time to time is speculated about, and greater vigilance is urged. In principle, that must be right. However, the threat there is rather exaggerated. My experience is that western businesses in Russia have a benign influence. It is becoming more and more difficult for them to operate there—not just because of sanctions but because the spread of corruption within Russia has been very marked and because the direction of the economy has become much more state-aligned. All of that is rather a lengthy way of saying that this is a problem area we need to be pretty vigilant about. But I think that we have done good in Russia with our business practices. I was associated with BP for a time until it joined up with Rosneft. I think that the effect that we had in TNK-BP was benign; it made it a much better company than it had been before. I was also associated with Ernst & Young and I have worked for a number of other western companies within Russia. I have no sense of shame about that—not just because I got money out of it but because I think that on the whole what they were trying to do was good. It is in Russia’s interests to have an accountable and effective business structure. One of the problems is that, for political reasons, Russia has not dared to take the necessary measures for that to be set up.

Baroness Henig: So could we be doing more? If western economic activity in Russia is positive, is there more that western Governments or companies could do?

Sir Andrew Wood: Well, they can do it only if the corporations or whatever they are dealing with are themselves accountable. Therein lies the problem.

Baroness Billingham: Is the presence of large amounts of Russian capital in the West, alongside the fact that many in the Russian elite have homes in Europe and educate their children there and so on, a factor of strength in the EU-Russia relationship, or is it in fact a cause for concern?

Sir Andrew Wood: I prefer to start with the second part—that is, the human contact. That is tremendously important and tremendously good. Personally, although it may not appear so, I very much like Russia, so I am biased in that regard. I think that we do a lot of long-term good by including Russians within our educational system, not because we necessarily teach them our values so that they go back indoctrinated but because they learn a lot from being in a rules-based democratic country. They learn that the myths they are taught are at least to be questioned. No one is going to say that to them; it is just a process of absorption. The
most common complaint that I have heard from the parents of such children is that they do not really want to come back. If you look at the emigration of Russians to the United States, that is a very strong factor of a similar nature. That is something which Russians in Russia feel very strongly as a permanent concern. I would not equate it to the brain-drain, which was a phrase from my youth, but there is something of the same nature in it.

With regard to Russian investment in this country and other countries of the West, of course one has to be careful as to the origin and nature of the money coming in, and of course there is a risk of people accepting support or donations from those who are not as morally pure as you and I are, I suppose. I do not quite know how to draw the line there—that is a difficulty, as we implied before—but it is a factor of strength that Russians wish to protect their moneys and their investments, and they prefer to do it in the West because, rightly, they do not trust what is happening in the East. It is a factor of strength because it increases the—I am not sure how to put it—moral fibre between us and the whole of Russia. Therefore, it plays into the possibility that Russia will, as I must believe, over the longer term recover from its present unstable and threatening state. That is a rather wordy answer. If you ask me about a particular person’s money, that is a different question from the general one. I think that it is a factor of strength and it shows the necessity of the relationship, however difficult it is to structure. You can say that we do have a strategic partnership in the sense that we have to be together, but what we do not have is common purposes.

**The Chairman:** Could I just come back to the point that you raised about children? You said that parents were worried that their children do not go home. Of course, that is also a problem that the Chinese and the Indians have: when people go to the States or come here to go to university, they do not go back. Lots do but lots do not. To some extent, I cannot help feeling that the decision to stay here or in the United States is a reflection on the country from which they come and the ability of that country to make use of and value the skills and experience that they have had here. I have no research on this but my impression is that when Japanese students go, and continue to go, to the United States in large numbers, they generally do go back precisely because the experience and skills they have acquired are very much valued in Japan. I do not know whether you would make a brief comment on that observation of mine.

**Sir Andrew Wood:** To be very brief, I absolutely agree. One can analyse what has been happening in Russia at various stages but one of the very marked events was that under President Medvedev there was discussion about possible ways in which Russia should reform its economy, precisely so as to become more diversified and more competitive. That did not include the necessary element of reform of the judiciary and political reforms of that nature. None the less, there was a discussion. What Putin did when he returned in May 2012 was to rule out that discussion in favour of following a centralised direction. Unfortunately for him, the advantage of the splendid revenues that he used to get from energy and natural resources and from the underutilisation of existing assets, mostly of Soviet origin, had expired, so there was no way in which he could simply continue to spend money in cementing his position, with nothing needing to change. However, he and his group rejected change, so they have made it extraordinarily difficult for the sort of economy that Japan had in the 1950s and 1960s to employ satisfactorily large numbers of people. Therefore, he has increased the number of people who are dependent on the state. For example, Gazprom’s associated companies make more money than Gazprom because that is essentially a way of siphoning off money that would otherwise be part of Gazprom’s profits.
Lord Trimble: Just to get this right, you are saying that, leaving aside the energy sector, Russian industry is uncompetitive and becoming more uncompetitive.

Sir Andrew Wood: That is what I was saying but I am just quoting Russians. For a brief time, I was a director of a steel and coal company called Mechel, which has since hesitated on the edge of bankruptcy. Working with people such as Ernst & Young, you obviously get a sense of what Russian industry is capable of. I remember having the same sort of thought when I was in Yugoslavia in the 1970s and 1980s. How many Yugoslav goods did you see outside of the country? How many have you actually seen with “Made in Russia”? “Made in Tunisia”, “Made in Malaysia” or whatever, yes, but “Made in Russia”? Very, very few.

Lord Trimble: So the prospects for the Russian economy in the immediate future are pretty grim.

Sir Andrew Wood: They are very grim.

Q206 Baroness Coussins: Perhaps I may backtrack for a moment to the topic of western businesses operating in Russia. It seems from what you said earlier that you would agree with Professor Guriev that, in general, western companies are, to quote him, “a beacon of light” in that environment. But do you think that the EU and its member states are doing enough to pursue and prosecute the ones who are not in the category of being a beacon of light? Is it the case that there is a bit of a question mark hanging over member states if they do not do that because they can be said to be in conflict with their own values, which you also referred to earlier and which would include good corporate governance and ethical business? What should the EU and its member states be doing to up their game in that respect?

Sir Andrew Wood: The EU should certainly be vigilant. When you are operating in a place such as Russia—although it would not only be Russia; I am sure that the same would be true of Ukraine—it is obviously important that you know how things really work. You have to make them work and therefore you can very easily slide into something which condones local corruption. You can even argue that to a degree you have to do that. So I think it is important for our businesses to know that the EU and national Governments are ready to compel them to follow good standards. Then they can say to their Russian partners, Ukrainian partners or whoever it happens to be, “I am sorry. We have no choice. We’ve got to do this. That beastly British Bribery Act or US Foreign Corrupt Practices Act prevents me behaving like a normal person. I agree that it would be nice if I could give you this car”. I think that that is a defence that those companies can use.

I can think of one or two exceptions from my experience but, for the most part, western companies know that this is a very slippery slope. If you start to play by local rules, you will discover how many local rules there are. Wherever you live, it is very easy to accept as normal the behaviour that you encounter there. You say, “It’s just the way they are”, or, “It’s the way we do things here”. So I think that they need quite a lot of encouragement from Governments and from the EU to try to guard against that. It is a very foolish thing to do but it has happened.

Baroness Coussins: So there is scope, in your opinion, for individual member states of the EU to be much more rigorous in applying their own rules?

Sir Andrew Wood: There are member states which I think are probably less rigorous than others. I think that it is a defence for businesses to know that their Government are going to
be rigorous about it. Certainly, mistakes are made. I think that Commerzbank, for example, got into some difficulty over money laundering, whether rightly or wrongly. Just for the record, Germany is a very respectable country.

Q207 Baroness Young of Hornsey: Do you think that there are any lessons to be learnt from Soviet-era diplomacy during this particularly difficult period—for example, raising human rights violations at high-level meetings and so on—or do you think that there is too much to lose in doing so and that there will be an inevitable negative reaction from Putin?

Sir Andrew Wood: There will be a reaction from Putin. It will be full of invective and it will not be pleasant but I think that we should do it for sure. After all, we have an interest in speaking not just to Putin and his circle but to the wider Russian entity as well. People do not forget. It is certainly true that Russians in general are less clear about their past now than they were in the early 1990s, when the shock of opening the archives and discovering some of the things that really happened was considerable. That has been overlain by some pretty cod history on the part of the authorities and by the natural wish of anybody to forget the past.

My mother’s family comes from Jersey, which was occupied during the war. Bad things happened on a small scale. Some relatives got imprisoned in Germany as a result of those bad things. When they came back, you just had to pretend that it did not really happen. The same sort of thing happened in France and so on. Therefore, it is a human thing but I think that we have a duty to Russians now and in the future to raise human rights cases.

Baroness Young of Hornsey: What lessons would you take from that period?

Sir Andrew Wood: From the Soviet period?

Baroness Young of Hornsey: Yes.

Sir Andrew Wood: In the Soviet period we had a major broadcasting effort and a major informational effort. We explicitly supported individuals—obviously the more high-level cases, in the sense that they had achieved some publicity. We supported Solzhenitsyn and Pasternak and so on. That is an honourable record and I see every reason why we should live up to it. When the Soviet Union was obviously reaching an end, the assumption was that somehow or other Russia would develop into becoming more like a western country, with democracy and accountability being seen as good things. It was not on too huge a scale but the prevailing assumption was that it would all be okay.

Now, the assumption has rather changed. It is that, when Putin goes, nobody knows what will happen and that is a good reason to be afraid. I do not think that it is our fault but, in the eyes of some at least, our willingness to forget about human rights abuses is part of the reason for that. There is no longer an assumption that what lies ahead in Russia is democracy.

Baroness Young of Hornsey: Earlier, you referred to sanctions. I think that you were suggesting that we should hold the line on that or, indeed, even up the ante in that regard. It seems to me that you have suggested a number of sticks, as it were, with which to beat the Russian Government. What about carrots? Are there any inducements or any other ways in which we can try to bring them back into the fold?

Sir Andrew Wood: They are not listening right now, but I think that one way in which we can bring them back into the fold is precisely the economic way. Taking a slightly different tack, I
think that the best way to bring them back into the fold is to deal directly and fairly with the countries surrounding them and not to subscribe to the myth that Russia is supposed to control everything. Of course, we owe Russia respect and we have to deal with the powers that exist there. The recent house arrest of Yevtushenkov, the boss of Sistema, was apparently a warning to other businessmen, or possibly it happened because Putin’s associate, Sechin, would like to get hold of Bashneft, which is part of Sistema. I do not see that we can do much more in regard to Ukraine other than to repeat our determination to see that individual countries are not dismembered, all of which is really rather feeble I am afraid. I do not see that there is all that much we can do, apart from being ourselves to the best of our ability and presenting our values consistently and fairly. I have no solution.

Q208 Lord Lamont of Lerwick: My question is not on human rights; it is more on the general picture of the economy. May I ask that? Are you in danger of being a bit over gloomy about the situation?

Sir Andrew Wood: I hope so.

Lord Lamont of Lerwick: One has to think of the enormity of the adjustment that had to be made. There was a society in which everything was planned economically down to the last detail. Then, in the early 1990s, a massive financial adjustment was made in terms of debt and deficits, and living standards and life expectancy absolutely plummeted in the country. I agree that the economy has not diversified away from being a resources economy, but at least today Russia has a few companies that are recognised throughout the world, it has functioning capital markets, living standards have stabilised and increased a bit, commodity markets have been good and a middle class has appeared. Not everything in the Russian economy has been a complete disaster.

Sir Andrew Wood: I do not recall saying that it was.

Lord Lamont of Lerwick: No, I am sorry.

Sir Andrew Wood: If you look at Russia’s main industries, they are resource-based, as I think we have agreed. It has some good steel-based industries as well. It has not developed a satisfactory small and medium-sized enterprise sector, but its performance has been highly dependent on the price of oil. When Yeltsin left, I think that the price of oil was $9. The number of people employed by the state has risen hugely, but the number of enterprises has not, and that is a major failure. It could have been a lot better than it has been. Right now, Russia is in a particularly difficult position, first, because the price of oil is falling and, secondly, because the political outlook—and this has been true for some time—has meant that investment is very, very limited and not growing. It is now balanced by capital flight. Those are major failures and there is no prospect at present of that changing.

With regard to your comment about the beginning of the 1990s, to some degree that is a statistical appearance rather than actual fact. Because there was nothing to buy, there was a huge overhang of savings which were, in practice, valueless because you could not buy anything with them—they were nominal. Those collapsed but the Russian economy invigorated itself quite considerably precisely because of the reforms that were then undertaken.

I do not think that anyone in this country is entitled to lecture others about the need to face up to difficulties. I do not have to tell you that for some considerable time we put off necessary changes and, when they came, they were extremely hard to digest. I certainly
agree that Russia had a far worse outlook than we had, and that was rough. My point is that it has now reached a stop point, and that is threatening and dangerous.

Q209 Lord Trimble: Is it possible for us to get past Putin—the existing ruling group—and to try to develop a better relationship with the Russian nation as a whole? Are there ways in which we can encourage the growth of civil society within Russia?

Sir Andrew Wood: Yes. In a way, I was trying to make a similar point in answer to Lady Young’s point. I think it is very necessary that we do so. However, we have a dilemma because, the more we deal with the existing Government, the more we are liable to risk being seen by a succeeding Government as ill-disposed or insincere or as having double values and so forth. It depends in part on what one supposes will happen when the Putin regime changes. Personally, I find it rather hard to imagine anyone within the present ruling group, because of absence—sickness or something of that sort—on the part of Putin, deciding to make a play for succession. That would be foolish and dangerous. I also find it hard to see Putin leaving voluntarily because that would be dangerous for him. He would not easily have the protection that Yeltsin had, because Yeltsin was old and was obviously finished. On present form, one can see the Putin regime going further and further down a cul-de-sac.

Accidents happen. If one recalls the way that Ceausescu fell, it was because someone laughing in the crowd triggered something. The boos aimed at Putin in 2011—I do not know whether they were accidental or what—did produce a reaction. The actual governing structures that are now there have deeply deteriorated. However, assuming, as one model, that someone comes in to begin to be the “big man”, as it were, that person is bound to adopt policies different from those of Putin, if only to show that he is not Putin. That would at least begin to open up the possibilities and dissatisfactions expressed during the Medvedev era. However, the danger is that it would be more explosive than that.

The sooner that Russia can achieve a dialogue with itself as to what needs to be done in terms of the judicial system, in terms of relations between the regions and the centre, which is a huge problem for Russia, and in terms of how to deal with the national minorities in the Caucasus and so on, the better for Russia. What has happened recently is that the dialogue that was there has been silenced. It is very hard for outsiders to know what is going on but, more importantly, it is very hard for Russia to begin to develop fresh ideas as to what it might do. We can possibly make a contribution by talking about our own ideas on how things ought to develop within our own society and by showing that we do discuss such things and that it is possible to manage change without violence. In fact, one of the dangers to Russia of Ukraine was precisely that people were beginning to discuss such things. A person more notably corrupt and certainly more incompetent than Putin none the less was thrown out by civil society. That is perhaps an idealistic way of putting it and not everyone would accept that, but they certainly were not fascists and it certainly was not a western plot. All that is just nonsense and a lot of Russians understand that. So I do not have a formula but I repeat that being our better selves is the best thing that we can do for Russia.

The Chairman: Sir Andrew, thank you very much. That brings us to the end. I am very grateful for the frankness and openness with which you have answered the questions and also, as I said at the outset, for coming back for a second time. Thank you very much indeed.

Sir Andrew Wood: Thank you for your attention.
Examination of Witness

Václav Klaus, former President of the Czech Republic

Q210 The Chairman: Mr Klaus, thank you very much indeed for appearing before us. I gather that you have come straight from the airport, and we are very grateful to you for being on time as well. As I think you understand, this is a formal meeting of the sub-committee, which means that the evidence will be taken down and will guide us in our conclusions. We have been working on this subject for some time. We will be reporting in the first quarter of next year. You have been kind enough to send us your article, “Let’s start a real Ukrainian debate”, which appeared earlier this year and which we all read with interest.

My colleagues have a number of questions—indeed, I do too—but I think that you would like to begin by making a short opening statement, so I turn the floor over to you.

Václav Klaus: Good morning. Thank you very much for the invitation and for providing me with the possibility to be here. I would like to start by saying that I do not pretend to be an expert or a specialist on Ukraine. That is definitely not my position. But I am also no aprioristic advocate or defender of Russia or Mr Putin due to our communist experience. I am the last one to be motivated to speak positively about that country. However, our life with communism taught us something. Since then, I have always tried to oppose lies and manipulative propaganda, which I see in this case just now.

I see the current Ukrainian crisis as a domestic Ukrainian problem, later heavily influenced by, if not mostly masterminded from, abroad. This sequencing is crucial for my interpretation of the events there. It started as a purely domestic problem but it has been gradually transformed into a fight about Ukraine or about dominance in eastern Europe, Europe and the whole world. I am afraid that the Ukrainians have been trapped in a fight in which they are only instrumental and more or less passive objects.

I should like to stress what I can potentially offer here. I have a special way of looking at things. I know something about the tenets of the post-communist transition—the political, social and economic transformation of the former communist countries from communism to freedom, to a pluralistic parliamentary democracy and to a market economy—and in this respect I dare to say that, as I see it, Ukraine failed in this respect more than almost any other central or eastern European country. The currently critical Ukrainian situation is the result of that failure and not the result of developments in the past year or of external pressures, aggressions or anything else. The external influence has aggravated the problem, not created it. This is my strong feeling.

I have another potential comparative advantage. I have some experience with the split of Czechoslovakia, which was also a divided country in some respects. I always say that my wife is a Slovak, so we had a division in the family as well. I know something about it. Communism successfully blocked many much needed debates and disputes, including debates about states, nations and nationalities. That was taboo in that era. When communism collapsed, all artificially united entities faced a similar problem. The individual parts wanted to go it alone. That was that case in many other countries. We in Czechoslovakia made it possible and
divided the country in a very peaceful and friendly manner, as I suppose is accepted all over the world. I am sorry to say that some Scottish people visited me often, asking me how to divide the country. I always told them that I did not want to divide the country; I was forced as Prime Minister to organise the split peacefully and in a friendly manner, but it was not my intention to divide it. Therefore, they were always a bit disappointed.

The split happened positively in our country but it did not happen in the same way in Yugoslavia or the Soviet Union. To my great regret, Ukraine did not get a chance to deal with its built-in duality in a rational way, and I am sorry to say that we see the results.

Moreover, in April in our commentary on the situation in Ukraine we stated that Ukraine was a heterogeneous, divided country, and that an attempt to forcefully and artificially change its geopolitical orientation would inevitably result in its break-up, if not its destruction. We considered the country too fragile and with too weak an internal coherence to try to make a sudden change. I am sorry to say that it developed according to our expectations. I am afraid that Ukraine was sort of misused. The West suddenly and unexpectedly offered Ukraine early EU affiliation.

I am afraid that the West, especially western Europe, has accepted a very simplified interpretation of events in Ukraine. According to the West, the Ukraine crisis has been caused by external Russian aggression. The internal causes of the crisis have been ignored, and so are the evident ethnic, ideological and other divisions in Ukraine.

The developments that have taken place since the spring of this year have proved that this approach cannot lead to a solution of the problem. It only deepens the division of the country, increases the tragic costs of its crisis and further destabilises the country. So I do not see that the politicians in Ukraine are looking for a political solution. They do not have any compromise proposals that they could offer to the people of eastern Ukraine to win their confidence. They rely on fighting, on repression and on unrealistic expectations of western economic and military aid.

That is my short summary. I cannot see inside the heads of leading Russian politicians but I do not believe that Russia wanted or needed this to happen. My understanding is that Russia was dragged into it. Dragging Russia into the conflict is a way of making Ukraine a permanent hotspot of global tensions and creating permanent instability in a country that deserves, after decades of suffering under communism, a quiet and positive evolution.

My suggestion is to change the perspective, to concentrate on the internal causes of the crisis and to look for a compromise. But a compromise means starting to talk seriously and to negotiate. When we divided Czechoslovakia successfully, I was often talking to my ex-Yugoslav colleagues in my capacity as President and Prime Minister. They told me, “It was different in our country”. I said, “Yes, but did you negotiate sufficiently? Did you negotiate long enough to find a solution?”. They said, “Well, no. We decided that it was necessary to stop”, and I am afraid that the same is going on in Ukraine.

**Q211 The Chairman:** Mr Klaus, thank you very much. Could I ask you a question arising out of what you said? You said that you had attended all these meetings and that the question of Ukrainian membership of the EU was never a possibility. Do you think it would have been helpful for the EU to have made it explicit and plain that Ukraine could not become a member of the EU and that an Association Agreement with Ukraine was not a first step towards the EU?
Václav Klaus: It is difficult to speculate, but I would say that in the past it was politically incorrect not to behave positively vis-à-vis countries such as Ukraine and not to vaguely promise them a good future in the European Union. That is my feeling. We, the newcomers—not old Europe in Donald Rumsfeld’s terminology—the junior members of the EU, have always tried to say, “You are invited. You are welcomed in the EU”, but it was mainly our feeling that we were knocking at the door of the EU for a very long time. Now we are in, so we do not have the right to say that the doors are closed and locked. It was almost an obligation for us—I felt it that way—to say to those countries, “We will always support your membership”. That was a way of dealing with them. Whether they got promises from someone at the last moment, I do not know, but that was probably the case. My understanding is that in the last year the leading EU politicians, without thinking about the consequences, promised too much.

Q212 Lord Trimble: The situation regarding the expansion of the EU, not only with regard to the Czech Republic and Slovakia but Poland and all the rest, is that we are now left just with Belarus and Ukraine between Russia and the EU. What, then, should the policy of the EU be with regard to places like Belarus and Ukraine?

Václav Klaus: I do not want to make recommendations or give advice. That is a different task. To be frank, you—I do not mean you personally but the people in western Europe—probably underestimate even the geographical differences. I am not sure whether you know that it was much quicker to go from Prague to London this morning than it would have been to go from Prague to Donetsk. The distance is much bigger. I have never been to places such as Donetsk but I have been to London a hundred times. So we are not real experts on Ukraine in this respect. Nevertheless, for us, Ukraine was definitely always different. We did not take it as part of our part of the world, so I would be much more hesitant.

The main problem, as I see it, is what I started by talking about: Ukraine really failed in making the elementary post-communist transition in a political, social and economic sense. I cannot imagine Ukraine participating in EU relations, so to make such promises is, in my view, wrong.

Lord Trimble: I do not disagree with your characterisation of Ukraine in its present state as being very much a failed state. We all know about—at least, we have heard about—the high levels of corruption that exist within it and its failure to make the adjustment. It is not a healthy state of affairs from the point of view of our own interests to have this as it were on the borders of the European Union. It is surely then in our interests to try to encourage Ukraine to become a more successful state. Indeed, some people have said to us that part of the reason for what has happened in Ukraine recently is that over the last 20 years it has made very little progress while over the same 20 years Poland has turned into a modern and very prosperous country. Should we just ignore the present state of Ukraine or should we try to encourage it further down the path that Poland has taken?

Václav Klaus: You mention Poland but I would add Belorussia, for example. We all considered Mr Lukashenko in Belorussia a much more unacceptable person than the Ukrainian leaders over the last 25 years. This was the feeling at least in my country and in my part of the world. But Belorussia and of course Poland were not divided countries. There is a visible split inside Ukraine. Those countries were homogeneous in some respects, so it was possible for them to have a standard political development. This is something that was blocked in Ukraine all the time because there was not really any fighting between the
political parties on the right and the left. There was permanent fighting between political parties belonging to the western Ukrainian orbit—I am not sure how to put it—and the political parties belonging to eastern Ukraine. It was not a standard political division and it did not make standard political development more or less possible. That is the big difference between Ukraine and Belorussia.

**Lord Trimble**: But that still leaves the question of what our policies should be with regard to it.

**Václav Klaus**: As I said about our successful split of Czechoslovakia, I have never dared to recommend that anyone do it. I mentioned our successful split, and I mentioned Scotland, and the Prime Ministers of Catalonia and Flanders, visiting me and expecting my support. I very much hesitate to recommend anyone doing anything like that. My experience in Czechoslovakia is very clear. I was born in Czechoslovakia, my wife is Slovak, and I spent most of my holidays in Slovakia, so it was part of my life and I was absolutely shocked when the issue of the split emerged suddenly and unexpectedly. I considered it absolutely crazy. Nevertheless I came to the understanding that a split was necessary and the only possible way out, instead of letting chaos develop. We did it so successfully that we are now best friends and Czech and Slovak relations are much better than they would have been without a separation of the country. Without advocating a split, I cannot imagine those two parts of Ukraine living together. Too much blood has already been spilt. That is my feeling.

**Q213 Baroness Young of Hornsey**: You said earlier that you thought that the West had underestimated the distance, as it were. You put it in geographical terms but I am sure there is a social and cultural element to that as well. You have also indicated that you think that the West may have misunderstood or misread the genesis of the situation that we are currently in with regard to Ukraine. Do you think, then, that we have enough tools, knowledge, understanding and ability to take different perspectives on the situation in order to find a way of resolving it without either side losing face?

**Václav Klaus**: You put two things together and ask whether we have enough tools and enough knowledge. Let us differentiate between those two things. On the question of knowledge, I am making another speech here this evening in London: 25 years after the fall of communism. One of my statements will be that I think it is now the appropriate time to start saying that we were frustrated in some respects when we understood that the West did not understand us, our fate, our tragic experience. The rhetoric was very nice, but the real understanding was missing. One thing was important. You were mostly surprised that we knew the West much more than you knew the East. We were really part of western culture, European culture. Our behaviour was quite civilised and normal, and you were surprised.

In this last paragraph in my speech tonight is that to my great regret some asymmetry in this respect remains even now. So I agree with you that knowledge is missing in this respect. That is my understanding. I am afraid that just reading the misleading headlines in the media and watching CNN or BBC news is giving such a distorted picture of the situation. I am afraid that the knowledge is missing. I was shocked two weeks ago. There was a long interview with a 21 year-old Ukrainian student in Prague, a lady from western Ukraine. She was on the side of western Ukraine politically. A question was put to her: “What about the Crimea?” She was a 21 year-old student abroad, which means that she was a literate person. “I visited Crimea for the first time in my life last year, when I was 20, and I was absolutely shocked...
that no one understood my language. They supposed that I am from Moldova”. For me it was eye-opening that there was such a problem. The eastern part of the country is really, really different, and the question is whether we can help.

I would suggest one thing in a negative sense: do not support the Maidan demonstrations in an unconditional way. That is the best recommendation that I would dare to give to anyone in western Europe and in Britain.

**Q214 Lord Lamont of Lerwick:** My question is really in two parts. First, how would you respond to a point that was made to us both by the Foreign Office and the Ukrainian ambassador that despite the security concerns of Russia the EU should still continue to respect the sovereign right of neighbouring countries to choose the EU perspective? I suppose they were thinking very much of the fact that Britain is a signatory to a treaty guaranteeing, however artificial you may think it is, the concept of Ukrainian sovereignty.

Secondly, given that there is an EU Neighbourhood Policy, a partnership policy, how does the EU bring Russia into that or deal with Russian concerns with that? Could I tempt you? I think you are being too modest in saying that you have no views and you are not going to make recommendations. I have heard you in my time make plenty of trenchant comments, and I must urge you to come out of your hibernation and tell us your thoughts.

**Václav Klaus:** My Lord, you have known me for some years. My first visit to Great Britain, to London, was just 24 years ago, in early November 1990, when I was Minister of Finance and I signed the tax avoidance treaty with you. I fully support the idea that Ukraine should be treated as a sovereign state and that your country should deal with Ukraine as with a sovereign state. I definitely have no problem with that: you should do that. The question is what you should tell them. Should you tell them to continue fighting and bombarding one part of the country or another, or should you tell them to try to find a negotiated solution. To push them to such a negotiation would be the only advice I can imagine. That is quite clear.

The Eastern Partnership arose when the Czech Republic had the rotating EU presidency, so I know something about it. There was an EU Eastern Partnership summit in Prague, where I had to speak and meet all the participants. I must say that already at that time I explicitly criticised the idea of an Eastern Partnership that did not take Russia into consideration. Russia definitely had to consider the concept of EU Eastern Partnership as an implicit concept against Russia, and I am very sorry that I did not succeed in changing the whole concept.

**Q215 Baroness Coussins:** The prospect of EU membership, for Ukraine or anyone else, is in any case rather academic at the moment, because the incoming leadership of the European Commission has indicated that there is going to be a moratorium on further enlargement for at least five years while everybody puts their heads together and tries to work out “where Europe ends”. Do you think that there is, or should be, an eastern frontier to the EU, and if enlargement is in fact off the table for five years, does this in your opinion reduce the EU’s capacity to promote stability and prosperity in the neighbourhood?

**Václav Klaus:** First, I am glad to hear you mention the “eastern frontier of the EU”—you put it that way—and ask whether there is or is not an eastern frontier of the EU. In some of the documents that I have for this hearing, you also speak about where Europe ends. When I
saw that phrase I immediately implicitly protested, because let us never make a mistake—we must always strictly differentiate between Europe and the EU. This, for me, is a fundamental issue, because I must say that on 1 May 2004 the Czech Republic entered not Europe but the European Union. I know how frustrated I was whenever I came to one EU capital or another and was greeted with, “Welcome to Europe”. I always tried to tell them that we have always been part of Europe, even in the darkest days of communism. Let us always differentiate between Europe and the European Union. This for me, methodologically at least, is a fundamental issue. Many people in Brussels do not even understand what I want to stress by stressing the difference. This is my first point.

My second point is that EU enlargement must answer the question: what is the purpose of enlargement? Everyone has a different perspective. I have an a priori hypothesis that the more countries are there, the better, because the more countries there means the less deep European integration can be. There is an inverse relationship: the more countries there are, the less unification, integration, and masterminding from above there is. I would be in favour of including 50 countries in the EU, which would undermine the attempts by Brussels to create a new centralist state in Europe. So from this perspective I would be very much in favour of offering Ukraine, Turkey, Kazakhstan, Morocco—anyone—EU membership. This is a simple hypothesis. You, on the contrary, may think that EU membership is a method of exporting stability, prosperity, I do not know what else, but I do not think that this is the right concept, because one can easily say at the same time that the EU is now exporting stagnation, zero growth, the debts of sovereign states, the decay of the European continent, and the diminishing relevance of Europe in the world. So I would not make such a strong statement that the EU is spreading stability, although maybe it is for some countries—some totally failed countries. I always argue that we did all our political, social and economic reforms not for the blue eyes of one EU Commissioner or another but for ourselves, and I do not need to be masterminded from Brussels to do it.

The Chairman: Thank you. That is a very interesting reply. I think that some countries tend to feel that joining the EU is a passport to prosperity. I recollect very clearly, when we had the ambassador from Georgia sitting in your place, asking him why Georgia wanted to join the EU. He told me that he would like Georgia to enjoy the same success as Ireland. I think that a number of people have that misapprehension.

Václav Klaus: But it should be stated very clearly, openly and explicitly to all those countries that that is not the case.

Q216 Baroness Henig: Good morning. Can I start by saying that I find your central European perspective very refreshing? I think it gives us a very different way of looking at Europe, and I like that because it is another way of looking at things. I want to move on to EU-Russian relationships, where, again, I suspect that you will have a very distinctive perspective from the Czech Republic.

Previous strategic frameworks for EU-Russian relations have failed, whether it is the four common spaces or the partnership for modernisation. There is no longer any appetite, either in Moscow or in European capitals, for another attempt to integrate Russia into the European space, if you can put it in those terms. What, in your view, should be the basis for the EU-Russian relationship from this point forward?
**Václav Klaus:** First, I like your stressing the central European perspective. It is the correct one, because this is the heart of Europe. For us, Great Britain is already far west. Let us look at the issue from the central European perspective. That is a good point.

As to the failure of the previous strategic frameworks for EU-Russian relations, I would not say that they failed. It would be better to say that they did not materialise. I am not surprised. I always considered them to be empty phrases without real substance. I always understood them to be a positive method. The EU wanted to speak with Russia. Okay. When they spoke, they were supposed to sign at least a short communiqué at the end, and when they found a phrase that looked interesting and positive they always put it in. For us, those communiqués were always meaningless. I did not take them seriously.

This is – partly – the issue of sensitivity. We are more sensitive than you. We may even be oversensitive; you did not suffer half a century under communism. I have spent most of my life inside communism, not outside communism, so we are oversensitive in this respect, maybe wrongly. In spite of that, I know many people in my country who still hate communism so much—correctly—that I hear the phrase, “I hate communism so much that I do not even read Dostoevsky”. I always try to tell them that is not a rational way of looking at current Russia.

I would say that Russia should simply be respected. It should be understood, and it should be taken for granted that Russia will not behave as it behaved in the first decade after the fall of communism. It was untypical behaviour of such a big country. It was unusual. It was not a normal state of affairs. Russia was defeated in the Cold War and behaved in that last decade like a defeated country. Now Russia does not feel like a defeated country and tries to behave, in my understanding, in a normal, rational way and as any big country behaves. So let us accept it. This is the starting point of any meaningful discussion between us and Russia, in my understanding.

**Baroness Henig:** Is there not a problem in the sense that, looking at it from one point of view, given what happened in Crimea, Russia has actually flouted international law? Is that or is that not a problem?

**Václav Klaus:** It is definitely a problem. When I was in Geneva the other day, I spoke to the professor of law at the University of Geneva on Friday. He said, “But you should say that even Mr Khrushchev violated Soviet Union law at the time by giving the Crimea to Ukraine as a gift”. This is special. Ukraine was somehow the only country that was not explicitly and consciously created after the fall of communism. Ukraine somehow remained after the split of the Soviet Union and stayed there as a piece of land.

I will never forget Mr Yushchenko, the ex-President, who started as governor of the Ukrainian central bank. He often came to Prague and wanted to do everything as we did in the economic transformation of the country. He asked us to have all our documents translated. I said, “It is nice that you want to do that, but you are the governor of the central bank and, when I look at the money supply growth and the rate of hyperinflation in Ukraine, it is tragic. You are not following my advice”. The governor of the Ukrainian central bank in 1991 told me, “Do not criticise me. I do not even know where the eastern border of Ukraine is”. It was so undefined and unclear that the country somehow managed to exist with the old administrative structuring of the Soviet Union. It was not an authentically created country.
By the way, before the Second World War part of Ukraine was part of Czechoslovakia, as you may know. My father worked there for five years in a construction firm building the first roads and bridges in that part of Ukraine as part of our international aid to that region.

**The Chairman:** And part of the Habsburg empire.

**Lord Lamont of Lerwick:** You said that in the early years after the fall of communism Russia behaved like a defeated country, although at that point our relationship with the Russian Government was a very good, very friendly one. I do not think you heard Sir Andrew Wood’s evidence, or perhaps you heard the end of it. You are now saying that Russia is behaving like a normal country. Part of Sir Andrew’s evidence was that Russia was not really becoming a normal country and that Russia was dominated by corruption and excessive nationalism, which was leading it if not to restore the Soviet Union then to put pressure on other countries on its border. And it had been aggressive towards Georgia. Sir Andrew put forward a very different version.

**Václav Klaus:** Yes and no. I think it is easy to have easy and friendly relations with a country that does not protest anything. It was definitely a one-sided relationship, so the fact that it was easy to have good relations with Russia in the 1990s does not explain anything, as I understand it. Russia started to rise after the first lost decade. It is definitely difficult to compare the level of corruption in Russia and in Ukraine and say where corruption is bigger, but, again, by discussing these countries mostly in terms of corruption, which is very often done, I am afraid we are missing some important points about their development.

**Q217 Baroness Billingham:** Following your pragmatic approach, what first steps would you recommend for building a constructive relationship between the EU and Russia? What is the basis for a mutually beneficial relationship in the future? Are there areas for shared cooperation where Russia would welcome a strategic dialogue with the EU?

**Václav Klaus:** I would differentiate the answer on the basis of what the behaviour could or should have been without the Ukraine crisis. Three years ago, I would have answered your question one way. Now, after the Ukrainian crisis, it is totally different. Definitely the first step is to solve the Ukrainian crisis. Without that, there can be no rational relationship with Russia for Great Britain, the Czech Republic or the European Union. After what has happened in the last few months, the first task is to stop the Ukrainian tragedy. Then, let us start to define the relationship in a more constructive way.

**Q218 Baroness Young of Hornsey:** How would you differentiate between Europe’s relationship with Russia and its relationship with President Putin? Do you see those as two different things? Are they, in your view, one and the same thing, or should there be recognition that President Putin’s interests are not necessarily the same as Russia’s?

**Václav Klaus:** It would probably be a good result for many people in western Europe if there was proof that Russia is one thing and Mr Putin is a totally different thing. It would make their life easier. I do not know what is in Mr Putin’s head, but I strongly believe that Russia would have behaved very similarly in the Ukrainian crisis or conflict with any Russian President. I do not think there is anything specific in Mr Putin’s behaviour in this respect. Any other Russian leader would behave in the same way, in my understanding. I do not think that it is interesting or relevant in any respect to try to divide them. It is a mistake to try to divide Russia and Putin. His behaviour is not anti-Russian—it is very Russian in this respect. I do not think it is rational to try to make any sort of schism between Russia and Putin on Ukraine.
had the chance to meet President Putin for several years, and then President Medvedev for several years. He was from the younger generation and was at the end of his university studies at the fall of communism, so he was less part of the previous regime than Putin, who is a little older. For me, it was definitely much better negotiating with Medvedev than with Putin, but I do not think there is a big difference. It is a challenge to try to find a difference between Russia and Putin.

Q219 The Chairman: In the light of that answer, Mr Klaus, do you think that the Baltic states are in any particular danger at the present time from Mr Putin’s kind of language? You seem to have answered that you do not think they are.

Václav Klaus: I really do not think so for those countries. I do not differentiate between Russia and Putin, and the Baltic countries are not relevant to the discussion for Russia. The leaders of the three Baltic countries are using—or misusing—the current situation for domestic political infighting and to suddenly make strong speeches.

I have never forgotten my visit to Moscow as Prime Minister in the 1990s, when Mr Chernomyrdin was the Prime Minister of Russia—some of you may still remember the name. Chernomyrdin was Prime Minister in the 1990s, until 1997 or something like that. We had long official talks and long talks with just the two of us. This was just days or weeks before our NATO membership—or before voting took place on our membership, rather than before formal membership. That was the issue of the day in my country, and I travelled all over America to persuade individual Congressmen and Senators to vote for our NATO membership. We spent two days talking in Moscow, and Mr Chernomyrdin, the Russian Prime Minister under Yeltsin, did not mention our forthcoming NATO membership. Then, after the two days, we held a press conference. The first journalist asked a question: “Mr Chernomyrdin, what about the Czech membership of NATO?” A traditional and standard situation. He just looked around and said, “Of course it is not in the interests of the Russian Federation to have NATO so close to our country”. Nevertheless, that was not his real feeling. When I was attacked at home and asked why I did not protest at that moment, I said, “Look, did you expect him to answer the question and say, ‘We just discussed Czech membership with Prime Minister Klaus, and I told him that Russia is extremely happy that they will be able to join NATO and we are pleased to hear that news’”. That was my answer to the Czech media after that. I understood at that time that the Russians took it for granted and that it was not a relevant issue for them anymore.

The Chairman: Neither the Czech Republic nor Czechoslovakia was part of the tsarist empire, whereas the Baltic states were for a very long time. It seems to me that perhaps, looking from Moscow, there is a difference between countries that were traditionally part of the tsarist empire before the Soviet Union and those that were not.

Václav Klaus: Definitely, but I would insist on my statement that this is over for Russia. They would never start trying to get it back. They know that it is absolutely impossible. I am sure they know that.

Baroness Henig: I support what is being said, but the crucial point to me is that the Baltic states got their independence in 1919 and were members of the League of Nations, just as Czechoslovakia was. That to me is the most crucial thing: they had 20 years of independence. I am not sure that going back to tsarist times is relevant. What is relevant to me is the division between the countries that had independence between the wars and
Ukraine, which did not exist in any form that we know of until 1991. That seems to me to be where the division lies.

Václav Klaus: And that is part of the Ukrainian problem: that difference.

Baroness Henig: Exactly.

Václav Klaus: When I was on a state trip to Azerbaijan, we raised many questions about Azerbaijani policies and so on. Nevertheless, I was fairly shocked to discover that for Azerbaijan, the main issue that happened in the last 25 years was not the fall of communism but the independence of Azerbaijan. That means that they feel it. This is not the case in Ukraine, I am afraid.

The Chairman: Mr Klaus, thank you very much indeed. It has been a very helpful session and I am very grateful to you for coming before us.

Václav Klaus: Thank you very much for inviting me to come.
What is your assessment of relations between the EU and Russia prior to the crisis in Ukraine? Were there shared areas of cooperation where the EU and Russia were working together?

An intensive EU-Russia dialogue was maintained at all levels prior to the conflict in Ukraine. A key role in the respective institutional system belongs to summit meetings between the President of the Russian Federation, the President of the European Council and the President of the European Commission. These are held twice a year: the most recent summit, the 32nd one, was held on 28 January 2014 in Brussels. Meetings between the Russian Government and the European Commission (the most recent one on 21-22 March 2013 in Moscow) are of a great importance as well.

The main working-level body of Russia-EU cooperation is the Permanent Partnership Council (PPC) that comprises ministerial-level representatives of Russia, the EU Council Presidency and the European Commission. It may convene in the format of foreign ministers or sectoral ministers. On foreign affairs, meetings in the so-called “Luxembourg-format” (1 + 1 + 28) involving all the member states' foreign ministers, have also proved useful. Russia’s Foreign Minister and EU CFSP High Representative hold regular bilateral meetings (most recently on 4 March 2014 in Madrid), including on the margins of UNGA sessions. Meanwhile, a full-scale PPC meeting at the foreign ministers level hasn’t taken place since late 2011, including due to the EU High Representative's unreadiness to discuss Russia-EU relations in a systemic way.

Consultations are held between the Russian MFA and the European External Action Service at the levels of political directors and experts, covering 20 priority areas of the international agenda.

There are 17 Russia-EU sectoral “dialogues” used as the main mechanism of the joint initiative “Partnership for Modernization” launched at the Russia-EU summit in Rostov-on-Don in 2010.

Notwithstanding this strong institutional structure, when it comes to substance, Russia-EU cooperation was grinding to a halt even before the current crisis in Ukraine. Unfortunately, we were not seeing sufficient progress on the most important areas of cooperation, such as crisis settlement, the energy dialogue, the preparation of a new “basic” Russia-EU agreement, etc.

We are well aware of the complexity and uniqueness of the internal structure of the EU. We understand "institutional" difficulties the EU often faces when making decisions, including those relating to relations with Russia.

EU is not an easy partner to deal with because of the nature of its institutional structure. EU member states have transferred power over a range of issues to the supranational level, while other issues remain within the competence of national governments. For a position to
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be agreed internally between Brussels and member states, a lengthy process is often needed, aggravated by disagreements on many issues. These internal problems complicate cooperation with any third country, and Russia is no exception.

To add to that, the EU had politicized many issues on the Russia-EU agenda. EU’s internal procedures were sometimes used as a pretext for demanding unilateral concessions or delaying work on crucial agreements, a practice that we find unacceptable. One should also bear in mind the deficit of autonomy in the EU external affairs that was manifested in the escalation of the sanctions regime against Russia, fraught with unpredictable consequences for the economic stability of Europe itself. Further, quite often not only doesn’t the EU take account of Russia’s interests, but also behaves towards Russia in an openly biased way.

One of the many examples of such an approach is the policy of the European Commission towards the negotiations with Russia on an updated visa facilitation agreement. In early 2012, the text of the draft was agreed except the provisions on visa-free travel for holders of biometric service passports (as opposed to diplomatic passports whose holders already enjoy mutual visa-free travel, and ordinary passports whose holders were to continue to require visas). Those provisions were finalized in June 2013. However, the EU was unable to take the final decision to approve the text, under the pretext of "doubts" allegedly expressed by some member states and the need for some additional Russian guarantees to prevent abuse of service passports (whereas in reality the total number of holders of service passports of EU member states is much higher than that of holders of Russian service passports). Moreover, the European Commission decided to create an additional obstacle, demanding a change in the Russian legislation on the transfer of passengers’ personal data as a condition for concluding the agreement. As a result, the negotiation process was halted, only to be completely frozen by a European Council decision in March 2014.

Russia’s impression is that the root of the problem is that Brussels mistakenly treats Russia as an EU-aspiring country prepared to sacrifice its interests and sovereign rights for the sake of future membership. However, this model cannot work in EU-Russia relations, either today or in the years to come. The policy of imposing solutions under the pretext that they have been agreed within the EU and hence cannot be modified, is unconstructive and inefficient when it comes to the relations with Russia.

Unlike EU’s relations with many Eastern European countries, Russia-EU ties are not aimed at future membership, and their value is different in nature. Therefore, they should be freed from all kinds of bilateral issues that arise in Russia’s relations with certain EU member states. Unfortunately, the opposite is often the case, with some EU members shifting their problems on the shoulders of Brussels.

One area where Russia-EU relations have a clear added value as opposed to Russia’s bilateral ties with individual member states is our cooperation in world affairs. When it comes to the international agenda, it is much easier for Russia to work with the EU when its member states manage to agree on a truly united position. Our cooperation on the Iranian nuclear program is the most vivid example. This, by the way, refutes a widely-held misconception that Russia is not interested in the EU as a strong foreign policy player.
With regard to the recent crisis in Ukraine, what were the proximate and structural causes of the crisis?

The Ukrainian crisis was triggered by irresponsible policies and ambitions of the outgoing EU leadership and certain member states who aimed to expand the zone of their influence in a region with well-established historical, cultural, humanitarian and economic ties without considering the interests of the neighboring countries. Countries of the "Eastern Partnership" were faced with artificial "civilizational choice": either with the EU or with Russia. One of the tools of such policy were the lengthy yet confidential negotiations between the EU and Ukraine on the Association Agreement. The authors of EU association agreements with Ukraine, Moldova, Georgia and Armenia should have realised that some of their provisions would directly affect the obligations of the respective countries undertaken within the framework of other organizations (CIS, Customs Union, Collective Security Treaty Organisation) and the interests of third countries, in particular Russia.

At the same time, the current developments in Ukraine have also been caused by a crisis of the Ukrainian statehood, ambitions of the previous Ukrainian leaders to solve the country’s problems by using external factors. Further, the United States has played a significant role through its involvement in Ukrainian affairs.

On 21 November 2013, the legitimate Government of Ukraine decided to suspend signing of the EU Association Agreement and proposed further consultations. In parallel, Russia proposed to hold trilateral (EU-Ukraine-Russia) consultations on the impact of the Association Agreement. These proposals were rejected by the European Commission.

At the same time, public protests began in Ukraine, supported by the EU, a number of its member states, and the US. Many of the protesters described themselves as supporters of a “free choice in favour of the EU”, often mistakenly guided by an idea that EU Association would immediately lead to improved well-being, well-paid jobs in EU countries, and the EU paying for solutions to the country’s numerous problems. However, soon after, neo-Nazi and other extremist groupings took the lead in the “Euromaidan” movement. A coup occurred in February 2014, followed by a civil war, persecution of dissenters, and deliberate actions to accelerate the destruction of the traditional ties with Russia.

Neither the people of Crimea, nor the inhabitants of Ukraine’s South-Eastern regions, who have much more in common with neighboring Russian regions than with Western-Ukrainian territories, agreed to that. At the referendum on 16 March 2014 the Crimea en masse made an unambiguous choice in favour of the independence from Ukraine and voted for the subsequent re-unification with the Russian Federation. It is to be recalled that only 2.51% of the voters favoured the alternative option, namely for Crimea to remain part of Ukraine. The democratic choice of Crimea didn’t cost them a single human life. Meanwhile, in the Donetsk and Lugansk regions, as it is well known, irreplaceable human losses are huge.

Against this background, the EU signed (27 June) and ratified (16 September) the Association Agreement with Ukraine.
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**What advance dialogue did the EU have with Russia about the possibility of Ukraine signing the Association Agreement?**

In fact, there was none. During the whole negotiation period the substance of the Association Agreement was kept closed. It was initialled in early 2012 but published only in the summer of 2013. Only at that point the business community could analyze the text. When Russia and Ukraine were calling for trilateral consultations, Brussels was refusing, pointing out that the Agreement was a “matter of bilateral EU-Ukraine relations”. The decision to hold EU-Russia bilateral consultations in this regard was taken at the summit in Brussels on 28 January 2014.

It took Brussels many months, an economic crisis and a war to understand the need for trilateral dialogue: the first Russia-EU-Ukraine ministerial meeting on the Association Agreement implications was held only on 11 July 2014. As a result, the EU has come back to the same point where it all started in late 2013, namely to a delay in the implementation of the Agreement’s economic and trade provisions (the same decision as the one that had been the immediate reason of the removal of the previous Ukrainian leadership).

The EU’s decision to delay implementation of the EU-Ukraine “deep and comprehensive” free trade area (DCFTA) until the end of 2015 makes it possible to find solutions addressing Russia’s concerns in five areas: tariff liberalization, technical regulations, sanitary and phytosanitary measures, customs administration, energy. Those solutions should be fixed in a legally binding manner, i.e. through amending the text of the Agreement. The relevant Russian proposals have been submitted to the EU.

For the delay period, Russia will maintain the preferential trade regime with Ukraine within the framework of the CIS Free Trade Area Agreement. This decision may be reconsidered if the current EU-Ukraine trade regime is changed earlier than it has been promised so far. Any amendments to the Ukrainian legislation aimed at the actual implementation of the provisions of the EU-Ukraine DCFTA will be considered as a violation of the agreements reached and will entail immediate response on the part of Russia, in accordance with the rules of WTO, CIS and the Customs Union.

**How has the EU’s policies in the neighborhood (such as the Eastern Partnership and Association Agreement) helped or hindered relations between the EU and Russia?**

The implementation of the Eastern Partnership and Association Agreement policies has hindered the cooperation within the CIS as well as the relations between Russia and the EU. The development of the Eastern Partnership and the deterioration of the situation in Ukraine led us to believe that the Eastern Partnership is not only an initiative to build up trade and economic relations of the EU countries with the “focus states” while hindering their traditional ties with other neighbours, but also a geopolitical project aimed at drawing new dividing lines in Europe. It is also worth adding that there are constant attempts to shift the blame for the unavoidable difficulties in implementing this self-discredited initiative on Russia.

Unfortunately, this process has gained some momentum and is not easy to be corrected (although at least some people in Brussels are looking into such a possibility). One example is the declaration by the Latvian leadership to the effect that Central Asia and the Eastern
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Partnership will be the priority themes of the Latvian EU presidency in the first half of 2015. Latvia has also suggested more involvement into the Eastern Partnership for NATO and the USA (by transforming it into a Euro-Atlantic Eastern Partnership). In our opinion, an extension of Eastern Partnership mechanisms to Central Asia will only lead to negative consequences in the region and will hardly lead to a normalization of Russia – EU relations.

We have noted attempts to discredit partnerships with Russia and the Russia-Belarus-Kazakhstan Customs Union, as well as to foment unrest in some countries (particularly in Armenia) that are trying to preserve and build up traditional ties in Eurasia. NGOs and foreign embassies are used to this end. We caution against attempts to manipulate states or to organise another “Maidan”.

The Eastern Partnership policy is controlled by the Brussels bureaucracy and those EU countries who try to solve their domestic problems through confrontation with Russia. This leads the policy to be implemented without consideration of Russia’s legitimate interests. We believe that responsible EU members have to make their contribution and try to correct this wrong course.

Our priority is to work towards a common humanitarian and economic space from the Atlantic to the Pacific. It should be developed in the economic sphere via synergies between integration processes of the Eurasian Economic Union and the EU, and in humanitarian sphere via full use of OSCE and Council of Europe mechanisms. This project, if implemented, would eliminate the very possibility of crises such as the one we are witnessing in Ukraine. The Eastern Partnership and Association Agreement mechanisms are not fit for this purpose as they have been conceived and implemented in a confrontational manner, without proper discussion with Russia, let alone Russia’s participation.

**What is the depth and nature of economic interdependence between Russia and EU?**

The EU is the biggest trade and economic partner of the Russian Federation. 49,4% of Russian foreign trade is with EU countries. In 2013, trade between Russia and EU reached 417,5 billion USD (annual growth of 1,9%), including export from Russia to the EU - 283,2 billion USD (2,2% up), import from the EU to Russia – 134,3 billion USD (1,3% up).

Russia, for its part, is the third biggest trade partner of the EU (after USA and China), the biggest supplier of natural gas and one of the leaders in oil and petrochemicals supplies to the EU market.

**Does Russia’s membership of the World Trade Organisation help or hinder trade with the EU?**

One of the reasons of Russia joining the WTO was an ability to use the instruments of the Organisation, in particular the dispute settlement procedures, in order to improve our access to other WTO member-states markets. Russia has already initiated two proceedings vis-a-vis the EU: one is against the so-called energy adjustments used to calculate anti-dumping duties; the other relates to the discriminatory policies of the “Third energy package”.

**The Russian Government has expressed significant concern regarding the impact of Ukraine’s DCFTA with the EU for Russian-Ukrainian trade and the Russian economy itself. Does Russia have similar concerns regarding the DCFTAs concluded with Moldova and**
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**Georgia? What explains the different approach Moscow seems to have taken in response to those country’s European integration trajectories?**

The attention to Ukraine is for a good reason – its economic ties with Russia are enormous. Economic relations with Georgia in recent years were not particularly intensive. For Moldova, stable trade and economic ties with Russia have a big practical significance. As with the EU-Ukraine DCFTA, EU-Moldova and EU-Georgia agreements contradict these countries' previous obligations within the CIS framework. Having said that, the losses that the DCFTA in case of these countries could bring to Customs Union economies will be incommensurably lower than those from Ukraine’s DCFTA. Still, we have held separate discussions with Moldova and Georgia to put forward our concerns in this regard. We have also voiced our concerns regarding consequences of these agreements in contacts with EU officials. Russia will take necessary measures to protect our market accordingly to the measure of damage those DCFTAs could bring. The governments in Chisinau and Tbilisi are aware of this approach of ours.

**Additional considerations: Sanctions**

As practice shows, sanctions do not contribute to the achievement of their declared goal, which is to settle conflicts, but rather result in aggravation of disputes.

The current sanctions imposed against Russia, together with the existence of a new centre of instability in Europe, cannot but damage the interests of the European Union. According to the EU's own assessments, by the end of this year the damage to the EU economy as a result of the restrictions will reach 40 billion Euros. Not to mention that such hostile actions lead to a crisis of trust that will be difficult to overcome.

It is symptomatic that the logic of anti-Russian sanctions is no longer connected to the events in Ukraine. The latest set of sanctions was imposed on 8 September - three days after an agreement reached in Minsk created conditions for a peaceful resolution of the Ukrainian standoff. This gives grounds to suggest that Brussels deliberately supports the “war party” in Kiev and is not interested in resolving the Ukrainian crisis.

Russia has repeatedly stated that we reserve the right to respond adequately to the anti-Russian actions by the EU. In response to the sanctions, Russia has imposed restrictions with regard to some agricultural products and introduced a visa ban for several EU and national officials.

With regard to the issue of lifting sanctions, we believe that this question should be first addressed to those who have imposed them, i.e. to the EU. It should also be clear that Russia is not going to discuss criteria for lifting of these unlawful measures or comply with the demands put forward in this connection.

However, we are not interested in breaking the ties with the EU and will be ready to revise our reciprocal measures, legitimate under international law, if the EU adopts a more cooperative approach and demonstrates common sense. Our attitude to this problem is purely reciprocal.

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