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European Union Committee

3rd Report of Session 2008–09

**After Georgia
The EU and Russia:
Follow-Up Report**

Report with Evidence

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SUMMARY

Following the August 2008 conflict in Georgia, we decided to conduct a short inquiry into EU-Russia relations to follow up our report of May 2008¹. This new report considers the implications of the Georgia conflict for EU-Russia relations. We also look at other recent developments, such as the Russia-Ukraine gas dispute, the downturn in the Russian economy and wider questions of European security. We consider that the conclusions reached and recommendations made in our original report remain valid.

On the war in Georgia, we conclude that Russia's use of force was disproportionate in response to provocative statements and military action by President Saakashvili. The EU's response to the conflict was rapid and reasonably successful, and owed much to the effectiveness of a strong EU Presidency with whom the Russians were prepared to negotiate. However, we express serious concern that Russia has not complied fully with the ceasefire agreement reached between President Sarkozy and President Medvedev. We endorse the Government's approach that the pace and tone of the EU's negotiations with Russia on a new Partnership and Cooperation Agreement should be informed by Russia's fulfilment of its obligations under the ceasefire agreement. We are also critical of Russia for breaching the principles of sovereignty and territorial integrity through its recognition of South Ossetia and Abkhazia.

We note the severe downturn in the Russian economy, which has weakened Russia's position since our first report was published. On energy, the conclusions in our initial report have assumed an even greater sense of urgency in the wake of the gas dispute between Russia and Ukraine of January this year. We urge the EU to push forward in its efforts to establish a unified energy strategy, including an interconnected and liberalised internal market in energy, especially gas.

On European security, we say that the ongoing issues between Russia and the West over missile defence and NATO enlargement still risk further complicating EU-Russia relations. The EU should consult closely and at an early stage with the new American administration about engaging with Russia in a firm but constructive, fair and balanced way. We reaffirm our conclusion that the common neighbourhood is a particularly sensitive area for both Russia and the EU, and welcome the EU's new commitment to strengthening its relationship with Ukraine, Georgia and its other eastern partners in the Eastern Partnership. The prospect of EU membership should be given greater encouragement and substance.

Our overall conclusion is that, despite recent setbacks, hard-headed, pragmatic and unsentimental engagement remains the way forward in the EU's relations with Russia.

¹ European Union Committee, 14th Report (2007–08): *The European Union and Russia* (HL 98).

After Georgia—The EU and Russia: Follow-Up Report

CHAPTER 1: THE EU AND RUSSIA AFTER GEORGIA

1. **Our report on the European Union (EU) and Russia, published in May 2008², gave the Committee’s views on the bilateral relationship. The conclusions and recommendations reached at that time remain valid.** Since then, bilateral relations have suffered a reverse as a result of the August 2008 conflict in Georgia in which life was lost, people displaced and property destroyed. The war prompted the EU to reassess its strategy towards Russia as well as Ukraine and Georgia. It also drew attention to questions of energy security which were further highlighted by the crisis in Russian gas supplies via Ukraine to EU countries in January 2009.
2. In this follow-up report, we examine:
 - the implications of the war in Georgia and other recent developments for EU-Russia relations (paragraphs 5–13);
 - the European response to the conflict (paragraphs 14–23);
 - the status of South Ossetia and Abkhazia (paragraphs 24–30);
 - the economic crisis and tensions over energy supply (paragraphs 31–44);
 - the effect of United States (US) and North Atlantic Treaty Organisation (NATO) policy on EU-Russia relations (paragraphs 45–58);
 - the way ahead, including the negotiation of a new Partnership and Cooperation Agreement (PCA) (paragraphs 59–66, 79);
 - the EU’s relations with its eastern neighbours in the so-called “common neighbourhood” with Russia (paragraphs 67–78).
3. This report was prepared by Sub-Committee C whose Members are listed in Appendix 1. Those from whom we took evidence, to whom we are grateful, are listed in Appendix 2.
4. We make this report to the House for debate.

The war in Georgia and its effect on EU-Russia relations

5. The war in Georgia had serious repercussions for the relationship between the EU and Russia. Sir Mark Lyall Grant, Director General, Political, at the Foreign and Commonwealth Office (FCO) told us on 20 November 2008 that relations between the EU and Russia were still somewhat strained as a result of the crisis in Georgia. However, the two sides also shared a number of common interests and challenges including counter-terrorism, climate change, trade, peace in the Middle East, and non-proliferation in respect of Iran (Q 32), a point also made by the Minister, Lord Malloch-Brown in the debate on our original report on the EU and Russia³. Another witness,

² Op cit.

³ HL Deb 10 October 2008 cols 414–451.

Sir Roderic Lyne, former United Kingdom (UK) Ambassador to Moscow, told us that the current state of EU-Russia relations was “a mess”, despite some positive elements such as the trade relationship and inter-personal contacts. Professor Robert Service, Professor of Russian History at St Antony’s College, Oxford University, agreed with Sir Roderic’s assessment. Sir Roderic considered that the EU was sharply divided about relations with Russia, a matter we examined in our original report on the EU and Russia⁴. He evaluated the current prospects of achieving significant progress in the EU-Russia relationship as low (Q 5).

The August 2008 conflict and its complex causes

6. Our witnesses stressed that responsibility for the conflict in Georgia in August 2008 should be shared between all the parties to the conflict. Sir Mark Lyall Grant believed that the Georgian President Mikheil Saakashvili had demonstrated some recklessness. On the other hand, the Russian response had been both disproportionate and unnecessary, in particular by moving their forces into Georgia, attacking installations and bombing towns (Q 33).
7. Witnesses described the complexity of the situation in the Caucasus. Sir Roderic Lyne thought that the Georgians were in large part to blame for what had happened, as well as the Russians. This included, specifically, the way the Georgians had treated Ossetia and Abkhazia over the past 20 years. He had been surprised that the conflict had not taken place earlier. From the outset President Saakashvili had imprudently pursued a policy of provoking the Russians. Sir Roderic thought he had been encouraged to take this line by “Neocon elements” in Washington (Q 11). The Bush administration in the United States had to bear a heavy responsibility, since it had had the greatest external influence on President Saakashvili: “they clearly delivered very mixed messages to him ... I think there is a big question as to why the Americans failed to restrain or deter Saakashvili from doing what he did” (Q 4).
8. However, Sir Roderic believed that the Russian military intervention had not been spontaneous but planned well in advance. Over the past three years or so, there had been attempts by Moscow to blockade Georgia. Evidence existed, some, he said, produced by the UK’s Defence Research Establishment before the conflict, of a deliberate Russian military build-up prior to the August war: “I think the Russian military were waiting for this to happen ... there was a deliberate intention on their part at some point when the opportunity presented itself to ... use force against Georgia”. A combination of the actions of Saakashvili and the Russians had led to the build-up that had ultimately led to a conflict (Q 11).
9. Professor Service thought it was necessary to go back beyond the last 20 years to determine the causes. Georgia was a “patchwork quilt” of national groups. When it became a Soviet republic there had been a very vigorous policy of “Georgianisation”, with a huge transfer of populations, particularly of Georgians into Abkhazia. This had now been reversed and Abkhazia had been “ethnically cleansed” of Georgians when the Abkhazians had driven them out (QQ 3, 11). Abkhazia was in a shocking state: half the buildings were wrecked. The “Georgians [had] bullied the Abkhazians, so that

⁴ Op cit, paragraphs 258–271.

although the Russians have now bullied the Georgians, even in the last 20 years there is a history of terrible international, inter-ethnic violence down there, and of wars” (Q 3). Professor Service explained that this situation had led to a pervasive resentment by the remaining Georgians in Abkhazia and South Ossetia: “This is a very brittle, explosive country we are talking about ... and it really did not take very much for the Russians to decide that they could make a lot of mischief down there, especially as Georgia had been designated as some kind of close ally of the US” (Q 11). However, in underlining the complex nature of the history of relations in the Caucasus, Professor Service maintained: “We must not barge into these areas, thinking that simplistic analyses ... are at all possible. That is not to say that we should not be assertive” (Q 2).

10. According to Sir Roderic Lyne, commercial interest had also played a part in the conflict, particularly in Abkhazia. “Some of the people who were pushing for recognition of Abkhazia reportedly had very large commercial interests there, including some of the Duma members most vociferous on the subject and some other well-known players in the Moscow political landscape” (Q 11).
11. **The precise circumstances surrounding the August 2008 outbreak of the conflict are not yet clear but responsibility for the conflict was shared, in differing measures, by all the parties. There is evidence of a Russian military build-up prior to the August war. In addition, Russia’s use of force was disproportionate in response to provocative statements and military action by President Saakashvili.**
12. **President Saakashvili seems to have drawn unfounded confidence in confronting Russia as a result of mixed signals from the US Administration.**
13. **The origins of the conflict lie in both distant and more recent history in the region, involving population transfers, national grievances, commercial, political and military interests. Attempts at resolving the conflict will need to take account of these complex factors.**

The European response to the conflict

14. The EU’s response to the Georgian crisis was led by President Sarkozy, France having taken over the EU Presidency the previous month. He successfully negotiated a six point ceasefire between Russia and Georgia and the EU rapidly established an observation mission. In a further response, on 1 September 2008, the European Council met in extraordinary session and suspended negotiations with Russia on a new Partnership and Cooperation Agreement (PCA). At the same meeting the European Council commissioned a review of EU-Russia relations from the European Commission. The resulting Communication reviewed the different elements of the relationship and expressed the view that the suspended PCA negotiations should be resumed. This course of action was agreed at the 10 November General Affairs and External Relations Council and the decision announced at the EU-Russia summit in Nice on 14 November 2008.
15. In view of the discrepancies over the origins of the conflict (see paragraphs 5–10) the General Affairs and External Relations Council of the EU also decided, at its meeting of 15–16 September 2008, to set up an independent inquiry to be funded by the EU to investigate the origins and the course of the conflict

in Georgia⁵. The EU is also leading diplomatic talks in Geneva between Russia and Georgia which are attended by representatives from the US, United Nations (UN), Organisation for Security and Cooperation in Europe (OSCE) and Abkhazia and South Ossetia (Lyll Grant QQ 36–37). Three meetings have so far taken place in October, November and December.⁶ FCO Minister Lord Malloch-Brown stressed the importance of these talks in the 10 October 2008 debate on our previous EU-Russia report: “We remain committed to the EU-led Geneva talks...It is extraordinarily important that Russia demonstrates real commitment to this process and to the unresolved questions ... for all the progress ... on observers, there has not been progress on refugees and internally displaced persons, or on property rights of those who have been displaced by the conflict. There remain outstanding humanitarian issues and profound questions of human rights and their breach”.⁷

16. Professor Service emphasised the significance of the war, which had “brought the entire European policy-making establishment to its senses” after a decade when Europeans had been too indulgent with President Putin. “The Russians really do not respond well to soft negotiation” (QQ 2, 8). Sir Roderic Lyne agreed that the Georgia crisis had been “a bit of a wake-up call for some in Europe, although not all.” Russian actions had provoked a very strong reaction in Europe and elsewhere and the Russians were in a worse position as a result (Q 4).
17. According to Sir Mark Lyall Grant, compliance by Russia with the ceasefire agreements negotiated under the auspices of the French EU Presidency had been substantial but incomplete. Russian troops had largely been withdrawn from the “rest of Georgia” and the Russians had engaged in the Geneva talks. However, in the August ceasefire agreement Russia had undertaken to withdraw its forces to the positions they had held before August 2008. In particular areas this had not yet occurred, including in Akhgori, South Ossetia; in the village of Perevi outside South Ossetia; and in the upper Kodori Valley, which was on the borders with Abkhazia but had previously been administered and run by the Georgians. A second point was that Russian troops were in the enclaves in much larger numbers than before. Sir Mark thought there was a total of 7,500 troops in the two enclaves, whereas previously there had probably been fewer than 3,000. A final point was that some EU monitors had encountered difficulties crossing into South Ossetia (Q 40).
18. In a letter to the Committee on 9 January, Europe Minister, Caroline Flint MP, reported that the security situation in Georgia remained fragile, in particular the position of ethnic Georgians in Abkhazia and South Ossetia which was precarious. Human and minority rights violations continued to be reported from the two breakaway regions and the Russian-occupied areas of

⁵ The investigation will include questions of international law, humanitarian law and human rights. The geographical scope and time span of the investigation is to be sufficiently broad to determine all the possible causes of the conflict. The results will be presented to the parties to the conflict, and to the Council of the EU, the Organisation for Security and Cooperation in Europe (OSCE) and the United Nations (UN), in the form of a report. The inquiry will be led by Heidi Tagliavini, a Swiss diplomat who served as the UN Secretary-General’s Special Representative to Georgia from 2002–2006.

⁶ The talks are divided into two working groups on security and stability and on improving living conditions of internally displaced persons (IDPs) and refugees. For information on the talks and the remarks made by Pierre Morel (EU Special Representative for the crisis in Georgia and co-Chair of the talks) following the meetings, see www.consilium.europa.eu/cms3_fo/showPage.asp?id=1523

⁷ HL Deb 10 October 2008 cols 414–451.

the rest of Georgia. The Government held Russia responsible for protecting human rights in all the areas under its control but there was little sign of Russia wishing to bring those responsible for illegal acts to justice. Of the international humanitarian aid organisations, only the International Committee of the Red Cross had been able to gain access to South Ossetia. Negotiations on a new mandate for the OSCE Mission in Georgia had collapsed and only the UN Observer Mission in Georgia (UNOMIG) had reasonable access to Abkhazia, though its mandate would expire in mid-February. The Russians were denying “all but the most cursory access” for the EU Monitoring Mission (EUMM) to South Ossetia and the Government were calling on Russia to give the EUMM immediate access to Abkhazia (p 26).

19. In January, Europe Minister, Caroline Flint told the House of Commons that the decision had been taken to resume negotiations on the Partnership and Cooperation Agreement. EU Ministers agreed that the pace and tone of the negotiations would be informed by the review of EU-Russia relations which the EU had undertaken and “by Russia’s fulfilment of its obligations under the ceasefire agreements.”⁸
20. **The EU’s response to the conflict in Georgia was rapid and reasonably successful. It persuaded the two parties to accept a ceasefire, and with some delay brought about the withdrawal of Russian troops from all Georgian territory outside South Ossetia and Abkhazia and brought the parties together for talks in Geneva. This success owed much to the effectiveness of a strong Presidency with whom the Russians were prepared to negotiate. The EU was the obvious and perhaps only credible body to act as intermediary in the conflict, and acted with unaccustomed confidence and authority.**
21. **We are seriously concerned that Russia has not complied fully with the ceasefire agreement reached between President Sarkozy and President Medvedev. Full Russian compliance with the ceasefire plan should continue to be used as a measure of Russia’s behaviour, even though such compliance is unlikely in the near future. We endorse the statement by the Europe Minister that the pace and tone of the negotiations on the new Partnership and Cooperation Agreement would be informed by Russia’s fulfilment of its obligations under the ceasefire agreements.**
22. **We welcome the EU’s decision to set up an inquiry to investigate the origins and the course of the conflict in Georgia. Any action the EU takes to find lasting solutions must involve the local communities and take account of their views, as well as addressing the wider geopolitical situation. In doing so, lessons should be drawn from previous UN and OSCE missions in the area.**
23. **The EU should, with the UN, the OSCE, the United States and other partners, make an effective contribution towards building a long-term peace in the region. It is essential that the mandate of the EU Monitoring Mission in Georgia (EUMM) is renewed later this year and is allowed to exercise its agreed tasks in full on both sides of the border.**

The status of South Ossetia and Abkhazia

24. Following the conflict, Russia recognised South Ossetia and Abkhazia as independent states, but Sir Roderic Lyne commented that this had been a

⁸ HC Deb 20 January 2009 col 680

complete failure: only Nicaragua and Hamas had supported Russia (Q 4). In addition, the Russians had “breached their own principle” that international borders should not be changed unilaterally (see box below) (Q 1). Sir Mark Lyall Grant noted that Russia had signed up to UN Security Council resolutions on the sovereignty and territorial integrity of Georgia. He therefore hoped that it would be possible to tackle the status issues rather than leave them unresolved more or less indefinitely and as a continuing source of instability (QQ 36, 39). Russia had made private and public statements to the effect that there was no intention of absorbing either Abkhazia or South Ossetia into the Russian Federation. Talks had started in Geneva on security and refugee issues, but in due course a diplomatic process would be needed to resolve status issues (QQ 35–36).

25. Sir Roderic Lyne pointed out that Abkhazia and South Ossetia were rather different cases. The population of Abkhazia was larger, some four or five times the population of South Ossetia. It could be a viable mini-state, with its mining and tourism potential. On the other hand, South Ossetia was a landlocked, mountainous entity of 60,000 people with no real economic viability other than crime and smuggling. Moreover, there was an international boundary dividing the Ossetian people, a legacy of Stalin (QQ 4, 11).

BOX 1

Russian Foreign Policy Commitments

1) The Helsinki Final Act, the Founding Charter of the OSCE, of which Russia is a member, states that:

“The participating States will refrain in their mutual relations, as well as in their international relations in general, from the threat or use of force against the territorial integrity or political independence of any State”.

“The participating States regard as inviolable all one another’s frontiers as well as the frontiers of all states in Europe and therefore they will refrain now and in the future from assaulting these frontiers”.

“The participating States will respect the territorial integrity of each of the participating States”.

2) The UN Charter, Article 2 (4, 6)

4. All Members shall refrain in their international relations from the threat or use of force against the territorial integrity or political independence of any state, or in any other manner inconsistent with the Purposes of the United Nations.

6. The Organisation shall ensure that states which are not Members of the United Nations act in accordance with these Principles so far as may be necessary for the maintenance of international peace and security.

3) The Statute of the Council of Europe, preamble and article 3

“Convinced that the pursuit of peace based upon justice and international co-operation is vital for the preservation of human society and civilisation... Every member of the Council of Europe must accept the principles of the rule of law and of the enjoyment by all persons within its jurisdiction of human rights⁹ and fundamental freedoms”.

⁹ On 20 January 2009, the Czech presidency of the EU issued a statement expressing its “deep concern” about the murder of Russian human rights lawyer Stanislav Markelov and of the Novaya Gazeta journalist Ms Anastasiya Baburova in Moscow on 19 January 2009. Presidency website: www.eu2009.cz

26. Professor Service believed that Russia would leave the two breakaway entities to be troublesome to Georgia rather than incorporating them into the Russian Federation. However, he also emphasised the fluid nature of boundaries dating from the Soviet era when the internal boundaries of the Soviet Union had been redrawn many times, including the boundary of the Russian Federation, in the period from 1917 to 1991. The borders of Ukraine had also been redrawn several times in the past 100 years. Following the recognition of Kosovo by a number of countries in the West, Putin had occasionally indicated that Russia could take similar action if it so wished¹⁰ (Q 15). For Sir Roderic Lyne, this was why “we really need to have a fundamental discussion about European security ... it is extraordinarily dangerous for future European security if we go any further down this track. There are no end of boundaries over which arguments could arise. President Medvedev, echoing earlier remarks by President Putin, is now asserting a doctrine under which Russia has privileged interests and has a priority to defend the interests of Russian citizens overseas” (Q 16) (see Box below).
27. The Foreign Secretary, David Miliband, was clear that the cases of South Ossetia and Abkhazia on the one hand, and Kosovo on the other, were very different. In evidence to the House of Commons Foreign Affairs Committee, he said: “Kosovo is a case, first of all, where there was mass slaughter in the 1990s, secondly where a UN protectorate was established, thirdly where a UN political process was established, fourthly where both sides—Belgrade and Pristina—were re-engaged through the so-called troika process in the second half of last year, and finally and most importantly, where resolution 1244 of the UN Security Council set up the final status issues. The resolution is status-neutral in itself; it does not decide in advance what the conclusion should be, but it sets up the resolution of the Kosovo issues. I think that none of those five criteria or facets of the Kosovo question applies in the South Ossetia or Abkhazia case. In fact, you can make the opposite argument, because South Ossetia and Abkhazia are part of Georgia, whose territorial integrity was asserted in UN Security Council resolutions supported by the Russians”¹¹.

BOX 2

Russian Foreign Policy Principles

President Medvedev's five principles of Russian foreign policy

In the aftermath of the Georgian conflict, the Russian President Dmitry Medvedev laid down five principles which would guide Russian foreign policy¹².

1. International law

“Russia recognises the primacy of the basic principles of international law, which define relations between civilised nations. It is in the framework of these principles, of this concept of international law, that we will develop our relations with other states.”

¹⁰ The question of the recognition of Kosovo was dealt with in our previous report, op. cit. paragraphs 220–227.

¹¹ David Miliband, Corrected Transcript of Oral Evidence, HC 79-I. Evidence taken before the Foreign Affairs Committee. Inquiry into “Developments in the European Union”, Wednesday 10 December 2008.

¹² Interview with President Medvedev by the three main Russian television channels in September 2008. Text taken from BBC news website “New Russian world order: the five principles”, September 2008. Interview translated by the BBC Monitoring Service. <http://news.bbc.co.uk/2/hi/europe/7591610.stm>

2. Multi-polar world

“The world should be multi-polar. Unipolarity is unacceptable, domination is impermissible. We cannot accept a world order in which all decisions are taken by one country, even such a serious and authoritative country as the United States of America. This kind of world is unstable and fraught with conflict.”

3. No isolation

“Russia does not want confrontation with any country; Russia has no intention of isolating itself. We will develop, as far as possible, friendly relations both with Europe and with the United State of America, as well as with other countries of the world.”

4. Protect citizens

“Our unquestionable priority is to protect the life and dignity of our citizens, wherever they are. We will also proceed from this in pursuing our foreign policy. We will also protect the interest of our business community abroad. And it should be clear to everyone that if someone makes aggressive forays, he will get a response.”

5. Spheres of influence

“Russia, just like other countries in the world, has regions where it has its privileged interests. In these regions, there are countries with which we have traditionally had friendly cordial relations, historically special relations. We will work very attentively in these regions and develop these friendly relations with these states, with our close neighbours.”

28. **In recognising South Ossetia and Abkhazia Russia has further breached the principles of sovereignty and territorial integrity, following its intervention in Georgia. There should be no question of the EU Member States recognising either of these entities. It will be important for the EU to maintain pressure on Russia to respect the international commitments it has made on these subjects. At the same time the EU will need to continue to rebut Russia’s assertions that there is a parallel with Kosovo.**
29. **There is evidence of distribution of Russian passports to non-Russian citizens in South Ossetia and Abkhazia and also in Ukraine. At the same time President Medvedev has outlined Russia’s priority to protect the life and dignity of Russian citizens wherever they are. We are greatly concerned by the combination of these two developments. The EU should refute firmly this doctrine of intervention.**
30. **It is too soon to judge how Russian behaviour in the region will be affected in the longer term by the international reaction to its intervention in Georgia.**

Economic crisis and tensions over energy supplies

Current developments in Russia—financial crisis and economic slowdown

31. Our witnesses emphasised that Russia faced deepening economic problems (QQ 1, 5). Significantly for EU-Russia relations, Professor Service pointed out that the Russians now had a weaker bargaining position compared to a

year ago or even a few months ago. This evolution was partly due to the fall in oil prices, as the Russian government relied heavily on exports of gas and oil to balance its budget (QQ 5–6).

32. Sir Mark Lyall Grant told us that the economic crisis had caused Russia's growth rate forecasts to fall. The rouble had come under very severe pressure and Russia's foreign reserves had been depleted to protect it. The stock exchange had collapsed and the oil price had dropped (at the time of this evidence to just over \$50 a barrel) (Q 44). In the past three months there had been a growing recognition in Russia that the economic and financial crisis was having a very damaging effect on Russia's real economy. This could have domestic implications in Russia: "There are one or two signs one picks up of tension between Prime Minister Putin and President Medvedev about who might be to blame for the economic crisis and ... of who the Russian public might blame for that economic crisis". There were some interesting dynamics which would have an impact in the longer term. However, he had not seen any recognition by Russia of this affecting its outward perspective and its view of itself (Q 52).
33. Sir Mark pointed out that Russia was still a nuclear power with many more nuclear warheads than the UK (Q 53). Russia also had considerable reserves in a sovereign wealth fund, although this would have been depleted recently with the fall in oil prices in efforts to support the currency (Q 55).
34. Sir Roderic Lyne also pointed to Russia's problems with its dependence on raw material exports, demographic decline and weak institutions. It was still struggling to find its new place in the world. The greatest risk to Russia was that it would marginalise itself and fail to modernise. He believed that the Russian leadership had a problem: they wanted Western help to deal with the deepening economic crisis and to be seen to be playing a part in addressing global economic problems, but they had fostered a public mood of animosity towards the US and the West and had boxed themselves in by their own propaganda. The immediate effect had been to put yet more power in the hands of the small group of state actors who had been dominant for several years (Q 1).

BOX 3

The Russian Economy in January 2009

Since Sir Mark Lyall Grant gave evidence to the Committee on 20 November there have been further developments as the effects of the global financial crisis on Russia have become clearer.

The initial impact of the global financial crisis in Russia was felt by the banks. Most banks relied on the international money markets and, like many since autumn 2008, have faced severe liquidity shortages. At the same time, Russian equity prices have fallen significantly as foreign investors moved to less risky assets. The Russian government sought to stabilise the banking system by injecting money, offering direct lending, and placing unspent budget funds on deposit at banks.

In late October, the collapse in global commodity prices dealt Russia a second shock. Oil, gas and metals account for 85% of Russia's exports—and oil alone contributes 50% of federal budget revenues. By the end of October, Urals oil prices had fallen from \$123 a barrel in July to just \$60.

Banking sector problems have spread into the real economy, particularly in the most highly-leveraged sectors, notably real estate, construction and retail. In November, industrial production fell by 8.7%. In December, it fell by 10.3%. Early government estimates indicate that Russian GDP contracted by 0.7% in December. This compares to 7% annual growth averaged between 1999 and 2007.

December saw net capital outflows of \$130 billion. This level of capital flight alongside the fall in global commodity prices has placed downward pressure on the ruble. The Russian government has sought to defend the currency given the likely social impact of a rapid devaluation.

In the final quarter of 2008 the Central Bank of Russia (CBR) adopted a strategy of regular and managed devaluations, spending an average of \$2 billion a day on the currency markets. In the week beginning 19 January the CBR allowed the ruble to weaken by around 10% against the dollar. Between August 2008 and mid-January, Russia's foreign currency reserves fell by \$200 billion from their \$597 billion all-time high.

The Russian government has responded to the global economic crisis by announcing a series of measures including assistance to companies to refinance foreign debt, assistance to priority sectors in the real economy, increased benefits to the unemployed and a cut in profit tax by 4% to 20%. In the last few weeks, the Ministry of Finance has recast its 2009 budget in order better to reflect oil price.¹³

35. **Russia's economy has been severely affected by the financial crisis and global economic downturn. In particular the fall in the price of oil has dramatically changed Russia's strong economic position since our last report. These events should have brought home to the Russian leadership their unavoidable involvement in the world economy. There is a risk that Russia may make a protectionist response. The EU should continue to encourage Russia's full integration into the global economy by continuing actively to support their membership of the World Trade Organisation.**

The EU-Russia energy relationship

36. In our last report on EU-Russia relations we emphasised the importance of energy, and the interdependence of the relationship. In evidence for this inquiry, Sir Mark Lyall Grant was clear that the energy relationship between the European Union and Russia remained very strong. While some Member States relied almost entirely on Russian supplies, Russia depended very heavily on the EU to sell its energy (Q 44).
37. Since then, Russian action in cutting gas supplies to Ukraine in January 2009 for pricing and payment reasons has resulted in significant reduction in supplies for a number of EU countries with serious consequences, particularly for those which were heavily dependent on supplies from Russia via Ukraine. On 6 January the Czech Presidency and the EU Commission issued a joint statement demanding that gas supplies to the EU be restored immediately and calling on Russia and Ukraine to "resume at once negotiations with a view to a definitive settlement of their bilateral commercial dispute"¹⁴. On 20 January, gas supplies were restored. The gas deal reached between the Ukraine and Russia provides that Ukraine will pay

¹³ pp 26–27

¹⁴ www.EU2009.Cz

Russia US \$360 per 1000 cubic metres of gas in the first three months of 2009, a sharp increase on the US \$179.50 of last year. The transit fee paid by Russia to Ukraine will remain at US \$1.70 for 1000 cubic metres of gas per 100km, although Gazprom has reportedly indicated that this will rise next year¹⁵.

38. The Czech Minister for Industry and Trade, Martin Riman, set out the Presidency's approach to the crisis in a speech to the European Parliament Committee on Industry, Research and Energy¹⁶. He explained that since the beginning of the crisis the Presidency had been continually negotiating with both parties to the conflict in the name of the European Union. During these talks, the presidency had managed to establish conditions to enable political progress to be made without getting involved in the dispute itself. His assessment was that: "By sending a monitoring mission, the European Union gave a positive response to both parties, resulting in a promise that supplies would be renewed. The failure to immediately abide by this promise has done serious damage to the reputation of both Ukraine and Russia".
39. Martin Riman described the gas crisis as "unprecedented in the history of gas supplies to Europe". In view of the gravity of the situation in several Member States, the presidency had called an emergency meeting of the Council of Ministers for Energy on 12th January. The Council agreed that in order to avoid a repeat of the present situation, European Union and its Member States could only ensure the EU's energy security by:
 - Diversifying sources and routes of energy supplies;
 - Extending interconnections between Member States; and
 - Increasing supply transparency and solidarity between Member States.
40. For Michael Davenport, Director for Russia and Central Asia at the Foreign and Commonwealth Office, the close proximity of the Georgia conflict to key energy transit routes in the Caucasus had highlighted their fragility. He thought that the European Union should be more proactive in bolstering the prospects for improving supply routes to the west from the Caspian Sea and Central Asia and for the installation of infrastructure. The question of the Nabucco¹⁷ gas pipeline was part of this picture, but it would only work if it was commercially viable and sufficient gas was available to channel through it, in particular from countries beyond Azerbaijan such as Turkmenistan (QQ 44, 45, 51). Professor Service thought that the Russians saw Georgia as being "a way for Western powers to put pipelines ... through to the Mediterranean, across the Black Sea, which damages Russia's economic interests" (Q 13). As part of a wider package of investment measures, on 28th January 2009 the European Commission presented a proposal to invest €250m of European Community funding in the Nabucco gas pipeline project that would bring gas to the EU from the Caspian region¹⁸.

¹⁵ Financial Times, "Yushchenko pledges to honour 'bad' deal", 28th January 2009.

¹⁶ Available at www.EU2009.Cz

¹⁷ The Nabucco pipeline project is owned by a consortium of companies and is planned to transport Central Asian gas from Turkey to Austria via Bulgaria, Romania and Hungary as an alternative to the routes which currently pass through Russia.

¹⁸ European Commission press release IP/09/142, Brussels, 28th January 2009.

41. Our witnesses highlighted the importance to Europe of a unified energy strategy to improve energy security¹⁹, including achieving an interconnected and liberalised internal market in energy, especially gas (QQ 23, 46). For Sir Roderic Lyne, this was “the single most important thing that the European Union should do affecting its relationship with Russia”. This would give the EU a bargaining position that it lacked. The EU was currently divided because it did not have a unified network and because it exaggerated its own sense of dependency on Russian gas (Q 23). However, discussions in the EU had been protracted, and some Member States remained less enthusiastic than the UK Government on a more integrated EU internal energy market²⁰. The Government’s formal response of 15 July 2008 to our previous report noted that there had been “significant steps forward in developing the internal energy market”, citing in particular the general approach on the Third Energy Liberalisation Package, agreed by the Energy Council on 6 June 2008. Sir Mark Lyall Grant thought there was “some stimulus to move forward and the Commission position is powerful and important”, though he recognised that progress would be difficult (Q 47).
42. FCO Minister Lord Malloch-Brown in the debate on our previous EU-Russia report in October indicated that the Government’s position had moved towards the recommendations we made in that report: “The [EU] Committee can in one regard take some comfort from the events of the summer: if it had felt that there had been some complacency in the Government’s views on the energy question, nothing has concentrated minds more than the events of August. We certainly believe that a long-term energy strategy will require support for infrastructure that diversifies energy resources, renewables and energy efficiency, as well as measures to improve the internal market. The Prime Minister has made it clear that we would support Europe giving increased support for the development of the Nabucco pipeline as a critical part of such a strategy”.²¹
43. **It is clear that the response by the EU to the interruption of gas supplies through Ukraine in 2006 had no effect in deterring a recurrence of similar action in January this year. Furthermore little progress has been made to safeguard gas supplies to EU Member States in eastern, central and southern Europe through the diversification of supply and delivery routes. This policy failure needs to be remedied urgently. This issue will become a major test of whether solidarity between Member States can be made a reality.**
44. **Events since our last report have increased the importance we attributed to the EU’s having a unified energy strategy, including an interconnected and liberalised internal market in energy, especially gas. We welcome the continued commitment of the Government and the European Commission to achieving this goal and we urge the European Union to take the necessary decision at the next meeting of the European Council in March.**

¹⁹ The European Commission has recently published its “Second Strategic Energy Review” (Council document 15944/08).

²⁰ European Union Committee, 5th Report (2007–08): *The Single Market: Wallflower or Dancing Partner* (HL 36), especially Chapter 5 on energy.

²¹ HL Deb 10 October 2008 cols 414–451.

45. **The close proximity of the Georgia conflict to key energy transit routes in the Caucasus highlighted their vulnerability and is a matter of considerable concern. This should be addressed by the European Institutions and the Member States taking as a basis the European Commission's Second Strategic Energy Review to ensure security and dependability of energy supplies. More vigorous action needs to be taken by the EU to diversify gas supplies, to increase gas storage capacity and to encourage the development of the Nabucco pipeline.**

The effect of US and NATO policy on EU-Russia relations

46. Even before the outbreak of the war in Georgia, relations between Russia and the west were severely strained by disputes over the United States' plan to site elements of its missile defence system in two EU Member States, Poland and the Czech Republic; and by the issue of enlargement of NATO to Ukraine and Georgia. This issue also has repercussions for the EU-Russia relationship.
47. Sir Mark Lyall Grant thought that the missile defence issue would not feature largely in discussions within the EU or between the EU and Russia. "It is really an issue for NATO and Russia". The siting of the missiles, the Ballistic Missile Defence (BMD) concept, had been approved by NATO members as a whole. The deals between the US and Poland and the Czech Republic had been signed but not ratified. President Medvedev had recently responded by threatening to site Iskander missiles in Kaliningrad, a message aimed at the then United States President-elect. The hostility to the siting of BMD was very strong in Russia and was unlikely to go away. "I would not however expect it to directly affect the EU-Russia relationship" (Q 70). On 28th January 2009, the Guardian reported that the Russians had decided to suspend the deployment of their Iskander missiles to Kaliningrad in response to President Obama's decision to review US plans on BMD.²²
48. In contrast, Professor Service thought that the tensions created by NATO's various moves would have a "terrible effect" on the climate for EU-Russia relations. The Russians were "really furious" about the system and could not see the logic of the American position. He thought it was a "mistake of the Americans to do this at the time they did it, in the way they did it, and even to some extent for the purposes for which they did it". He explained that "Russians have a memory that trouble comes from Germany through Poland, from Europe through Poland, so it is not exaggerating too much to say that this really was a provocative step by the Americans, a really serious diplomatic error" (Q 24). In a similar vein, FCO Minister Lord Malloch-Brown in the debate on our original EU-Russia report said: "It is worth observing that, for the Russians, real issues of their security and confidence in the motives of the West have been raised by NATO enlargement. Whatever the agreement that we will all find in needing to deal firmly with the Russians and remind them of Europe's collective red lines, we also need to recognise...just how provocative recent events have appeared in Russian eyes, beginning with the promise of enlargement and continuing through the events of August".²³

²² The Guardian, "Russia scraps plans to deploy nuclear-capable missiles in Kaliningrad", 28th January 2009.

²³ HL Deb 10 October 2008 cols 414-451.

49. Sir Roderic Lyne's analysis was that the issue was much more about perceptions than about strategic reality. The reality was that Russian military and strategic thinkers saw no military threat from NATO. Indeed, the Russians had in fact moved forces away from Russia's borders in the west. They recognised privately that "putting ten interceptor missiles in Poland in no way changed the strategic balance between Russia and NATO or the United States, and for that matter NATO enlargement likewise" (Q 24).
50. According to Sir Roderic, a chain of events had led to a descending spiral in US-Russian relations. The Russians and the Americans had been in a negotiation about the missile defence systems. The Russians had been saying privately to the Americans, that "while they did not like it, they could live with it... so long as they had the ability to inspect it and see that it was not being enlarged into some facility of a different kind that could be used against them". The Georgian war had interrupted this negotiation. US Secretary of State Condoleezza Rice had flown to Warsaw and signed an agreement with the Poles, "as a sort of tit-for-tat gesture, rather silly gesture politics". The Russians had then responded with a silly gesture of their own. He hoped that the issue of missile defence could be put into "cold storage for the time being, let us say, until the Iranians actually get themselves a missile capable of flying over Warsaw" (Q 24).
51. On NATO enlargement, Sir Roderic Lyne stressed that the starting point for any decision had to be European security. In 1990 the Europeans and Americans had informally agreed three questions which should be asked on potential NATO membership: "would it be good for the country in question, would it be good for NATO and would it be good for European security? Unless you could tick all the boxes, you did not go further down that road". There were alternative courses of action: he did not think that awarding Membership Action Plan (MAP) status to Ukraine or Georgia increased their security at all; rather it had the opposite effect and would not even embrace NATO's Article 5 collective defence guarantee (Q 72). He believed that, had Georgia already been a member of EU or NATO, it would not have prevented the war. The Russians would not have believed that NATO would invoke article 5 of the North Atlantic Treaty and gone to war with Russia over South Ossetia (Q 14). Sir Roderic did not think that this meant that NATO could do nothing. NATO could strengthen its relationships with those countries in other ways (Q 28). In the event, while the NATO Ministerial meeting on 2–3 December 2008 did not grant Membership Action Plan status to Georgia and Ukraine, it took a number of steps to strengthen NATO's relations with these two countries²⁴.
52. Sir Mark Lyall Grant's view was that NATO was not ready to extend the Article 5 guarantee, which was fundamental to NATO, in circumstances where there were difficulties within Ukraine, and attacks on Georgia's territorial integrity and the problem of its frozen conflicts. "I do not think one would want to offer that sort of security guarantee unless one was prepared to back it up." This was not realistic in the current circumstances in Georgia. He thought that membership of NATO for Ukraine and Georgia would "take a certain amount of time" but it was a question of "when" rather than "if" (Q 72).

²⁴ Final communiqué, Meeting of the North Atlantic Council at the level of Foreign Ministers, held at NATO Headquarters, Brussels 2–3 December 2008.

53. Witnesses also threw doubt on whether the Ukrainian people in fact wanted membership of NATO. Sir Roderic Lyne believed that “When President Yushchenko applied for Membership Action Plan status, he did not have a democratic mandate to do so ... the Ukrainians do not actually want this”. Professor Service agreed that the majority of Ukrainian opinion was against NATO membership (Q 17).
54. Our witnesses touched on the question of the EU’s dialogue with the United States on Russia. Sir Roderic Lyne said he hoped that the EU was talking privately to the team of president-elect Obama to encourage him to pay some attention to Russia even though it was not in his top five priorities. There was an opportunity for the EU to engage in a quiet dialogue with the incoming American administration about how to handle Russia in a sensible way (Q 25). Sir Mark Lyall Grant thought that there would be some collective discussion between the EU and the United States about Russia, but commented that relations with Russia were more likely to be a subject of discussion between individual EU Member States and the United States (Q 71).
55. We note that President Medvedev set out his vision for European security in a speech to the World Policy Conference at Evian, on 1 October 2008.²⁵ In the speech he set out his view on the war in Georgia of August 2008 and proposed the negotiation of a new “European security treaty”.
56. The Minister for Europe, Caroline Flint MP, reported that the 14 November 2008 EU-Russia summit had discussed a number of European security issues.²⁶ The EU side had expressed its concern about President Medvedev’s statements in Berlin²⁷ on the potential deployment of Russian missiles, when he had said that no missiles should be deployed until the “new geo-political conditions of pan-European security” had been discussed. President Medvedev had reiterated Russian views that current “European security mechanisms are imperfect” and had pressed for a discussion on their proposals for a new “European security architecture.” President Sarkozy had proposed holding a meeting in mid-2009, in the framework of the OSCE, to discuss these proposals. The UK Government was open to this suggestion, and they believed firmly that any discussion should include transatlantic allies (p 25).
57. **The ongoing disputes between Russia and the West over missile defence and NATO enlargement risk further complicating EU-Russia relations. The EU should consult closely and at an early stage with the new American administration about engaging with Russia in a firm but constructive, fair and balanced way.**
58. **It is clear from the NATO ministerial meeting in December that there is no prospect of early NATO membership for either Georgia or the Ukraine. Without drawing back from the commitment by NATO to the two countries’ eventual membership, the focus should remain in the immediate future on practical cooperation.**

²⁵ See weblink:

http://www.kremlin.ru/eng/text/speeches/2008/10/08/2159_type82912type82914_207457.shtml

²⁶ p 25

²⁷ www.In.mid.ru/brp_4.nsf

59. **The EU has an important role to play in strengthening the economies and democracies of both Georgia and the Ukraine and should pursue this through development of the Neighbourhood Policy and the Eastern Partnership while also developing a more positive attitude towards their eventual membership.**

The way ahead

Engagement or isolation?

60. Both Sir Roderic Lyne (former UK Ambassador to Moscow) and Professor Service (Oxford University) agreed that the EU was not facing a new cold war (QQ 1–2). For Sir Roderic, Russia did not represent a direct threat to the West, nor did he think that Russia would now annex a Member State of the EU (Q 13). The greatest threat was Russia’s potential self-isolation but he insisted that Russia and the West were no longer on opposite sides: “it is not in the EU’s interests that Russia should become isolated, impoverished or unstable” (Q 1).
61. Professor Service emphasised the need to avoid being provocative towards the Russians (Q 2). In general, engagement with the Russians was better than non-engagement, although the EU should be assertive. “Russia needs Europe and Europe needs to cope with Russia” (QQ 2, 4). Professor Service pointed to Russia’s continued involvement in the Council of Europe’s Court of Human Rights which was very important for Russians, in view of the “terrible abuses of human rights in Russia” (Q 8). Javier Solana, EU High Representative (for Foreign Affairs), in his presentation to a parliamentary meeting in November 2008, remarked that “although we are at a critical juncture with Russia, there is no alternative to a strong relationship”.²⁸
62. Sir Roderic thought a balanced approach for the EU could include resistance to re-dividing Europe into zones of influence, EU support for the sovereignty of the post-Soviet states, NATO “soft” security links but not yet NATO Membership Action Plan status for Ukraine and Georgia and a stronger NATO-Russia dialogue. Support for Russian membership of the World Trade Organisation (WTO) and new trade agreements would also form part of this approach. Other measures could include support for resumption of arms control negotiations between the US and Russia, encouragement of a review by the new US administration of the theatre missile defence project, negotiation on European security, and addressing the problem of the frozen conflicts²⁹ and other tensions (Q 1). Sir Mark Lyall Grant agreed that the UK Government was still an enthusiastic supporter of Russian accession to the WTO. This would, he believed, help to prevent it drifting into protectionism (Q 54).

Negotiating a new Partnership and Cooperation Agreement

63. Professor Service’s view was that Britain and the EU should engage in discussions with the Russians on a new Partnership and Cooperation

²⁸ Summary of remarks by Javier Solana, to the European Parliament Foreign Affairs Committee and the Chairs of the Foreign Affairs and Defence Committees of the National Parliaments, Brussels, 5 November 2008 (doc. S360/08) (www.europa-eu-un.org/articles/en/article_8274-en)

²⁹ The so-called “frozen conflicts” include the problems on Transnistria (Moldova), the conflict between Azerbaijan and Armenia over Nagorny Karabakh, and South Ossetia and Abkhazia.

Agreement (PCA). “The worst thing that could happen at the moment is that we lose them from the European embrace...it would be disastrous to play into the hands of those in the Russian leadership who do not want anything to do with European engagement”. However, he insisted that there should be no compromise on principles, even if it took a long time to come to an agreement (Q 8).

64. Sir Roderic Lyne also thought that the EU needed an agreement with Russia but “a different sort of agreement and maybe several agreements rather than one” (Q 9). He warned that Russia had started to make clear four or five years previously that it did not want a partnership; the EU had not adjusted its course in response (Q 5). Sir Roderic acknowledged the argument that, by having a wide-ranging agreement, it might be possible to achieve trade-offs beneficial to the EU in some areas in return for conceding points in others. However, if one looked at the agreement on the four “common spaces” of 2003³⁰, a number of points had not been implemented. It was therefore more sensible to insist on the full implementation of the existing agreements before negotiating another one (Q 8).
65. The Government’s position on a new Partnership and Cooperation Agreement, as set out in their response of 15 July 2008 to our original report was that “a comprehensive, binding agreement will help the EU and Russia build a stable and strong long-term partnership, based on mutual understanding and shared goals, with both parties having confidence that any disagreements can be settled within a transparent, rules-based framework”. The Government welcomed the resumption of negotiations on the PCA which was announced at the EU-Russia summit on 14 November 2008. In a letter to the Committee, the Minister for Europe, Caroline Flint, wrote that “hard-headed engagement” and not isolation was the way forward (p 25). The Minister argued that negotiations on a new agreement provided a mechanism for the EU to engage Russia in a more coherent and united way. They would also provide further opportunities for the EU to press the Russians on the need to work to resolve frozen conflicts. However, the Minister insisted that this did not mean a return to “business as usual” between the EU and Russia. “We will continue to insist on full Russian implementation of the ceasefire agreements and their cooperation in the Geneva talks.”
66. Sir Mark Lyall Grant confirmed that the new agreement would cover in some detail a number of areas which were not in the existing agreement, such as counter-terrorism, counter-proliferation of weapons of mass destruction, judicial co-operation, crisis management, climate change and migration. These were either completely absent from the current agreement or only touched on very lightly. There were also plans for a stronger dispute resolution mechanism (Q 43).
67. **Hard-headed and pragmatic engagement and not isolation is the right policy for the EU in its relations with Russia. Despite the conflict in Georgia, a new Partnership and Cooperation Agreement (PCA)**

³⁰ At the May 2003 St Petersburg Summit the EU and Russia agreed to create four “common spaces” for more detailed cooperation: an “economic space” (trade and economic cooperation); a “space of freedom, security and justice”; a “space on external security” (to reinforce multilateral cooperation especially in the fight against terrorism, non-proliferation, crisis management and civil protection and to stabilise the regions around Russia); and a “space on research, education and culture”. Our previous report deals in some detail with the four “common spaces”, op. cit. Chapter 4.

remains the appropriate vehicle for the EU to pursue this engagement. However, the EU should not compromise on its principles during the negotiations for a new PCA. We agree that the PCA should reflect the much changed international agenda, particularly areas such as counter-proliferation and climate change.

The Common Neighbourhood: the EU's policy towards its eastern neighbours, especially Ukraine

68. In our previous report on EU-Russia relations, we noted the sensitivity of the so-called common neighbourhood³¹. The conflict in Georgia has forced the EU to review its policy in its eastern neighbourhood. As Sir Mark Lyall Grant told us: “One of our responses following the Georgia crisis has been to accelerate consideration of the eastern neighbourhood partnership which would include both Georgia and Ukraine and four other countries in the eastern neighbourhood of the EU”. The partnership would bind those countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine) closer to the European Union and provide additional financial support (Q 56). The European Commission published its proposals for the Eastern Partnership on December 3 2008, which the Government strongly support³². The 11–12 December 2008 European Council asked the Council to take this work forward and to present it with a report in March 2009, when the Partnership is expected to be approved. This will be a priority of the Czech Presidency, which plans to host a summit to launch the Partnership at a date yet to be determined.
69. Sir Roderic Lyne described an “arc of mistrust”, an important strategic issue, which divided Russia and the West, and which stretched from the Baltic states, or even the Arctic, through Belarus, Ukraine and Moldova to the Caucasus and Central Asia. He believed that the EU should aim to continue to engage Russia constructively to the extent possible while restraining and deterring aggressive and coercive approaches by Russia to neighbouring countries within this arc (Q 1). He believed the EU’s priority should be to prevent a further conflict, including looking very seriously at Ukraine, as well as at other parts of the Caucasus. The EU should examine ways of trying to engage Russia in a negotiation about the many issues that had been left unresolved after the collapse of the Soviet Union and to which insufficient attention had been paid in the past four or five years (Q 4). Professor Service told us that the Russian leadership “are all agreed on the space outside Russia that formerly belonged to the Soviet Union as being within their sphere of influence” (Q 2).
70. Witnesses expressed concern about Russian behaviour towards the countries on its southern border. Ukraine was the key country for a number of reasons. One third of Ukrainians regarded themselves as ethnically Russian, while very roughly another third were mixed, and only a third were “ethnically and historically really distinct from Russia” (Lyne Q 17). Ukraine was also experiencing a political crisis (Lyall Grant QQ 56, 72). The Russian Black Sea fleet is based in the Ukrainian port of Sevastopol under a lease between Russia and Ukraine lasting until 2017, and mutual threats have been exchanged over its future (Lyall Grant Q 62, Lyne Q 17). Ukrainian

³¹ Op cit paragraphs 312–314.

³² Government Explanatory Memorandum on the Eastern Partnership, 11 December 2008.

dependence on Russian energy supplies is clearly also a source of tension, as has been shown recently (see paragraph 37).

71. Sir Roderic Lyne believed that Ukraine was “100 times more important than Georgia in terms of European security” (Q 4). He did not believe there was an immediate risk of war between Russia and Ukraine, but Russia was pursuing a policy of maximising leverage over Ukraine and almost all of the other post-Soviet states through all instruments available in order to destabilise them. The aim was not to take them over but to preserve Russian ability to coerce and influence—“a sort of Monroe doctrine”. Russia was to a degree encouraging separatist elements in the Crimea by making Russian passports available to them (Q 17).
72. Senior officials at the Foreign and Commonwealth Office also expressed concern over the reported issuing of Russian passports. Michael Davenport said that there was clear anecdotal evidence that passports had been issued to citizens in Ukraine, although it was difficult to obtain accurate statistics (Q 59). The Foreign Secretary had raised this point with his Russian counterpart, Sergei Lavrov, in November 2008, as part of an attempt to clarify the meaning of Russia’s newly declared principles of foreign policy. As Sir Mark Lyall Grant put it: “Asserting that you will protect by implication wherever they are and by any means Russian passport holders, particularly given ... the fact that they have been rather liberal in their issuing of passports to many in the region, does strike us as particularly dangerous. It goes potentially beyond protection to asserting the rights to dispose of those citizens in any way they wish, as we have seen in London” (Q 38).
73. Our witnesses believed that the correct response from the EU was to build up relationships in the region, especially with the Ukraine. At their summit on 9 November 2008 the EU and Ukraine agreed a new Association Agreement and a free trade area, but Professor Service thought that the EU had generally been remiss in not building up closer links with Ukraine, including through interpersonal and academic contacts and help with the reform of the police system (Q 17). Sir Roderic Lyne said that, following the Foreign Secretary’s speech in Kiev, the EU had been “edging towards opening the door a little wider” to Ukraine, but it needed to go further. Effort and resources should be put into Ukraine in ways which “are not provocative, are not military, are entirely natural” (Q 17). The EU should deliver a signal to Ukraine that it could ultimately qualify for membership, which would be a powerful incentive to modernise the country and improve law, order and governance. He believed this would not be “remotely as provocative to Russia as NATO membership”, not least because the timescale would be different (Q 19).
74. Sir Mark Lyall Grant told us that the UK Government supported Ukraine’s aspirations to join both the EU and NATO. He believed that the strengthening of the relationship between the European Union and Ukraine had probably been accelerated as a result of the Georgian crisis, despite the reluctance of some Member States to commit to a firm accession perspective prior to a clarification on the entry into force of the Lisbon Treaty (QQ 56, 60). The UK Government “would like to see a very significant deepening in the relationship between Ukraine and the EU”. Of the six Eastern Partnership countries, Ukraine was probably the one able to move closer to the European Union most quickly (Q 63).

75. Elsewhere in the region Sir Mark Lyall Grant assessed that there was a potential positive shift in Belarus' relations with the EU, although the signs were somewhat mixed. On the one hand, Belarus had resisted strong Russian encouragement to recognise South Ossetia and Abkhazia. There had also been no action on suggestions that the Russians had wanted to site missile bases in Belarus, and all prominent political prisoners had been released. On the other hand, there were "a huge number of concerns" about the policy of the Belarus authorities. Sir Mark cited the example of the recent elections, which "would not have passed many tests of fairness" (Q 61).
76. **Developments since our previous report have reinforced our view then that the common neighbourhood is a particularly sensitive area for both Russia and the EU. The Russian intervention in Georgia and the crisis over gas from Russia transiting Ukraine have demonstrated the need for the EU to work with the Russians over all aspects of our relationships with these countries. The EU should show understanding for Russia's concerns, but should stand firm on issues of principle concerning these countries.**
77. **Events in Georgia have demonstrated that concrete progress is needed in resolving frozen conflicts, including in Georgia and Moldova. These should be a key aspect of discussions with Russia.**
78. **We welcome the EU's new commitment to strengthening its relationship with Ukraine, Georgia and its other eastern partners in the Eastern Partnership. In so doing, the EU should seek to build respect for democracy, human rights and the rule of law in each country.**
79. **The Ukraine is a key neighbour for both Russia and the EU. Insufficient attention has so far been given to nurturing the EU-Ukrainian relationship. EU Member States should make more efforts to foster cultural, educational and other links which would be perceived as non-threatening by the Russians. The prospect of EU membership should be given greater encouragement and substance.**

Overall conclusion

80. **We agree with the overall policy of the Government and the European Union that it is important to remain engaged with Russia but, as we stated in our previous report, that engagement must be hard-headed, pragmatic and unsentimental.**

CHAPTER 2: CONCLUSIONS AND RECOMMENDATIONS

81. Our report on the EU and Russia, published in May 2008³³, gave the Committee's views on the bilateral relationship. The conclusions and recommendations reached at that time remain valid.
82. The precise circumstances surrounding the August 2008 outbreak of the conflict are not yet clear but responsibility for the conflict was shared, in differing measures, by all the parties. There is evidence of a Russian military build-up prior to the August war. In addition, Russia's use of force was disproportionate in response to provocative statements and military action by President Saakashvili.
83. President Saakashvili seems to have drawn unfounded confidence in confronting Russia as a result of mixed signals from the US Administration.
84. The origins of the conflict lie in both distant and more recent history in the region, involving population transfers, national grievances, commercial, political and military interests. Attempts at resolving the conflict will need to take account of these complex factors.
85. The EU's response to the conflict in Georgia was rapid and reasonably successful. It persuaded the two parties to accept a ceasefire, and with some delay brought about the withdrawal of Russian troops from all Georgian territory outside South Ossetia and Abkhazia and brought the parties together for talks in Geneva. This success owed much to the effectiveness of a strong Presidency with whom the Russians were prepared to negotiate. The EU was the obvious and perhaps only credible body to act as intermediary in the conflict, and acted with unaccustomed confidence and authority.
86. We are seriously concerned that Russia has not complied fully with the ceasefire agreement reached between President Sarkozy and President Medvedev. Full Russian compliance with the ceasefire plan should continue to be used as a measure of Russia's behaviour, even though such compliance is unlikely in the near future. We endorse the statement by the Europe Minister that the pace and tone of the negotiations on the new Partnership and Cooperation Agreement would be informed by Russia's fulfilment of its obligations under the ceasefire agreements.
87. We welcome the EU's decision to set up an inquiry to investigate the origins and the course of the conflict in Georgia. Any action the EU takes to find lasting solutions must involve the local communities and take account of their views, as well as addressing the wider geopolitical situation. In doing so, lessons should be drawn from previous UN and OSCE missions in the area.
88. The EU should, with the UN, the OSCE, the United States and other partners, make an effective contribution towards building a long-term peace in the region. It is essential that the mandate of the EU Monitoring Mission in Georgia (EUMM) is renewed later this year and is allowed to exercise its agreed tasks in full on both sides of the border.
89. In recognising South Ossetia and Abkhazia Russia has further breached the principles of sovereignty and territorial integrity, following its intervention in Georgia. There should be no question of the EU Member States recognising either of these entities. It will be important for the EU to maintain pressure

³³ European Union Committee, 14th Report (2007–08): *The European Union and Russia* (HL 98).

on Russia to respect the international commitments it has made on these subjects. At the same time the EU will need to continue to rebut Russia's assertions that there is a parallel with Kosovo.

90. There is evidence of distribution of Russian passports to non-Russian citizens in South Ossetia and Abkhazia and also in Ukraine. At the same time President Medvedev has outlined Russia's priority to protect the life and dignity of Russian citizens wherever they are. We are greatly concerned by the combination of these two developments. The EU should refute firmly this doctrine of intervention.
91. It is too soon to judge how Russian behaviour in the region will be affected in the longer term by the international reaction to its intervention in Georgia.
92. Russia's economy has been severely affected by the financial crisis and global economic downturn. In particular the fall in the price of oil has dramatically changed Russia's strong economic position since our last report. These events should have brought home to the Russian leadership their unavoidable involvement in the world economy. There is a risk that Russia may make a protectionist response. The EU should continue to encourage Russia's full integration into the global economy by continuing actively to support their membership of the World Trade Organisation.
93. It is clear that the response by the EU to the interruption of gas supplies through Ukraine in 2006 had no effect in deterring a recurrence of similar action in January this year. Furthermore little progress has been made to safeguard gas supplies to EU Member States in eastern, central and southern Europe through the diversification of supply and delivery routes. This policy failure needs to be remedied urgently. This issue will become a major test of whether solidarity between Member States can be made a reality.
94. Events since our last report have increased the importance we attributed to the EU's having a unified energy strategy, including an interconnected and liberalised internal market in energy, especially gas. We welcome the continued commitment of the Government and the European Commission to achieving this goal and we urge the European Union to take the necessary decision at the next meeting of the European Council in March.
95. The close proximity of the Georgia conflict to key energy transit routes in the Caucasus highlighted their vulnerability and is a matter of considerable concern. This should be addressed by the European Institutions and the Member States taking as a basis the European Commission's Second Strategic Energy Review to ensure security and dependability of energy supplies. More vigorous action needs to be taken by the EU to diversify gas supplies, to increase gas storage capacity and to encourage the development of the Nabucco pipeline.
96. The ongoing disputes between Russia and the West over missile defence and NATO enlargement risk further complicating EU-Russia relations. The EU should consult closely and at an early stage with the new American administration about engaging with Russia in a firm but constructive, fair and balanced way.
97. It is clear from the NATO ministerial meeting in December that there is no prospect of early NATO membership for either Georgia or the Ukraine. Without drawing back from the commitment by NATO to the two countries'

- eventual membership, the focus should remain in the immediate future on practical cooperation.
98. The EU has an important role to play in strengthening the economies and democracies of both Georgia and the Ukraine and should pursue this through development of the Neighbourhood Policy and the Eastern Partnership while also developing a more positive attitude towards their eventual membership.
 99. Hard-headed and pragmatic engagement and not isolation is the right policy for the EU in its relations with Russia. Despite the conflict in Georgia, a new Partnership and Cooperation Agreement (PCA) remains the appropriate vehicle for the EU to pursue this engagement. However, the EU should not compromise on its principles during the negotiations for a new PCA. We agree that the PCA should reflect the much changed international agenda, particularly areas such as counter-proliferation and climate change.
 100. Developments since our previous report have reinforced our view then that the common neighbourhood is a particularly sensitive area for both Russia and the EU. The Russian intervention in Georgia and the crisis over gas from Russia transiting Ukraine have demonstrated the need for the EU to work with the Russians over all aspects our relationships with these countries. The EU should show understanding for Russia's concerns, but should stand firm on issues of principle concerning these countries.
 101. Events in Georgia have demonstrated that concrete progress is needed in resolving frozen conflicts, including in Georgia and Moldova. These should be a key aspect of discussions with Russia.
 102. We welcome the EU's new commitment to strengthening its relationship with Ukraine, Georgia and its other eastern partners in the Eastern Partnership. In so doing, the EU should seek to build respect for democracy, human rights and the rule of law in each country.
 103. The Ukraine is a key neighbour for both Russia and the EU. Insufficient attention has so far been given to nurturing the EU-Ukrainian relationship. EU Member States should make more efforts to foster cultural, educational and other links which would be perceived as non-threatening by the Russians. The prospect of EU membership should be given greater encouragement and substance.
 104. We agree with the overall policy of the Government and the European Union that it is important to remain engaged with Russia but, as we stated in our previous report, that engagement must be hard-headed, pragmatic and unsentimental.

APPENDIX 1: SUB-COMMITTEE C (FOREIGN AFFAIRS, DEFENCE AND DEVELOPMENT POLICY)

The Members of the Sub-Committee which conducted this Inquiry were;

Lord Anderson of Swansea
 Lord Boyce (until December 2008)
 Lord Chidgey
 Lord Crickhowell
 Lord Hamilton of Epsom
 Lord Hannay of Chiswick (until December 2008)
 Lord Inge (from December 2008)
 Lord Jay of Ewelme (from December 2008)
 Lord Jones
 Lord Roper (Chairman) (until December 2008)
 Lord Selkirk of Douglas
 Lord Swinfen
 Baroness Symons of Vernham Dean
 Lord Teverson (Chairman) (from December 2008)
 Lord Truscott

Declaration of Members' Interests

Lord Hannay of Chiswick

Chair, United Nations Association UK
Member, Advisory Board, Centre for European Reform
Member, Advisory Board, European Foreign Affairs Review

Lord Jay of Ewelme

Non-Executive Director, Associated British Foods (ABF)
Non-Executive Director, Candover Investments Ltd
Non-Executive Director, Credit Agricole S.A.
Non-Executive Director, Valeo S.A.
Vice Chairman, Business for New Europe

Lord Truscott

Associate Fellow, Royal United Services Institute
Former Parliamentary Ambassador, British Council, Russia and Republics of the former Soviet Union

A full list of Members' interests can be found in the Register of Lords' Interests

<http://www.publications.parliament.uk/pa/ld/ldreg.htm>

APPENDIX 2: LIST OF WITNESSES

The following witnesses gave evidence. Those marked * gave oral evidence only; those without asterisk gave written evidence only.

The Rt Hon Caroline Flint MP, Minister for Europe, Foreign and Commonwealth Office

- * Foreign and Commonwealth Office
- * Sir Roderic Lyne, former British Ambassador to Moscow
- * Professor Robert Service, St Antony's College Oxford

APPENDIX 3: GLOSSARY OF TERMS AND ABBREVIATIONS

BMD	Ballistic Missile Defence
CBR	Central Bank of Russia
EU	European Union
EUMM	EU Monitoring Mission in Georgia
FCO	Foreign and Commonwealth Office
MAP	Membership Action Plan
NATO	North Atlantic Treaty Organisation
OSCE	Organisation for Security and Co-operation in Europe
PCA	Partnership and Cooperation Agreement
UK	United Kingdom
UN	United Nations
UNOMIG	UN Observer Mission in Georgia
US	United States
WTO	World Trade Organisation

APPENDIX 4: RECENT REPORTS

Recent Reports from the EU Select Committee

The Treaty of Lisbon: an impact assessment (10th Report, Session 2007–08, HL Paper 62)

Priorities of the European Union: evidence from the Minister for Europe and the Ambassador of Slovenia (11th Report, Session 2007–08, HL Paper 73)

The Commission's Annual Policy Strategy for 2009 (23rd Report, Session 2007–08, HL Paper 151)

Priorities of the European Union: evidence from the Ambassador of France and the Minister of Europe (24th Report, Session 2007–08, HL Paper 155)

Evidence from the Minister for Europe on the June European Council (28th Report, Session 2007–08, HL Paper 176)

Session 2007–2008 Reports prepared by Sub-Committee C

Current Developments in European Foreign Policy: the EU and Africa (4th Report, HL Paper 32)

Current Developments in European Defence Policy (8th Report, HL Paper 59)

Current Developments in European Foreign Policy (12th Report, HL Paper 75)

The European Union and Russia (14th Report, HL Paper 98)

Current Developments in European Foreign Policy: Burma (16th Report, HL Paper 118)

Current Developments in European Defence Policy (20th Report, HL Paper 145)

Current Developments in European Foreign Policy (25th Report, HL Paper 169)

Adapting the EU's approach to today's security challenges—the Review of the 2003 European Security Strategy (31st Report, HL Paper 190)

Session 2006–2007 Reports prepared by Sub-Committee C

Current Developments in European Defence Policy (1st Report, HL Paper 17)

Current Developments in European Foreign Policy (16th Report, HL Paper 76)

The EU and the Middle East Peace Process (26th Report, HL Paper 132)

Current Developments in European Foreign Policy: Kosovo (32nd Report, HL Paper 154)

Current Developments in European Defence Policy (34th Report, HL Paper 161)

Current Developments in European Foreign Policy (38th Report, HL Paper 183)

Minutes of Evidence

TAKEN BEFORE THE SELECT COMMITTEE ON THE EUROPEAN UNION
(SUB-COMMITTEE C)

THURSDAY 13 NOVEMBER 2008

Present	Anderson of Swansea, L	Roper, L (Chairman)
	Boyce, L	Selkirk of Douglas, L
	Crickhowell, L	Swinfen, L
	Hamilton of Epsom, L	Truscott, L
	Jones, L	

Examination of Witnesses

Witnesses: SIR RODERIC LYNE, former British Ambassador to Moscow, and PROFESSOR ROBERT SERVICE, St Antony's College Oxford, examined.

Q1 Chairman: Sir Roderic, Professor Service, we are very pleased to see both of you this morning. As I think you know, we carried out a fairly extensive inquiry into the European Union and Russia at the end of last year and the beginning of this year but we completed taking our evidence on that before the events of the summer. In light of that and, indeed, in particular of the work that was going on within the Commission and the Council in terms of the audit of EU-Russia relations, we felt it would be useful to have a short, follow-up inquiry and we are therefore inviting you to give us evidence today and we are going to invite the Foreign Office to give evidence to us next week. I think, Sir Roderic, you have something you would like to say by way of introductory statement.

Sir Roderic Lyne: I am told, Chairman, that your tolerance extends to seven minutes and I will not abuse that. I just wanted to pick out one or two salient points from the situation in which we now find ourselves, the first of which is that, despite the conflict in the Caucasus, I would assert that the European Union is not in a new Cold War with Russia. Russia does not represent a direct threat to the West. Secondly, as I think the Quentin Peel has pointed out rather ably in today's *Financial Times*, the greatest risk to Russia is that it will marginalise itself and that it will fail to modernise. Russia is not a new emerging power. It is not comparable in that sense, say, to China, or India, or Brazil. It is a nuclear armed ex-superpower, very dependent on raw material exports, which is in demographic decline, has weak institutions and is still struggling to find its new place in the world. Confrontation and isolation would be very damaging for Russia and I believe that rational elements in the Russian leadership are well aware of this. However, it is also clearly the case that there are influential hard-liners who seek to generate an atmosphere of confrontation in order to consolidate

and justify their own power. They have exerted, as we have seen, increasing pressure on Russian policy-making over the past five years. These hard-line elements actively prepared for an opportunity to take forcible action against Georgia. For a very long time they wanted to recognize Abkhazia and South Ossetia as independent states and President Saakashvili's reprehensible bombardment of Tskhinvali conveniently provided them with this opportunity. I am convinced that the recognition of South Ossetia and Abkhazia was, from the perspective of Russia and Russian interests, a huge mistake and I believe that opinion is shared by a lot of intelligent people in Moscow. The Russians have breached their own principle that their international borders should not be changed unilaterally and they have exacerbated the instability of the North Caucasus. I think the Russian leadership now has a problem. It faces a deepening economic crisis within its own country. It wants Western help and co-operation in dealing with this. It also wants to be seen to be playing a part, as we shall see over the next few days, in efforts to address global economic problems but, at the same time, within the country it has fostered a public mood of bitter animosity towards the United States and the West and a sense of paranoid victimhood, in part in order to deflect blame for internal failings on to an external, invented enemy. *Sotto voce*, senior Russians have been saying over the past year that they want to improve relations with the West but they have boxed themselves in by their own propaganda. The economic crisis is already creating political tensions in Moscow. It could influence Russia's future course in very different ways. The immediate effect has been to put yet more power in the hands of the small group of state actors which has been dominant for several years. Pessimists fear that, as the situation deteriorates, this group might take increasingly authoritarian

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measures in order to preserve their own positions. A more optimistic view is that the crisis will have the benign effect of re-empowering rational pragmatists, bearing down on corruption and inefficiency, and creating a climate for much-needed reforms and restructuring. It is too soon, I think, to tell which way it is going to go. It is not in our interests and it is not in the EU's interests that Russia should become isolated, impoverished or unstable. On the major global issues Russia and the West are no longer on opposite sides but there is one important strategic issue which divides us, and that is what I call the "arc of mistrust", which stretches from the Baltic states or even the Arctic, down through Belarus, Ukraine, Moldova to the Caucasus and into Central Asia. So I would argue that it should be the EU's aim to continue to engage Russia constructively to the extent possible while restraining and deterring aggressive and coercive approaches by Russia to neighbouring countries within this arc. I think a balanced approach for the EU and the West could include a number of points: resolute resistance to any idea of re-dividing Europe into zones of influence; more active and better resourced support by the EU for the sovereignty of the post-Soviet states; stronger NATO soft security links with these states but postponement *sine die* of NATO decisions on membership action plan status for Georgia and Ukraine; a stronger NATO-Russia dialogue; support by the EU for Russian membership of the WTO and for new trade agreements with the European Union but I think that the European Union should be wary of a full-blown, so-called partnership agreement. I think we should support resumption of arms control negotiations between the USA and Russia, we should encourage a review by the incoming US administration of the theatre missile defence project, which might either be suspended or be subject to a renewed negotiation with Russia over an inspection regime. Finally and most importantly, I think we should try to generate a wide-ranging negotiation on European security designed to build on the foundations of the Helsinki Final Act and of the OSCE and to address the many present sources of tension, including the so-called frozen conflicts. Thank you.

Q2 Chairman: Thank you very much indeed. Professor Service, we did not especially ask if you would like to make an opening statement or whether you would prefer to comment in response to the questions we are going to put you.

Professor Service: I would like to say a few things. I have not prepared a text but I agree with most of what has just been said. I think the way that we have to think about Russia now is in terms of Russia pursuing what its leaders think to be a foreign policy in its own national interest, not subservient to the

interests of foreign powers. This is a really big change that has come over the airwaves from Russia in the last seven or eight years. We were used in the 1990s to Russian leaderships which more or less toed a Western line in Russian foreign policy. That is no longer the case and we have to get used to that. I do agree entirely that the sensationalism of recent talk about a renewal of the Cold War is extremely unhelpful. It has leached like a disease across to Russian hard-liners, for whom it is a godsend that Western media are talking about such an eventuality. As a historian, I would plead for a long-term view of what is happening in this part of the world. Russia has essentially lost an empire. It takes decades, as we know in Britain, for countries to get used to such a loss. A loss of this kind has not just economic and political consequences but social, cultural and ideological ones. Russian leaders today are talking about Russia as inhabiting a separate civilisation from the West. They are a bit like the British in as much as they are predominantly Russians as Russians but they also see themselves as Europeans. This has an echo in British consciousness, I think, that we ought to be able to understand better than we actually do. They are schizophrenic. They are both now feeling that they are separate from Europe but actually they want to be part of Europe. They are more focused on Europe than on any other continent in the world except in regard to their relations with the one great hyperpower, the USA. Europe is really important for the Russians. Without economic linkages with Europe, Russia is done for, as your reports and reviews have indicated. I entirely agree with the thrust of that, that Russia needs Europe and Europe needs to cope with Russia. I would state more sharply perhaps than Sir Roderic the need to avoid being provocative towards the Russians. It does seem to me that the nuclear shield that is being installed in Poland and the Czech Republic is a gift to the worst elements in the Russian leadership. They are all, in my view, "hard-liners". The difference among them is about whether they should have the rule of law in their country and have a more liberal economic framework or not, but they are all essentially believers in Russia as a great power that has to be a greater one. They are all agreed on the space outside Russia that formerly belonged to the Soviet Union as being within their sphere of influence. This is the way they all think, so soft-liners and hard-liners agree on this in Moscow. This is a very, tricky matter for western policy-makers to resolve. The history of Russian-Ukrainian relations is extremely complicated. The history of relations within the Caucasus, within the North Caucasus and the South Caucasus, between the two halves of the Caucasus and between the Caucasus as a whole and Moscow is phenomenally complicated. We must not barge into these areas, thinking that simplistic analyses of

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Ukraine or Georgia are at all possible. That is not to say that we should not be assertive. I really do not think that the Russians appreciate a soft indulgence of their every whim. Far too often in the last decade or so sofa diplomacy has, alas, supplanted the proper procedures of the working out of the British national interest and the EU interest. Leaders have gazed into the eyes of Putin and declared him a democrat. Anyone who had the slightest interest in his biography or in the biographies of those around him would have known that this was a nonsensical self-deception. I think that the war in Georgia has brought the entire European policy-making establishment to its senses. That is not to say that I think that brandishing of swords is a way out of this problem. If we had been more sensible a decade back, taken the measure of Putin and his group then, it would still have been very difficult because Russia is a great power.

Chairman: Thank you very much indeed. I notice that Lord Anderson would like to ask a supplementary. Most of the issues which have been raised do come up in our subsequent questions but, Lord Anderson, if you do need to ask a question now, please do so.

Q3 Lord Anderson of Swansea: In one corner is Edward Lucas, in the other corner are the professional diplomats who want a quiet life, and those with a special interest—the Germans, the Italians and others—who want to carry on business as usual. Surely the public will ask how one responds to Russia, which after all has invaded a sovereign country; one does not use the word punishment, but governments also show their disapproval in some way and not immediately allow the waters to settle over it? What should those repercussions be? We cannot go on without a response, particularly if Russia were effectively to annex South Ossetia.

Professor Service: I taught in Abkhazia four years ago and you only have to go there to see that half the population has left. It has been ethnically cleansed of Georgians. Half the buildings are wrecked. It is in a shocking state. The reason that happened was that the Georgians bullied the Abkhazians, so that although the Russians have now bullied the Georgians, even in the last 20 years there is a history of terrible international, inter-ethnic violence down there, and of wars. The Abkhazians on the whole regard the Russians as their protectors. They are not particularly fond of the Russians. They take the instrumental view that this is the way that they are going to survive.

Q4 Lord Anderson of Swansea: The question, with respect, is what should our response be? Should we simply continue now with business as usual? Should there not be some negative repercussions?

Professor Service: I take your point. I think that generally engagement with the Russians is better than non-engagement. I do think that our relations with them should be frosty and self-assertive but I think at this moment we have made as big a mess of this as the Russians have. I do not think that the Europeans come out awfully well. They have overlooked the nest of problems. They have suggested, with the Americans, that the Georgians should be invited into NATO. If there are to be any settlement of all of these very tricky issues down in the South Caucasus, then the Georgians have to be looked at with the same kind of scepticism that the Russians have to be looked at.

Sir Roderic Lyne: I think there were and still are strong repercussions to the Russian actions. I was in Australia when it happened so I was not in the best place to judge but it was quite clear that there was a very strong reaction in Europe and elsewhere. I think Russia's reputation has been materially damaged by this. A number of steps were taken and I think the Russians are in a worse position as a result of it. I think their policy of recognizing South Ossetia and Abkhazia has been, as I said, a complete failure. Only Nicaragua and Hamas have supported them in this. South Ossetia is a nonsense. It is 60,000 people and its leader, whom I had the privilege of meeting in Sochi about a month and a half ago, told the Valdai Group that I was with that his desire was to join North Ossetia in the Russian Federation. He had to be contradicted that day and made to recant because this was not the party line. This illustrated the absurdity of the position, that the Russians have now locked themselves into and from which I do not think they can go back. So I think they have suffered material damage. I am also pleased to see that, as a result of what they have done, there are more serious reviews going on in the European Union and NATO about how we should deal with Russia, including about questions of energy security. I agree with Bob Service that this was a bit of a wake-up call for some in Europe, although not all. Lamentably, the Italian Prime Minister's absurd view on Russia has not changed, nor has that of the former German Chancellor or the current German Foreign Minister but overall I think the effect has been very negative. We now have to say: how do we move forward from here? Continuing to take further punitive actions against Russia is not going to solve this problem. The problem, as Bob says, is not a simple one and it is not a one-dimensional one. The Georgians are undoubtedly in large part to blame for what happened as well as the Russians. The way that the Georgians have treated Ossetia and Abkhazia over the past 20 years is very much a part of the issue. The outgoing administration in the United States also must bear a heavy responsibility. It has the greatest external influence on President Saakashvili and they

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clearly delivered very mixed messages to him. Colin Powell when he was Secretary of State evidently tried to restrain Saakashvili from conducting this sort of action. Clearly that message has not reached him from other members of the administration, perhaps including the Vice President. I think there is a big question as to why the Americans failed to restrain or deter Saakashvili from doing what he did. I do not think it is just about the Russians. The Russians have now withdrawn from the parts of Georgia beyond Ossetia and Abkhazia that they occupied, so they stopped short, though I think there were those who did not wish to, of actually invading Georgia as a country, of taking Tbilisi and of ousting President Saakashvili. Had they done that, our reaction, I think, would have been of a different order to the one that has been taken. We now need to try to first of all prevent further conflict of this kind breaking out, and we have to look very seriously at Ukraine, which is 100 times more important than Georgia in terms of European security, at other parts of the Caucasus, and I think we have to look at ways of trying to engage Russia in a negotiation about the many issues that have been left lying around by the collapse of the Soviet Union to which we have really not been paying much attention over the last four or five years.

Q5 Chairman: Thank you very much indeed. Reference has already been made, of course, to the audit which the European Commission carried out of EU-Russia relations which was published last week and which was the basis for the decision this week about the re-opening of negotiations. What is your view about the current state of the relations and, in so far as you have had a chance to see the audit by the Commission, do you on the whole accept their assessment?

Sir Roderic Lyne: I have not read their audit. I think the current state of relations is a mess. There are some very positive elements in the EU-Russian relationship, particularly in terms of our trade relationship; a lot of inter-personal contacts between the EU and Russia continue in a very constructive way, including in areas like, say, the academic world, but overall it is a mess. It is a mess partly because the European Union is still very sharply divided into several different camps about what kind of the relationship the EU should have with Russia. We do not have a unified European Union view, partly because the European Union has been going down a course that was first set in the mid-1990s of trying to develop a partnership with Russia, and it has been very slow to appreciate that about four or five years ago the Russians started to make very clear that they did not want a partnership; they did not wish to take on the obligations of a partnership. The EU has not adjusted its course to that. We are now in a situation in which, as I said, Georgia has produced some

correctly negative reactions in Europe. I think the prospects of achieving anything very significant in terms of forward progress in the EU-Russia relationship at the moment are very low. I think we are going to have to wait for a number of years until the situation in Russia changes and attitudes in Russia change and we have the opportunity of widening co-operation.

Professor Service: I agree with all of that. I think it is going to take decades. I doubt that the general underlying attitude in Russia is going to change though. I think they are always going to be assertive as a great power. At least, that will happen if their economy continues to surge. It is having terrible problems at the moment. I come back to this thing that was said by both of us earlier: they are in a mess at the moment economically. They are not in quite the same good bargaining position that they were a year ago or even a few months ago.

Q6 Chairman: Of course, the fall in oil prices will have complicated that matter further for them.

Professor Service: Yes, because this is an economy that has been strategically aimed since at least 1991 at balancing its budget through the export of gas and oil, and actually also by the internal excise duty on vodka.

Q7 Lord Jones: The briefest of questions: tomorrow is the EU Russia summit in Nice. Could you talk to us on what you think are the prospects.

Sir Roderic Lyne: I think the prospects are for a score draw, a low-scoring score draw of about one-all, that is to say I do not think there are going to be any major achievements from this. The ground is not ready for it. Clearly, the decision has been taken to re-open the negotiations on a Partnership and Co-operation Agreement. I think they will take a very long time. I assume that there will be some substantial discussions about the world economic crisis and some exchange of views ahead of the G20 summit in Washington about our respective positions on that, where they may not be far apart but, in terms of the more ambitious ideas of different forms of partnership, I do not think tomorrow is going to mark a step forward, nor should it, nor is there a particular reason why this is going to develop into a shouting match or some spectacular breach, which is why I call it a score draw.

Professor Service: We cannot rule out that the Russians will engage in a bit of finger-wagging tomorrow. They really enjoy doing that. Western politicians are enormously weak in responding on site because of the question of manners. Russia's leaders however enjoy doing this because it is relayed on Moscow television. It is enormously popular. One should not, I think, fall to any great conclusions that somehow Russians have always wanted to have a

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leadership like this but Russians have had a terrible time since the late 1980s, materially and socially. They have had their culture completely ripped apart and denigrated, and implicitly mocked by foreigners. Their living conditions have been appalling in most Russian cities and on the farms. In those circumstances it is entirely natural that they will turn positively to a government that seems to have guaranteed a measure of economic resurgence. The fact that it all comes from oil is not something that is discussed publicly, and the fact that their leaders are now standing up proudly in the West is enormously popular. Apart from the very small period after the Kursk submarine disaster shortly after he came to office, Putin has been fantastically popular. This really is a people and a leadership more or less agreed on the benefits of assertiveness. I hope that what will happen is that there will just be at worst a theatrical display in the next couple of days.

Q8 Lord Crickhowell: Just a very narrow point. You have given us a very comprehensive overall view of the relationship but initially the British Government until very recently was apparently against too early a start and wanting to see the full conditions laid down after the Georgia thing carried further and I think Lord Hannay, our colleague, was last week hoping we would not rush too quickly back into the negotiations. There does seem to have been a shift by the Foreign Secretary during the recent discussions. Do you think it is right? Are you happy that we are going straight back in at this stage or would you have preferred to see things wait a little?

Sir Roderic Lyne: I have always been a sceptic about the negotiation *per se* long before Georgia happened because I think we are trying to roll over a policy that was framed for a different age of 10-12 years ago. I am sceptical about the value of a wide-ranging Partnership and Co-operation Agreement. I know the argument in favour, which is that by having a wide-ranging agreement one might be able to achieve trade-offs beneficial to us in some areas in return for conceding points in others but I would have preferred to have seen the European Union focus on a trade agreement, rigorously exclude an agreement that incorporates language that is not realistic, and does not actually reflect the realities of the relationship with Russia and of affairs within Russia at the moment. I think the European Union should have insisted that earlier agreements should be fulfilled before moving on to another one. If you look at the last agreement—I do not mean the last Partnership and Co-operation Agreement, though parts of that have not yet been fulfilled—the agreement on the four common spaces included a lot of highly aspirational points in the area of civil and political rights, cultural exchange and so on, freedom of media, et cetera, an awful lot of points that have

simply not been implemented. I think it would have been more sensible to have said we should get up to that level first before we try to move into another one. I do not think we should deceive the European public by using the sort of language that says that we have a genuine strategic partnership with Russia, which is what the last agreement said. It is not the truth. That would have been my preference. In terms of whether we should go back into negotiations now and whether the British Government should have shifted its position, I do not think the UK as a single country within the European Union has a great deal of traction over Russia. I think the most sensible policy for us to pursue is one where we work as closely as we can with the centre of gravity in Europe, which means, obviously, Germany, which has a lot of traction with Russia; it means France; it also means countries in a pretty sensible position like Sweden, which again has quite a big relationship with Russia but is not uncritical. That may mean that we have to concede certain points in order that we can be in the centre of this process of policy-making towards Russia and can argue against some of the Berlusconiism, if I may put it like that, and keep Europe on a path of rectitude. If that is the sort of compromise the Foreign Secretary has made, I would say he is right to do it.

Professor Service: I think on the whole that Britain and the EU should be engaged in discussions with the Russians on a new agreement. I think that the agreement should be based upon realistic principles from the European side and that no agreement should be signed unless there is Russian consent to them. I think the Russians have to be engaged. The worst thing that could happen at the moment is that we lose them from the European embrace. They do still go to the European Court of Human Rights, for example. This is very, very important for Russians. There are terrible abuses of human rights in Russia, the most appalling political assassinations happening, the most dreadful persecution of people campaigning for the environment, for civil liberties and so on. All of this is going on but at least if there is some kind of avenue of opportunity to go to Europe, it would be disastrous to play into the hands of those in the Russian leadership who do not want anything to do with European engagement. However, I do think that there should be no compromise on principles. If it takes a long time to sign this agreement, so be it. The Russians really do not respond well to soft negotiators and I think far too often over the past decade they have had a really soft negotiating partner.

Q9 Lord Truscott: Could I declare an interest in relation to our witnesses because Professor Service reviewed one of my books about Putin and I had the pleasure of meeting Sir Roderic when he was

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Ambassador in Moscow. In terms of the Partnership and Co-operation Agreement, is it not the case that currently that is the main mechanism for our engagement between the Russian Federation and the EU? If we remove the PCA, there is not really a vehicle for co-operation between the EU and Russia. I just wonder whether Sir Roderic thinks there is a slight contradiction between that and his stated position that he does not really think there is a case for partnership with Russia, that we can only have selective co-operation, but if we do not negotiate a PCA, what is the vehicle for that selective co-operation?

Sir Roderic Lyne: I think we need agreements but I think we need a different sort of agreement and maybe several agreements rather than one. For example, we could have an agreement on political dialogue with Russia. It does not have to be part of a wider agreement. I would agree that it is sensible to have such a thing. I think we should focus very heavily on trying to expand trade through further trade agreements with Russia, including, as I argued earlier, supporting Russian entry to the WTO and embracing Russia under a wider set of trade rules, which I think would be very much to our advantage and also actually to theirs. So I am not arguing that we should have an absence of agreements; I am simply saying that we should not continue necessarily on this track of one large, all-embracing agreement that we set out in the 1990s.

Q10 Lord Truscott: But how would the EU engage with Russia if you take away the PCA? It is not really the EU's role to negotiate Russian accession to the WTO. How would we engage Russia in EU terms if we did not do it through the PCA?

Sir Roderic Lyne: The EU is engaging with Russia on a daily basis across a very wide front, not solely because of the Partnership and Co-operation Agreement. The biggest motive for this is trade, with 55% of Russian exports coming into the European Union. We can have a network of agreements covering individual areas where we can co-operate with them. My argument on partnership is simply that I agree with the aspiration to form a real partnership with Russia and bring Russia more closely into Europe. I simply think that at the current moment it is not achievable and it is deceptive to pretend that we have such thing.

Q11 Lord Hamilton of Epsom: Sir Roderic, in your opening remarks I think you laid the blame for the conflict in Georgia probably on both sides. I would just like to know how you see that balancing out between Saakashvili and the Russians. I would also like to ask where you see things going as regards the Russians' attitude towards South Ossetia and Abkhazia. You said that they had locked themselves

in and could not go back. Do you think that, if they have a policy, it is one of annexation, rather similar to Turkey and Northern Cyprus, which has run on for 30 years?

Sir Roderic Lyne: I think it is quite like Northern Cyprus but Turkey has never actually annexed Northern Cyprus. I think we may well find that for the next 30 years Abkhazia is rather like Northern Cyprus. I think Abkhazia and South Ossetia are rather different cases. Abkhazia is slightly bigger in population terms, about four or five times that of South Ossetia. It could be a viable mini-state. It does have some mining, it has quite a lot of tourism potential, it has a coastline. It is not a landlocked, mountainous entity of 60,000 people with no real economic viability other than crime and smuggling, which is roughly what South Ossetia is. South Ossetia also is a nonsense because you have an international boundary dividing the Ossetian people. It is a legacy of Stalin. Another factor in this, particularly with regard to Abkhazia, was commercial interest. When one tries to understand decisions in Russia one needs sometimes to follow the money. Some of the people who were pushing for recognition of Abkhazia reportedly had very large commercial interests there, including some of the Duma members most vociferous on the subject and some other well-known players in the Moscow political landscape. With regard to the responsibility for the conflict, to me the surprising thing about this conflict was not that it happened; it was that it had not happened earlier. I was actually expecting conflict between Russia and Georgia a year and a half to two years ago. From the time that President Saakashvili came in he has, I think, very imprudently pursued a policy of needling and provoking the Russians. I think he has been encouraged to do so by Neocon elements in Washington. I think he would have been better off trying to really focus on building up Georgia as a prosperous, modern state that made itself attractive to Abkhazia and Ossetia rather than trying to take on the Russians as he did. Over the past three years or so one has seen in Moscow attempts at blockading Georgia, various punitive measures, stopping their imports and so on, but a growing mood, particularly in military and other very hard-line quarters, that they should sort out this tiresome person. There is evidence, some of which has been produced by our own Defence Research Establishment and was published before the conflict in July, of a very deliberate Russian military build-up before this, of railway lines being repaired, troops being moved down, exercises being held, and so on. I think the Russian military were waiting for this to happen. It was perhaps more likely that it was going to happen in Abkhazia than Ossetia, and I think there was a deliberate intention on their part at some point when the opportunity presented itself to do what they have

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done, really to use force against Georgia. They have been talking about this for a long time, so they have done that. I think it is a combination of Saakashvili and the Russians that have led to this build-up that ultimately led to a conflict, and I think external powers failed to use their influence on both sides to prevent this from happening.

Professor Service: I think it needs taking back even before the last 20 years. One has to bear in mind that Georgia is a patchwork quilt of national groups. When Georgia became a Soviet republic, the impetus of its Georgian communist rulers was to “Georgianise” everyone within the republic. Abkhazia at first was actually a separate Soviet republic. It was recognised as being a separate Soviet republic and it was then put into the Georgian Soviet republic. There was a very vigorous policy of Georgianisation, with a huge transfer of populations, particularly of Georgians into Abkhazia. Those people have now been ethnically cleansed. So the resentment of the Georgians is really pervasive in those two autonomous regions of Abkhazia and South Ossetia, and it goes way back before the fall of the Soviet Union. Even within Georgia itself, outside those two regions, not everyone who is called a Georgian recognises himself as a Georgian and most famously the Mingrelian, Lavrenti Pavlovich Beria, the notorious Soviet political security policeman, was a Mingrelian. In the 1930s most Mingrelians did not recognise themselves as Georgians. So this is a very brittle, explosive country we are talking about, with all sorts of internal tensions that have yet to be fully resolved, and it really did not take very much for the Russians to decide that they could make a lot of mischief down there, especially as Georgia had been designated as some kind of close ally of the US.

Q12 *Lord Hamilton of Epsom:* Can I ask you both a very unfair, hypothetical question? If Georgia had been a member, one, of the EU, and two, of NATO, would this conflict have taken place?

Professor Service: I think it would have caused a conflict if 15 years ago Georgia had applied for and gained EU membership. There would have been some provocation.

Q13 *Lord Hamilton of Epsom:* That would have sparked it, you think?

Professor Service: That would have sparked it, yes, because the Russians do regard this as their back garden and they do see Georgia as being a way for Western powers to put pipelines across through to the Mediterranean, across the Black Sea, which damages Russia’s economic interests. They see Georgia as being amenable to being used as the West’s patsy power. There is something in it. That is not to say that we should not be firm in the way that we deal with the Russians but we should not think

that the Georgian state is simply a victim state. It has not behaved well to what it regards as its minorities. Those minorities no longer regard themselves as minorities because they do not want anything to do with Georgia. Abkhazia rules itself.

Sir Roderic Lyne: There are plenty of people in Russia who dream of reconstituting the Soviet Union but I think that the Russian leadership know that this is not realistic. I do not believe that the Russians would now annex a Member State of the European Union.

Q14 *Lord Hamilton of Epsom:* Or part of it?

Sir Roderic Lyne: Annex a Member State of the European Union. I also do not believe that EU or NATO membership would have prevented this conflict from taking place. If the EU and NATO had been unable to deter President Saakashvili from behaving in the way that he did, the Russians would have felt that they had justification, as they do feel very strongly right across the spectrum, for reacting to it in the way that they did—not, as I say, for taking over the whole of Georgia. They would not have believed that NATO would have invoked Article 5 and gone to war with Russia over South Ossetia, so it would not have deterred them.

Q15 *Lord Anderson of Swansea:* Professor Service, you know the enclaves very well. Is it your view that Russia has in fact honoured the Sarkozy-Medvedev agreement, in particular Article 4, on the withdrawal to the position of the Russian troops on 7 August? Is it your view that possibly the Russians will ultimately annex South Ossetia or do they not need to because they are such a pliant group? Do you think there are any implications for other enclaves, such as, for example, Transnistria, of provoking crisis, having given passports to the Russian minority and seeing that possibly as a means of helping to reassert the old Empire?

Professor Service: It is hard to know what is going to happen there. I do not think simple annexation would be necessary in the case of South Ossetia but it would be pretty easy to organise a South Ossetian appeal for incorporation in the Russian Federation. At the moment I think the existence of a South Ossetia and an Abkhazia that is troublesome to the Georgian republic is an asset for the Russian Federation. The more that they try to pull those two enclaves into the Russian Federation, the less trouble those enclaves can make on the Russian Federations behalf. I would have thought a pragmatic judgement in Moscow would have run along those lines. It has to be said, however, that over the last two or three years Putin has repeatedly talked about “disputable boundaries”, and when one thinks of how many times the internal boundaries of the USSR were redrawn, including the boundary of the Russian Federation, in the period between 1917 and 1991, one

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can see that frontier politics could become a real fighting matter. The state of Kazakhstan did not exist before the middle of the 1930s. It was part of the Russian Federation. The borders of Ukraine have been redrawn several times in the past 100 years and there are spots of Russian residence where the Russians could make a lot of trouble. Just occasionally in the last two or three years Putin has talked this way about frontiers, pursuant to the recognition of Kosovo. The Russians have said, “If you can do it, we could if we wanted to”.

Q16 Lord Anderson of Swansea: Is there not a possible precedent for other frontier areas and have they honoured Article 4 of the Medvedev-Sarkozy agreement?

Sir Roderic Lyne: The agreement was short on detail and long on ambiguity. Clearly, the Russians have not withdrawn their forces to the positions that they occupied before the war and have no intention of doing so. They are now stationing permanent forces, not peacekeepers, on what we recognise as Georgian territory in South Ossetia and Abkhazia, and that is not going to change. The most important requirement of stopping the conflict and of getting the Russian troops out of the Georgian parts of Georgia that they were occupying has been achieved. Clearly, the rest of it has not, in our interpretation of the spirit of the agreement, though the Russians would argue otherwise and would use its ambiguity to say so. I think the general point that Bob makes about the precedent for redrawing boundaries is one of the reasons why we really do need to have a fundamental discussion about European security, embracing all the countries of Europe and of the OSCE, and all of the post-Soviet States, because it is extraordinarily dangerous for future European security if we go any further down this track. There are no end of boundaries over which arguments could arise. President Medvedev, echoing earlier remarks by President Putin, is now asserting a doctrine under which Russia has privileged interests and has a priority to defend the interests of Russian citizens overseas. He combines that with reaffirmation of Russia’s attachment to international law, to having good relations with all other countries, and the question is, where actually is the priority when push comes to shove? I think we would be much better off if we could be arguing across a table than having shells flying over South Ossetia over these issues, and I think we have to be extremely careful about Ukraine in the future, but not only Ukraine. One of the objectives of a wide-ranging negotiation needs to be to reaffirm sovereignty and territorial integrity and the inviolability of international boundaries. They should not be changed except by agreement and negotiation, and I think we really need to anchor that point, otherwise we could be back into an era of

succession of small-scale conflicts in this arc of countries where we have not resolved the post-Soviet issues.

Q17 Lord Selkirk of Douglas: I think in part you have answered the question I am about to ask. What is your assessment of the implications of the war in Georgia and the recognition of the independence of South Ossetia and Abkhazia for the future of Ukraine? Is Russia encouraging separatist elements in Ukraine? In general, is there a danger of Russia and the European Union not correctly understanding each other and of friction arising? Obviously, Finland and Ukraine have adopted very different policies towards joining NATO over the years. Is there a risk of war between Russia and Ukraine? How, in your view, would you see a sensible way forward without compromising any principles?

Sir Roderic Lyne: I do not think there is a risk of war between Russia and Ukraine. Russia is pursuing a policy in Ukraine, as it is in almost all of the other post-Soviet states, of maximising leverage, of being prepared to use different instruments, including economic and political, to destabilise these countries. Its objective is, I think, not to take them over but to preserve to the greatest extent possible the Russian ability to coerce and influence these countries. I think it sees the development of their relations with the West in a zero sum way. They are asserting a sort of Monroe doctrine over this. They are using examples given to them by the Bush administration of unilateral and cross-border action in other parts of the world to justify what they are doing. In Ukraine, in Crimea in particular, clearly they have been exercising pressure on the Ukrainian Government by a number of devices. There is the whole question of the future of the Black Sea fleet, in which some mutual threats have been exchanged. They have been making Russian passports readily available to those who want them, to a degree encouraging separatist elements in Crimea. I do not think that means they are necessarily going to take over Crimea. In fact, I would be very surprised if they did so because that would be a much more serious matter than what they have done in, say, South Ossetia but it is a pressure point. I think they play the game differently in Ukraine. In Georgia they essentially had to play the game from the outside. There is not really a Russian constituency of any significance within Georgia. In Ukraine they are playing the game inside the country. They have all sorts of close connections: ethnic, security, commercial and so on. With Ukraine, you have about one-third of Ukraine that ethnically regards itself as Russian, another third, in crude terms, which is pretty mixed, and only about a third that is ethnically and historically really distinct from Russia. That is what they are seeking to do. Of course, it has never been the case that a majority of

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the Ukrainians in any opinion poll have been in favour of joining NATO. When President Yushchenko applied for membership action plan status he did not have a democratic mandate to do so. Now, with the current political situation in Ukraine, with yet another election coming up, I think that question will to an extent resolve itself. The Ukrainians do not actually want this and I think it is just as well that they do not want it because, if there were a serious prospect at this stage of NATO seeking to embrace Ukraine, the effects of that are fissile on the NATO-Russia relationship.

Professor Service: I think that the movement of Ukrainian opinion is very definitely against NATO membership. I think the last opinion poll suggested that 70% of Ukrainians do not want the country to be taken into NATO, so President Yushchenko is going against the trend of opinion in his own country and his own Prime Minister is seeking a more accommodating line on relations with Russia. That said, the surveys of opinion that have been done on ethnic Russians in Ukraine also suggest that they do not want anything to do with reincorporation in Russia, that they have a pride in being separate from what they regard as a much more authoritarian state in the Russian Federation. I think that the EU generally has been remiss in not building up closer links with Ukraine. The talk has often been about NATO but really we in Britain have no reason for acting in the way that we do. We have not taken Ukraine seriously. We have very few students learning Ukrainian. That is when we take a country seriously, when we have 18, 19 or 20-year-olds in our universities learning the language, not just going out there as businessmen, talking only English, but understanding the country. Academic exchanges are enormously important. Language training facilities are enormously important. It really only happens in one centre in this country and a very small number of students are produced by it. I think there ought to be far more contact with Ukraine and helping them, for example, to reform their police system, to make their institutions truly different from those in Russia, truly adhering to the rule of law. We have concentrated so much on the geo-strategic dimensions in our relations with Ukraine and we should really be going under the surface to make proper contact with a country we should take really seriously as a total entity. We really have a chance here to do things that will not be seen as acutely threatening by the Russians but will make a big difference to lightening the atmosphere of conflict.

Sir Roderic Lyne: Chairman, can I just endorse that point. The number of EU leaders other than from neighbouring countries who have visited Ukraine over the past 10 or 15 years is tiny compared to the number who are in and out of Moscow. I do not think a British Prime Minister has ever been there on a

bilateral visit. We have had some multilateral EU-Ukrainian events. This is a very large European country that we are failing to take seriously. One of the points that the Foreign Secretary made in his speech in Kiev that was not really noticed was to take a much more forward position on Ukrainian accession to the EU than any British Government had ever done before, and he put EU above NATO in a very deliberate way. Since then the European Union is edging towards opening the door a little wider to Ukraine. It needs to do so further. If the European Union is prepared to contemplate Turkish membership in principle—it would take 30 years at least for Ukraine—it should, I think, deliver the same message to Ukraine—it should, I think, deliver the same message to Ukraine. I completely agree with Bob Service; we have not taken Ukraine seriously enough, we have not put enough effort and resources in there, and we should do this in these soft ways that are not provocative, are not military, are entirely natural and are not zero-sum because Ukraine should always have and will always have quite naturally a very big relationship with Russia. We are not seeking to deny that but what we are seeking to do, I think, is to open more channels between Ukraine and Western and Central Europe.

Q18 *Lord Hamilton of Epsom:* So although NATO membership would be extremely provocative to Moscow, you do not think that EU membership, if it hypothetically could be accelerated, would be provocative in the same way?

Sir Roderic Lyne: I do not think it could be accelerated because of what the Ukrainians would need to do to get up to speed.

Q19 *Lord Hamilton of Epsom:* No, that is why it has to be hypothetical.

Sir Roderic Lyne: I think what the EU has failed to do is to deliver a signal to Ukraine that ultimately they could qualify for membership, and I think we need to do that, to set them some kind of a target, if they want it, at some point down the road but be absolutely realistic about what has to be done to get there. I think this would be a big incentive to them to help to modernise their country and improve law and order and governance and many of the other things that need to be done. I do not think that would be remotely as provocative to Russia as NATO membership, not least because the timescale would be different. As Bob said earlier, we have to allow a lot of time for people to absorb what has happened. It is not that NATO membership is necessarily wrong. It is that it is premature for a lot of these countries. The situation is too delicate at the moment and we have not yet built up a sufficiently strong and robust relationship with Russia for the Russians to absorb that.

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Q20 Lord Anderson of Swansea: Sir Roderic, you have a distinguished record in terms of cultural exchange, language studies and so on. We have a considerable advantage in the UK of having a vibrant Ukrainian community which is culturally very self-conscious. Do you think we should be exploiting that more in terms of student exchanges, producing interpreters and so on?

Sir Roderic Lyne: Yes. The number of people in this country who actually speak Ukrainian other than the Ukrainian community is tiny. The number of people who have a real awareness of Ukraine is absolutely tiny.

Q21 Lord Anderson of Swansea: But that resource could be exploited, the existing Ukrainian community.

Sir Roderic Lyne: Yes. I have an interest here because I chair the Advisory Committee of the CEELBAS network, Central and Eastern European Language Based Area Studies, which I think I mentioned. I think this is exactly the kind of inter-personal contacts that are natural in the world we are in, a world that the former Soviet countries only entered 17 years ago, having been cut off from it before, that we should encourage and stimulate and foster. Look at the huge benefits that have accrued from people from countries like Poland coming to work here. Quite a lot of Ukrainians are coming to work here and I think this is wholly beneficial.

Q22 Lord Truscott: If I could address my question in the first instance to Professor Service, how have recent events in Georgia affected the prospects for progress in the EU-Russia energy relations and is progress more likely to take place if negotiations are resumed on the PCA? There are some commentators who feel that, for example, the EU proposals on Nabucco are being affected badly by the conflict in Georgia and in some senses it strengthens Russia's energy hand. It may have damaged Russia's reputation internationally but if you look at the energy sphere, because of Georgia's position as a potential transit route for oil and gas, it has actually strengthened Russia's position.

Professor Service: As you know, as part of the military campaign they did smash what they could of the infrastructure that might lead to the construction of a more efficient pipeline. I feel, in general terms, that negotiations about a new agreement are better than no negotiations at all but that the negotiations should be based upon principles acceptable to the EU; in other words, the latitude for compromise should be very small. It has always astounded me how little interest the Russians have shown in building a pipeline from to Siberia down to China. China is having to get its oil from parts of Africa, yet there is one of the most enormous reserves of oil and gas lying

up there in Siberia. Siberia itself is subject to huge amount of Chinese immigration at the moment. The Russians themselves are depopulating eastern Siberia. The fact is that the Russians have, either consciously or otherwise, decided that they want to sell their oil to Europe. The reasons for this would seem to be that the Chinese haggle over the prices more vigorously and do not pay on time. The Europeans, by contrast, do accept the prices and do pay on time, so that the bargaining position, it seems to me, is not as weak on the European side; it should not be seen as weak, as it is often portrayed in the media. We should be tough negotiators with these Russians. I think on the whole it is better to have them in a process of negotiations for an agreement rather than the opposite, although I can see the case for the opposite.

Sir Roderic Lyne: I am not a believer in some grand bargain on energy under which Europe locks itself into Russia. I think it is extremely important that the European Union diversifies to the maximum extent possible both its sources of energy and the types of energy it uses. One has to distinguish between oil and gas. Clearly, you can be very flexible about where you buy your oil from whereas with gas you are locking yourself into long-term relationships. We need to recognise that Russia, in terms of gas supply, is as dependent on the European Union as the European Union is on Russia. About 90% of the profits of Gazprom come from the sale of gas to the European Union. It is selling gas at no profit at all in Russia. It does not have alternative markets, as Bob points out. It has failed to build pipelines into China. In any case, it would not necessarily make sense to transport some of the gas right across Russia to China. It should have developed, it has the possibility to develop reserves of gas in the far east of Russia to supply the Chinese market. For a whole load of reasons it has failed to do so up to now, which is a source of some frustration to the Chinese, though they too do not want to be dependent on Russian energy supplies. They are prepared to have Russian gas at the margin, five per cent or so. They do not want more than that; they do not want dependence. The Russians are very nervous about admitting the Chinese to ownership of what they regard as strategic upstream resources in Siberia. So that has all gone very slowly. We need also to bear in mind that the biggest problem in terms of energy in Russia is Russian failure to invest and the limited capacity of Russia to increase production in the years ahead. Russia is moving into a gas deficit. It can only meeting its existing commitments by buying gas from Central Asia, not only for export but indeed for its domestic market, and because it has failed to invest in new production, and most of the new production is going to come in more difficult areas of Russia which are more expensive to develop, there is going to be a widening hole over the next few years.

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For that reason alone the European Union would not be wise to assume that the Russians are going to provide huge amounts of the additional energy that we are going to need over the next 10, 15 or 20 years and we have got to look elsewhere for it. Russia will, I think, continue to remain an important supplier to us because it has to be, and because the Russians are quite proud of the fact that they have never interrupted their supplies of gas to Germany in the many years they have been doing it, and they know that if they ever did so, it would be incredibly damaging to their own interests.

Q23 Lord Crickhowell: Thank you very much. You have now addressed very well the one issue which you did not actually include in your Open Democracy paper, which I read with great interest. You have both talked about energy and the weaknesses from the Russian point of view and of its importance to Russia; but one of the fundamental problems up till now has been that the whole European approach has been fundamentally flawed. The actual total share of European energy provided from Russia is very small. The problem is that in some parts of Europe the gas element is very big. So far Europe has resolutely failed to get its act together. Most important of all, it has failed to really think about, let alone get on with constructing a gas network, which would totally transform our position and the ability of Europe to deal with Russia. The difficulty, of course, as we all know, is that Germany, because of its particular pipeline dependence on Russia, France probably for other reasons, are reluctant, as are others, to enter into such a deal, though Europe is now trying to get moving on this. Is it not actually pretty central, if we are going to have sensible relations with Russia, that we actually get a European energy structure that makes sense from the European point of view? At the moment we are giving the tools to Russia to negotiate against us because we are absolutely magnifying out of all proportion the importance of Russian gas to the total energy supplies of Europe. Have you any comment to make about that particular aspect?

Sir Roderic Lyne: I agree 100% with you. I think it is the single most important thing that the European Union should do affecting its relationship with Russia. It would give us a bargaining position that we simply lack at the moment by being divided by, as you say, not having a unified network and by exaggerating our own sense of dependency on Russian gas. Even in Germany Russian gas is about 30% of their overall supplies or the EU's overall supplies. It is only about 10% of German primary energy consumption. In Poland it is almost zero because they get most of their energy from coal. The Commission has put forward some rather good proposals and Russian actions over the last two years have actually started to push Europe in the right

direction but too slowly. We need to put that at the very top of our list and carry it forward and to have a unified energy strategy for Europe and on the basis of that, yes, conduct future negotiations with Russia, but let us get our own policy sorted first, otherwise we are not really in a position to negotiate and, because of that, you can get countries like Italy striking bilateral deals with Russia, or Austria, or Austria becoming a hub for the Russian pipelines, that undermine European position.

Professor Service: I entirely agree. There really has to be a unified European response on this. When you get a German Chancellor, on stepping down from office, accepting a directorship of Gazprom, you have some indication of how difficult that is going to be. With Berlusconi chummy-ing up to Putin on every possible occasion, I do not know how realistic it is to imagine Europe having a unified energy policy. That is the only thing that is going to make a difference to Russian tendencies to play with the oil weapon, although, as Sir Roderic says, they have not actually cut off the supplies to Germany. They have done this to other countries within the former Soviet Union but they have not yet done this to Germany. In the years before the Cold War ended it would have been seen as something really serious, involving a drastic deterioration in international relations, virtually the first step to the Cold War becoming a hot war. Nothing happened like that then and nothing like that has happened since, so we should not exaggerate how bad things are at the moment. They are bad enough but we should not think they are that bad.

Q24 Lord Boyce: My question has been largely trampled on to a certain extent by some of your opening comments and also during the other questions. It is about the tensions created by NATO's various moves, the policy of future enlargement and the siting of the missile shield in Poland and the Czech Republic. I was interested in to what extent you think these tensions are going to affect the climate in which our EU-Russian relations have been conducted and also what does the EU think—some thought perhaps Russia would live with the missile shield but, of course, Medvedev has done something very aggressive in putting up electronic warfare countermeasures, missiles in Kaliningrad, and so forth. How do you think all these tensions are affecting the climate for EU-Russian relations?

Professor Service: I think they are going to have a terrible effect and I think we have an indication of how they are going to go on in the next few months from the announcement made by Dmitry Medvedev about the positioning of missiles next to the Polish frontier on the very day that Barack Obama was announced as American President. This cannot have been an accident. They are really seriously furious

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about this nuclear shield against the possible long-term Iranian threat. They really cannot see the logic of the American standpoint on this. I personally think it was a mistake of the Americans to do this at the time they did it, in the way they did it, and even to some extent for the purposes for which they did it. All of the opinion polls in Russia suggest that, without stirring up a popular mood, most people in Russia feel this way. I suppose one cannot always say “Let’s look back at history” but it is hard not to say this about a country that was nearly overwhelmed by the Wehrmacht in 1941, where the one rallying point of popular opinion is the commemoration of the Second World War, where veterans are still respected, where the memory of Nazi atrocities is still really acutely felt. Russians have a memory that trouble comes from Germany through Poland, from Europe through Poland, so it is not exaggerating too much to say that this really was a provocative step by the Americans, a really serious diplomatic error, I think, and so seriously do the Russians take it that they chose the day of the Obama’s election to indicate that this is not going to change in their foreign policy with the Obama presidency. They are not exactly going out of their way to wave a white flag at him at the moment or to accommodate him or make things easy for him.

Sir Roderic Lyne: I think this is much more about perceptions than it is about strategic reality. The reality is that the Russian military and Russian strategic thinkers do not see any military threat from NATO. They have actually shifted forces, as Lord Boyce would know much better than I do, away from their frontier with us. They recognise privately that putting ten interceptor missiles in Poland in no way changes the strategic balance between Russia and NATO or the United States, and for that matter NATO enlargement likewise. The perception is completely different and it is essentially politically driven but it affects everybody. Last weekend I heard one of the best-known and most senior Russian liberals, a former chief of staff in the presidential administration, somebody who would be labelled pro-Western by most Russians, say that he felt unsafe in his apartment in Moscow with the thought that missiles could get in six minutes from Poland to Russia whereas previously it would take 35 minutes. The point he made was that in 35 minutes you can have a presidential decision; in six minutes you cannot contact the president, therefore a decision on how to respond would be taken by a major, and you can get an escalation of a very dangerous and ill-considered kind as a result of that. Of course, these missiles cannot get to Moscow, any more than the Iskander missiles that President Medvedev talked about deploying in Kaliningrad—and now it has been slightly adjusted that they would be deployed if the Americans deployed their system—and it was not

anyway a new statement because Defence Minister Ivanov made a very similar statement over a year ago. I understand they do not have many Iskander missiles, they do not work very well, and they do not yet have the range; they could reach Poland from Kaliningrad but they could not reach the Czech Republic, where the radar would be. Back in the realm of reality, the Russians and the Americans were in a negotiation about these systems and the Russians were privately saying to the Americans, and even Putin I think said this on one occasion publicly, that while they did not like it, they could live with it. It would make more sense if the Americans put it in Azerbaijan, which is closer to Iran, but they could live with it so long as they had the ability to inspect it and see that it was not being enlarged into some facility of a different kind that could be used against them. The Georgian war broke out before this negotiation, which was not going terribly well, had reached a conclusion. Condoleezza Rice flies into Warsaw, signs an agreement with the Poles, as a sort of tit-for-tat gesture, rather silly gesture politics by this rather silly administration in Washington. So now the Russians have responded with a silly gesture of their own. One must hope that under President Obama that grown-up behaviour might break out again. The Democrats have never been that keen on missile defence. President Medvedev’s statement, which was out of tune with the rest of the reaction in the whole of the world to the election of President Obama, makes it slightly more difficult for Obama to say that he is going to review the case for missile defence and either negotiate with the Russians conditions under which this does not disturb them, or indeed perhaps put it into cold storage for the time being, let us say, until the Iranians actually get themselves a missile capable of flying over Warsaw, which they do not have either. So we will have to wait and see but I am not totally pessimistic about the prospects.

Q25 Lord Boyce: Do you think on EU-Russia relations though there is an opportunity here, now that Obama has come in, for the EU overtly to be trying to persuade Obama to back off, and be more sensible, and Russia-EU relations may benefit from that by the EU being seen to be sensitive to Russia’s concerns?

Sir Roderic Lyne: I think we need to do this privately. If we do it publicly, a lot of people will pile in on the other side on Obama saying “Don’t listen to those wet Europeans because they are just terrified that their gas is going to be cut off.” Privately, I hope we are talking to the Obama team about the fact that he needs to pay some attention to Russia even though it is not in his top five priorities and cannot be and that, if he does, he may find that the Russian leadership, despite the fact that they have boxed themselves in

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with domestic opinion, would like to ease their way out of that box, especially as the economic crisis bears down on Russia. I was very interested to hear a very senior Russian in the administration about a month ago talk about the possibility of reviving the old Gore-Chernomyrdin Commission as a Putin-Biden Commission. They are beginning to think along those lines. The current issue of foreign affairs in the United States is also very interesting. There is an article by Stephen Sestanovich, who is a member of one of these groups that advises the Obama machine, which is totally different to the report of the Council on Foreign Relations, of which he was a prime author two years ago, which was very much in terms of containment, and is looking towards picking up Russian proposals on European security, resuming arms control negotiations, including on issues like CFE as well as strategic arms limitation, and I think this could embrace missile defence. This is why I say there is the possibility of moving into a more grown-up mode of behaviour under President Obama, and I think the European Union and the British Government in particular need to avoid being stranded by this. We have an opportunity: it will take four or five months for the Obama team to get into place and really start thinking hard about Russia, because they have other priorities. That gives the EU and the European members of NATO bit of time, if they will only use it wisely, to get their own thinking together about European security and to start conducting a quiet dialogue with the American administration about how we handle Russia in a sensible way, and if it is going to be on Sestanovich lines, the lines of this article, I do not think it is going to be a big gap that we have to bridge but maybe I am being overoptimistic now.

Q26 Lord Hamilton of Epsom: The decision by President Reagan to deploy the theatre missile defence was a brilliant strategic play at the time with the Russians, and I think persuaded them that technologically they were going to be left miles behind and therefore they were in a very weak position. Having said that, I would have been much happier if he had abandoned the whole idea not too long afterwards because I am not sure it does not make nuclear exchange rather more likely than less, because you then move away from the concept of mutually assured destruction, which I always thought seriously concentrated minds, and you blur the issue with theatre missile defence. Would you agree with that?

Sir Roderic Lyne: I would agree with that but I have not had the benefit of being a Minister in the Ministry of Defence. I think it was a fine bit of bluff by Reagan, rather like the bluff by Khrushchev when he pretended he could hit a fly in space and convinced

America that this was the case, when in fact he could barely hit America, let alone a fly.

Q27 Lord Crickhowell: You have been talking mainly in the last five minutes about the missile issue. In your recent paper, which I have already referred to, Sir Roderic, you are splendidly robust on the NATO enlargement issue and take up a point that some of us raised in our recent debate in the House about our report: “The West should freeze NATO enlargement until such time, many years hence, as it can be implemented without these consequences.” I am wholly sympathetic to that point of view. Do you think, following up on the way you think things are going on missile defence, particularly on British views about this, that this is something which will increasingly, wisely, become policy? How do you see the NATO issue developing away from what it has been in the past?

Sir Roderic Lyne: I think our starting point needs to be European security and we need to ask ourselves what is going to strengthen that and contribute to it, and if enlargement of NATO does not do so, it is not the right course to go down. I listened the other day to a very senior German who had been involved in the enlargement negotiations of 1990 saying that at that time three criteria were agreed informally between the Europeans and the Americans and this was to ask: would it be good for the country in question, would it be good for NATO and would it be good for European security? Unless you could tick all the boxes, you did not go further down that road. In that case, you would not begin to go down that road with a country like Ukraine or Georgia. Somewhere in the Balkans may be different. I think there are other things we can do. I do not think that awarding MAP status to Ukraine or Georgia increases their security at all; actually, I think it does the opposite, and of course, it does not even embrace the Article 5 guarantee. It does not mean NATO can do nothing. It can strengthen its relationships with those countries in lots of other ways without touching on this question of actual membership, which is almost irrelevant to security. I do believe that is where we need to get our thinking straight, and start with the right question, which is: what is going to be good for European security?

Q28 Lord Crickhowell: Are you optimistic that there will be a change of attitude? We do not know how Obama will react on this one.

Sir Roderic Lyne: We do not know that. I hope that no imprudent decisions are taken in December in the dying days of this ghastly administration in Washington and I hope Europeans will have the *cojones* to stand up to any pressure that might come from those quarters more effectively than they did at

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Bucharest in April, when they ended up in this ridiculous position of facing both ways at once.

Q29 Lord Truscott: I do not disagree with anything that you have said but is it not the slight danger that in effect you are giving Russia a veto over who joins NATO? What you are saying is, if Georgia or Ukraine join NATO, this will endanger European stability and security but it is Russia in effect that will endanger European security. So by not progressing with Georgia's and Ukraine's membership, in effect we are giving Russia a veto, are we not?

Sir Roderic Lyne: I do not know anybody who thinks that we should give Russia a veto over this membership. If you take the case of Georgia, I think it would be bad for Georgia at the moment to be made to think that it was a quasi member of NATO because it would encourage the Georgians to take actions—and we have seen plenty of evidence of this recently—that are imprudent because it had a false sense of security. So it would be bad for Georgia, and I think it would be extremely bad for NATO to implant itself in such a volatile region of the world as the Caucasus when we have plenty of problems to cope with in Afghanistan. So I think it would be bad for NATO. What is Georgia going to bring to NATO that strengthens NATO? Very, very little, and that is before you even bring Russia into the equation. With regard to Ukraine, were we to try to put in the direction that Yushchenko has wanted, it would be unbelievably divisive in Ukraine where, as Bob said earlier, 70% of the population does not want Ukrainian membership. So it would be destabilising in Ukraine, it would take a very long time to get the Ukrainians anyway up to the point where they made an important contribution to NATO and, again, that is even before you start referring to the effect on Russia. So, on its own merits, this is a bad idea right now. Down the road maybe when the situation is different but not now. That is my argument.

Q30 Lord Selkirk of Douglas: May I ask what is quite a difficult question: to what extent do you think that Russia has experienced a sense of humiliation in the past, either through economic circumstances or on account of other factors? To what extent is that an issue which we should address today and how best is it addressed?

Professor Service: Undoubtedly this is a major factor. Politics is not just all about diplomacy and government; it is about the way that people feel, and the disorientation, as well as the humiliation, of Russians is a fact of life. It is something that cunning leaders like Putin and Medvedev can play with. They can play with this disorientation and this sense of humiliation. In fact, when he came to the presidency in

the year 2000 Putin explicitly said that he was opposed to the continued “denigration” of the achievements of the Soviet Union in the 1930s in regard to mass education and industrialisation. This message was put out by the leadership and was welcomed by most Russian people. They have lost their great state, they have lost their power in the world, and they have lost their good feeling about themselves. They had a leader in Yeltsin who was drunk in Berlin, was incapable of functioning at Dublin airport, who stood next to President Clinton in Washington, who laughed at him when he was fumbling his words. On television screens and in the newspapers Russians felt humiliated but also disorientated. This makes Russia much more dangerous to deal with. It is not just a question of leadership. There really is something linking the leadership with the people at the moment and the leadership know how, I would say, to mischievously exploit this situation. They are a bunch of toughs. Many of them are thugs. We will never know who killed Litvinenko but we do know that there is an atmosphere of indulgence shown when human rights campaigners are assassinated. There is no reason to think that Putin ordered the killing but there is no reason to think that Putin has seriously tried to find the killers. It is a very nasty authoritarian regime. Far too many political scientists in this country and in Europe studying Russia will not call things by their names. It is an authoritarian state, a very nasty one. It is not a totalitarian one; it does not intrude into the private lives of its citizens in the way that Stalin did and to some extent Khrushchev did. There is a good deal of religious freedom, there is freedom of recreation—even that was not free in the Soviet period. In many, many ways it is not a totalitarian state. You can use the Internet in ways you cannot use it in China. It is still a very nasty, authoritarian state, which is so worried about its prospects that, even though it knows that its candidate for the presidency is going to win a thumping majority, it still seeks to remove other rivals who did not stand a chance of winning in the presidency elections last year, removing them from the ballot paper. It is a thoroughly nasty regime we are talking about.

Chairman: Professor Service and Sir Roderic, can I on behalf of the Committee say how very much we have appreciated the evidence you have been able to give us. It has been a very rich diet and you have really enlightened us in a lot of ways, drawing upon the wide experience of both of you. I particularly appreciated from Professor Service some of the historical analogies. I think we understand history more in this country than they do in the United States but, nonetheless, we do not always have enough of the history which is necessary. Thank you both very much again. This will be very useful for us when we come to prepare our report.

 THURSDAY 20 NOVEMBER 2008

Present	Anderson of Swansea, L Crickhowell, L Hamilton of Epsom, L Hannay of Chiswick, L	Roper, L (Chairman) Selkirk of Douglas, L Swinfen, L Truscott, L
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Lord Teverson

Examination of Witnesses

Witnesses: SIR MARK LYALL GRANT KCMG, Director General Political, MR MICHAEL DAVENPORT, Director of Russia, South Caucasus and Central Asia Directorate (RuSCCAD), and MS KATHERINE FOX, Deputy Team Leader, Russia Section (RuSCCAD), Foreign and Commonwealth Office, gave evidence.

Q31 Chairman: Sir Mark, thank you very much indeed for coming to see us this morning. We know it has been quite a sacrifice as you came across the Atlantic overnight. This is a public meeting. A transcript will be taken and you will be provided with a copy of it in a few days' time. I wonder whether you could introduce yourself for the record and ask your colleagues to do the same.

Sir Mark Lyall Grant: I am Mark Lyall Grant. I am the director general political at the Foreign Office. On my left is Michael Davenport, who is director for the Russia, South Caucasus and Central Asia Directorate. Katherine Fox is the deputy head of the Russia section.

Q32 Chairman: Thank you very much indeed. We are carrying out a follow-up inquiry on Russian/EU relations and we would be very grateful if you or your colleagues could say something about your assessment of the current state of EU/Russian relations and in particular the outcome of the summit held in Nice last week.

Sir Mark Lyall Grant: I think it is fair to say that relations between the EU and Russia are still somewhat strained as the recent EU/Russia review made clear. It talked about a serious shadow being on that relationship as a result of the events of the summer. On the one hand, it is quite clear that both the EU and Russia share a lot of common interests, a lot of shared challenges. There are a lot of things that we want and need to do in common on issues as wide ranging as counterterrorism, climate change, trade, peace in the Middle East, non-proliferation as regards Iran, etc. On the other hand, it clearly is difficult to conduct business as usual following the events in Georgia in August. The latest position as a result of the EU/Russia summit in Nice earlier this week is that the negotiations for the mandate of the PCA, the new Partnership and Co-operation Agreement, will resume and there will be a high level meeting on 2 December following an experts'

meeting today to take that forward. That is a resumption of the interrupted negotiations following events in Georgia. That is part of re-engagement between the EU and Russia. On the other hand, the EU audit which drew up a review of all the different elements of the relationship between the EU and Russia will be examined by the European Union to see whether there are areas within that review which would need to be affected by the fact that the relationship is currently strained.

Q33 Lord Anderson of Swansea: The consensus appears to be that there was a certain recklessness of calculation on the part of President Saakashvili. There was an excessive response on the part of Russia. Is this the Foreign Office view?

Sir Mark Lyall Grant: I think that is our view. Clearly, there was some recklessness on the part of President Saakashvili in Georgia but, on the other hand, we think that the Russian response was both disproportionate and unnecessary in the sense that it was harsher than was required in order to stop what they saw as an attack on the South Ossetians and on indeed the Russian peace keepers; and went much further than was required in terms of moving Russian forces into Georgia, attacking installations, bombing towns, etc. We do think that the response was disproportionate.

Q34 Lord Anderson of Swansea: Russia has clearly sought to redraw internationally recognised boundaries by force in spite of the apparent contradiction in what they are now saying about the European Security Treaty and so on. What is their motive?

Sir Mark Lyall Grant: People have different views on what Russia's motivation was. I think if one looks at the five principles of foreign policy that President Medvedev set out publicly a few months ago, one of those principles was the assertion of a special interest in the "near abroad". I think Russia felt that they had

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the right to interfere in some of the countries on their immediate borders if their citizens or their interests were attacked. I think they felt that their interests were being attacked by President Saakashvili's military action in South Ossetia and they responded accordingly. I think it was a combination of a long history of bad relationships between Moscow and Tbilisi and an opportunistic response to some recklessness on the part of the President of Georgia and a wider assertion of that principle of: this is our backyard and we shall act in accordance with our interests within it.

Q35 Lord Anderson of Swansea: South Ossetia is never likely to become independent in any way. Is it the Foreign Office view that there is a danger that this is a step on the way to annexation?

Sir Mark Lyall Grant: I do not think so. Certainly Russia has said, both privately and publicly, that there is no intention to absorb either South Ossetia or Abkhazia into the Russian Federation. On the other hand, they have recognised those territories, with one other country, and that was clearly a decision which many in Moscow are regretting because it has exposed the isolation of Russia in taking the action that it has. I think they have left themselves with quite an awkward, complicated problem in this sort of frozen conflict, because they say that they will not go back on the recognition of the two territories. No one else is going to recognise them, so they are clearly not going to be valid, independent states. On the other hand, they have said that they do not want to absorb them into Russia.

Q36 Lord Anderson of Swansea: It will be hanging in the air in terms of their independence and a continued source of instability in the future.

Sir Mark Lyall Grant: It will certainly be a continuing source of instability in the region. One of the reasons why, as part of the August and September agreements, there was an insistence that there should be some sort of diplomatic process in Geneva starting in October, the second meeting of which was held yesterday in Geneva, was precisely to try not to let this situation be frozen indefinitely. There needs to be an international, diplomatic process to resolve not only the security and stability issues and the refugee and humanitarian issues, but also in due course status issues.

Q37 Chairman: The October meeting in Geneva was notoriously unsuccessful. Is there any information from yesterday's meeting as to whether it was more useful?

Sir Mark Lyall Grant: The briefing that we have had from one of the co-chairs was that it was more successful than the first meeting. There was no

standing on ceremony in the sense of people walking out. They dispensed with name plates and status issues so all of the relevant parties did sit around both at a dinner session and then moving into two separate working groups that had been set up, the one on security and stability and the other on IDPs and refugees. In that sense, I think a threshold was passed and a precedent has been set. I do not get the impression that a huge amount of substance was discussed at this meeting but they have agreed to meet again on 17 and 18 December.

Q38 Lord Hannay of Chiswick: I wonder if I could take up a point that you mentioned, which was this latest tool in the Russian diplomatic toolbox, which is giving passports to large numbers of people, some I imagine of whom may never have been Russians as opposed to Soviet citizens at all; and then claiming that any military action outside their own borders is to exercise their "responsibility to protect", in the words of Minister Lavrov, which is of course an abuse of the United Nations agreement of 2005. Does the British government take a position about this latest tool in the toolbox which does seem to have some fairly dangerous potential implications?

Sir Mark Lyall Grant: Indeed. The Foreign Secretary raised that with Minister Lavrov when they met in New York in September and I raised it with my opposite number only last week when he visited London, to try and get clarification of exactly what these principles mean. Some of the five principles in terms of non-confrontation and these sorts of things are understandable and acceptable, but asserting that you will protect by implication wherever they are and by any means, Russian passport holders, particularly given as you rightly say, Lord Hannay, the fact that they have been rather liberal in their issuing of passports to many in the region, does strike us as particularly dangerous. It goes potentially beyond protection, to asserting the right to dispose of those citizens in any way they wish, as we have seen in London. It does have quite far reaching implications and we have therefore tried to seek clarification on it. Their response was that this was perfectly normal and in line with the normal diplomatic conventions in international law and they rejected the assertion that they were giving away Russian passports that were not justified.

Q39 Lord Hamilton of Epsom: Is the reality of South Ossetia not really parallel to that of Turkey and Northern Cyprus? In 30 years' time, nothing much will have changed and they will still remain satellites of the Russian Federation.

Sir Mark Lyall Grant: I think there is a risk of that. If Russia insists on its current position, which is a question of recognition, saying that that is

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irreversible, given that other international countries are not going to recognise, depending on what happens in the Geneva negotiations, it looks as though it is going to be very difficult for there to be a complete re-integration of the two enclaves into Georgia. Our position is that we have recognised the territorial integrity and sovereignty of the internationally recognised borders of Georgia and obviously that includes both South Ossetia and Abkhazia. Russia itself has signed up to UN Security Council resolutions to that effect so we do hope that it will be possible to tackle those status issues rather than, as you say, my Lord, leave it as an unresolved issue more or less indefinitely, rather as northern Cyprus has been.

Q40 Lord Hamilton of Epsom: On the question of the implementation of the Sarkozy agreement, how far do you think that has been completed in terms of the implementation of its commitments?

Sir Mark Lyall Grant: I think there has been a very large compliance in terms of the ceasefire and a large withdrawal of the Russian troops from the rest of Georgia and engagement in the Geneva talks. All of these things have been achieved and also the deployment of the EU monitoring mission. However, our position is that there is still work for Russia to do to be fully compliant, in two senses in particular. One is that in the August agreement they undertook to withdraw to their pre-August positions and, in three areas in particular, in Akhgori, which is a part of South Ossetia, in the village of Perevi which is outside South Ossetia, and in the upper Kodori Valley, which is on the borders with Abkhazia but was previously administered and run by the Georgians, Russian troops are still there and have not withdrawn. In a second sense, also the Russian troops are in the enclaves in much larger numbers than they were before, I think a total of 7,500 troops between the two enclaves, whereas before they were probably fewer than 3,000. In those two respects, I think there has not been a full compliance. A third area I would just mention is the facilitation of the monitors into South Ossetia and that has not happened fully yet. It is very patchy. EU monitors have been able to get across into South Ossetia on an *ad hoc* basis but at other checkpoints and crossing points have encountered difficulties from the Russians.

Q41 Lord Hamilton of Epsom: Is there a Russian rationale for keeping those little enclaves that you have referred to? What is in their minds? Why should they value them?

Sir Mark Lyall Grant: I am not sure I can answer that, my Lord. South Ossetia I do not think has many attractions in a sense for Russia.

Q42 Lord Hamilton of Epsom: I am talking about the areas on the margin.

Sir Mark Lyall Grant: There are slightly different reasons for all three but Akhgori is the part of South Ossetia that is closest to Tbilisi and therefore does give the Russians a little bit of a stranglehold on the centre of Georgia. Perevi is a village the edge of which is in South Ossetia and the village itself is outside, but is a crossing point between two different parts of South Ossetia, and therefore I think they would argue it is better to control that particular crossroads than to try and do it in a more scattered way. I guess that would be the justification for it.

Q43 Lord Hannay of Chiswick: You have described the Partnership and Co-operation agreement and the negotiations are about to resume. To what extent do we think this agreement that is now going to be negotiated is really a full umbrella for the EU's relationship with Russia, or is it just more a technical, partial covering of certain sectors but not really covering the whole relationship? Do you think that these negotiations are going to be a useful way to engage the Russian Government at the highest level, or are they going to just go along on a very technical course?

Sir Mark Lyall Grant: The negotiations themselves will probably take, if the precedent of the current agreement is any guide, 18 months to two years and there may then be a further year of ratification by all the EU Member States. Last time, it was about a three year process from the opening of the negotiations to ratification. The existing agreement will be in force for at least, I would think, two to three years, but the new agreement is more comprehensive than the current one. It does cover a number of areas in some detail which are not covered by the existing agreement, for instance, counter-terrorism, counter proliferation, judicial co-operation, crisis management, climate change, migration. These are either completely absent from the current agreement or only touched on very lightly in the current agreement. There is also a stronger dispute resolution mechanism. I think it is fair to say that this is quite a comprehensive agreement compared to the current one and will be probably the main focus of the relationship between the EU and Russia when it fully comes into force.

Q44 Lord Truscott: How have events in Georgia affected the prospects for progress in EU/Russia relations on energy and pipeline politics as well impacting on Europe? Is progress more likely to be made in your view on the resumption of negotiations on a successor to the Partnership and Co-operation Agreement?

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Sir Mark Lyall Grant: This is not my particular area of expertise but energy security, diversification, security of supply etc., are issues that are of very significant importance obviously for the European Union. The energy relationship between the European Union and Russia is very strong, more so for some other Member States than for the UK at the moment, but some Member States rely almost entirely on the Russian supply of energy. Likewise, Russia depends very heavily on the EU to sell its energy. It is a co-operative relationship and a very important one. A number of factors have come into play recently. One is obviously the economic crisis which Russia originally thought it might be immune from but that has of course not turned out to be the case. The growth rate forecasts have come right down to two to three per cent. The rouble has come under very severe pressure. Foreign reserves have been depleted to protect the rouble. The stock exchange has collapsed, not unfamiliar symptoms of course elsewhere, but it shows that, if you put that together with the lower oil price at only just over \$50 a barrel, that is having quite a severe impact on the Russian economy. That in turn affects the whole energy sector.

Mr Davenport: On the Georgia crisis, the close proximity of the conflict to key transit routes in the Caucasus has certainly served to highlight the fragility of those transit routes and the supply routes for both oil and gas and has perhaps focused political attention on the need to provide support in this area, and particularly for the European Union to be more proactive in bolstering the prospects for these supply routes to be improved upon and enhanced and infrastructure to be put in place etc. The Georgian Government recently signed a memorandum of understanding with the Azeri Government over the supply of gas to Georgia from the Caspian which in due course should have the effect of making Georgia much less dependent on Russia, which is the main source of gas at the moment, and probably pretty heavily dependent on Azerbaijan.

Q45 Lord Truscott: In your view, the current crisis has bolstered the proposals for saving Nabucco rather than undermined them. Secondly, if that is the case, do you think Member States should put money behind it?

Mr Davenport: It has certainly bolstered the focus on the need for transit routes to the west from the Caspian and from central Asia. The question of Nabucco is of course very closely linked. Ultimately Nabucco will only work if it is economically, commercially viable and if there are the sources of gas to put through Nabucco. That is a question that is still unclear but I think there is greater energy now in investigating all the aspects of that problem,

including solutions pending Nabucco, including using transit routes through Turkey, for example.

Q46 Lord Crickhowell: I would like to come back to the economic crisis separately but, on the energy point, surely the issue is not just a matter of transit routes? That is probably not the central problem or solution. We have a very interesting paper in front of us which I referred last week to Sir Roderic Lyne which points out that the Russian contribution to the total EU energy consumption is only 6.5% and, of the gas coming to Europe, Russia now only provides about 40%. There has been enormous diversification, but of course there are a number of countries in the European Union who have huge dependence. Therefore, the real issue, not least because it is a political as well as an economic disruptive force, is to move towards a market integration and an integrated network in Europe. The Commission is trying to move rather tentatively in that direction, but it is absolutely crucial and fundamental that if we had an effective network and a market solution it would no longer be the major political, disruptive force that energy is proving at the moment. It would be possible to provide gas and so on to those countries that are heavily dependent. The trouble is that particularly Germany and France are crucial players in moving to such an integrated situation. The Commission may want to but unless Germany and France support such a move and go for it—we know why Germany has not done so up to now—it is not going to happen. There is an argument surely that this is an absolutely central issue for the European Community which it ought to be addressing and I wonder what the British position is. I am not so much concerned with the pipelines and so on. Yes, of course there are arguments for Caspian and other pipelines, but I think it is a much more central issue, whether Europe can devise and agree an energy policy that can speak as one to Russia and remove the political, disruptive force into a simple, economic price adjusting mechanism.

Sir Mark Lyall Grant: I can only agree with you. The British Government does agree that we want a completely liberalised internal market in energy. That would resolve some of the issues of security of supply and diversification. We need that combined with a more coherent and coordinated external policy as well. That is where some of the transit routes come into play. It was at our instigation that this issue of energy security was put into the Special European Council conclusions on 1 September. The meeting was held because of the Georgia crisis. I think the British Government is fully behind that. You have identified a couple of countries at least that are less enthusiastic than we are. I think this issue goes back

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quite a long time, as some of your Lordships will remember.

Q47 Lord Crickhowell: Do you have any sense of optimism that perhaps now, faced by the situation that we do face, there is some hope of making real progress on this, or are we simply going to remain deadlocked and therefore exposed to Russia quite unnecessarily for a long time into the future?

Sir Mark Lyall Grant: To be honest, my Lord, I have not been involved in the internal EU negotiations on the energy issue, so I would not want to say whether we are in optimistic or pessimistic mode. I think it is fair to say it is an issue that has been around for a very long time. There clearly is some stimulus to move forward and the Commission position is powerful and important. The fact that they have come out very clearly in favour is important in the EU context but, when there are still some very important countries that are resisting for different reasons, it is going to be always difficult to make progress.

Q48 Lord Hamilton of Epsom: Could you not argue that when there are very serious national issues at stake in energy there is no way that Europe is going to be united because that reads over to the bailing out of banks as well, where there is no sign of unity there either. My main question is on GDP which you said was going to grow by two to three per cent. I am quite surprised that it is growing at all because, if you look at what the Russian economy must have been 12 months ago, if it is totally dependent as we are told on oil and gas, the prices have halved since then. There must be other parts of the Russian economy that are actually working to give them that growth rate. Otherwise, if you halve your main driver of the economy, that will put you into recession, I would have thought.

Sir Mark Lyall Grant: I think they had been expecting a growth rate prediction of between seven and nine per cent, so the new forecast of two to three per cent is quite a substantial reduction.

Q49 Lord Hamilton of Epsom: It does not reflect the halving of prices, does it?

Sir Mark Lyall Grant: It does not, although I think I am right in saying that for Russia the price of oil in particular at which the industry breaks even is a slightly lower level than for some suppliers. I do not think they are losing money in that sector. I think the problems are more structural in terms of longer term investment which is an area where Russia does depend very heavily on the European Union. I think 80% of foreign investment into Russia comes from the European Union.

Q50 Lord Anderson of Swansea: Mr Davenport said that Nabucco would go ahead only if we could justify it on commercial grounds. I thought the Union, as a result of the shock to confidence caused by the Georgian invasion had gone beyond that and said that, if the market did not provide, there might have to be some public contribution and further that President Barroso has floated this idea of a company to obtain Caspian oil from Turkmenistan and Kazakhstan through the Caspian and Turkey as an alternative, which is much opposed by Russia for its own reasons. Are you saying the situation has not moved on Nabucco beyond that?

Mr Davenport: All that you say is right. I think that the rationale for Nabucco essentially would still have to be a commercial and economic one. There are ways in which the European Union and individual Member States potentially could lend political and, in some cases, a degree of financial support, including through institutional lending, to provide some of the confidence that private sector investors may need in order to make it work. The fundamental point for Nabucco is that the energy supplies have to be there, if not as fast as most of us would like. Certainly in due course there has to be the prospect of the volumes that would make it work.

Q51 Lord Anderson of Swansea: That means going beyond Azerbaijan to Turkmenistan and Kazakhstan?

Mr Davenport: In due course it would require supplies from beyond Azerbaijan because my understanding is that the Shah Deniz field would not be sufficient to provide those supplies into the medium and longer term, which is why we, through the European Union but also bilaterally, are working particularly with the Turkmen Government initially on confidence building with the Turkmen energy industry in order to increase the prospects for Turkmenistan being a source of energy across the Caspian to the west in the future.

Q52 Lord Crickhowell: I asked that we concentrate initially on the energy issue. Can I widen the economic discussion a bit? One sometimes has to remember when one is questioning representatives of the Foreign Office that this is a European Committee and the report we are looking at and the supplement we are now preparing on that report is on the relations of the European Union and Russia. You started by giving a brief comment about the state of the Russian economy and the effect on it of the economic crisis. Sir Roderic last week gave a very vivid account of the weakness of the Russian economy and the potential problems that they were facing longer term—the decline of the working

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population and all the other issues that we addressed in our report. Also, the fact that they are going to find it increasingly difficult to supply their own gas, let alone European gas. Therefore, they are not in quite the strong position that they might present themselves as being in when they come to negotiate about commercial and other matters. Given the fact that the economic and financial crisis I see was one of the three agenda items for last Friday's Nice meeting, how do you see the present economic and financial crisis impacting on Europe/Russia relations in the immediate future?

Sir Mark Lyall Grant: I think it is still quite early to make firm predictions about the impact that it will have on a range of relationships that the European Union will have with other countries. I do not see it affecting the fact that energy will continue to be a central part of that relationship. It may affect Russia's own view of itself and its influence within the world community but I have seen no evidence of that so far at all. What I have seen is a shift over the last three months from a view that Russia would be immune from this and that this was a crisis made in America, affecting American allies but not touching Russia, to a recognition that it is having a very damaging effect, not only in financial markets and financial business, but also on the real economy in Russia. That could have quite important implications domestically in Russia. There are one or two signs one picks up of tension between Prime Minister Putin and President Medvedev about who might be to blame for the economic crisis and there is the question of who the Russian public might blame for that economic crisis. I think there are some quite interesting dynamics there which will have an impact in the longer term. What I have not seen as yet is any recognition by Russia in terms of its actions and indeed what it says of it affecting its outward perspective and its view of itself. Russia, as I think we have discussed before in this Committee, my Lords, does crave respect as a major, global power. There is a certain nostalgia for the Cold War certainties of the status of Russia and I think the Russian leadership is looking to be treated rather as the Soviet Union was treated in pre-1980 days. They have a number of inherent assets: the size of the country, the P5 membership, its historical role, its influence in the region, etc. On the other hand, it has a number of vulnerabilities which you have set out, which are important in terms of the declining population and potential difficulties with Muslim minorities in particular. There are difficult relations with China. There is a whole range of vulnerabilities going forward for Russia, but I have not myself detected any sense that those vulnerabilities are admitted by the Russian leadership and they are not allowing them to affect their external behaviour yet.

Q53 Lord Crickhowell: One of the things Putin has tried to convey is that Russia is still a very powerful military force. We have had talk about ships being sent towards Venezuela but the truth of the matter is that the Russian military setup is extremely weak and has been neglected in the past. Is it not likely that, if they are facing the economic difficulties that we think they may be facing, it may be less and less convincing to posture themselves as rebuilding a great, strong military presence which can threaten the world in the way that the world used to think it was threatened by Russia. It may become a little exposed as a slightly false pretence.

Sir Mark Lyall Grant: That is a fair point, my Lord. We should not forget that the Russian economy, although it has been growing very fast and will still grow in the future, we anticipate—the GDP is about the same size as Spain's—indeed, I think I am right in saying that the military spending is less than the United Kingdom's. One has to keep a sense of proportion, but it is still a nuclear power and has a hell of a lot more nuclear warheads than the United Kingdom. That is a factor one has to take into account.

Q54 Lord Truscott: Given the growing size of protectionism in Russia, is it still the view of HMG and Member States generally that we should be supporting Russia's rapid accession to the WTO? I think we probably should but has there been any alteration in that view?

Sir Mark Lyall Grant: No. We are still enthusiastic supporters of Russian accession to the WTO. In general terms we believe that we should try to bring Russia into rules based organisations and the WTO is a rules based sort of structure which we think would be very good to have Russia a member of. The danger is that the longer Russia stays outside the WTO the more protectionist it might become. The Russian Government did take a promising step just before the EU/Russia summit in terms of suspending increases of the timber tariffs which were of growing concern to Finland in particular, but also to the EU more generally. I think there must be a danger that if the economic crisis gets worse in Russia, if they do not have the disciplines of the WTO, they will drift even faster into a sort of protectionist mode. I do not think that would be good for Russia in the long term. It would not be good for Russia's trading partners either.

Q55 Lord Hamilton of Epsom: One of the things that Russia has which no western economy has is a sovereign wealth fund which is quite substantial. Do we have any visibility on whether it will be used and what it could be used for? It could be used to counteract a recession.

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Sir Mark Lyall Grant: It certainly could, my Lord, and indeed has been. I do not know how accurate the figures are, but the figures I have seen show that there are potential foreign reserves of 500 billion dollars. At least 100 billion has already been used to try and support the currency which is presumably lost forever. There is a depletion of those reserves, but they are still very substantial compared to most countries in the world. They can be used for a number of things. There was the suggestion at one point of a loan to Iceland for instance. I think that particular exchange has fallen through. I do not know whether Russia would plan to use those sovereign wealth funds to further their foreign policy objectives, or whether they would be held in reserve to absorb shocks in the domestic economy. I am afraid I cannot answer that question.

Q56 Lord Swinfen: What is your assessment of the implications of the war in Georgia and the recognition by Russia of the independence of South Ossetia and Abkhazia for the future of the Ukraine?

Sir Mark Lyall Grant: It has made the Ukrainian people more nervous clearly. In some ways, Ukraine is bracketed with Georgia as an important near neighbour of Russia. On the other hand, Ukraine is an independent country, makes its independent choices and is going through a rather different crisis of its own. There is quite a serious political crisis within Ukraine at the moment. What I can say is that Ukraine has expressed an interest in getting closer to the European Union. They want to become members of the European Union and they have also put in an application to join NATO. We support those European vocational aspirations, both in the EU and in NATO and we will be looking to take that forward. One of our responses following the Georgia crisis has been to accelerate consideration of the eastern neighbourhood partnership which would include both Georgia and Ukraine and four other countries in the eastern neighbourhood of the EU. That will be endorsed, I would anticipate, at the European Council in December. That is a proposal which binds those countries closer to the European Union. It promises financial support etc. With Ukraine specifically there was an EU/Ukraine summit very recently, I think on 9 November, which agreed a new association agreement with Ukraine and a free trade area. The relationships between the European Union and Ukraine have probably been accelerated as a result of the Georgian crisis.

Q57 Lord Swinfen: Ukraine used to be the bread basket for the Soviet Union. Is it still the bread basket for Russia?

Mr Davenport: My understanding is that the Russian domestic production of grain has increased substantially in recent years so that Russia has become a net exporter of grain. There is not that dependence that existed in the Soviet days.

Q58 Lord Swinfen: Is Russia encouraging separatist elements in Ukraine as far as you are aware?

Sir Mark Lyall Grant: We are not aware of that, my Lord, no. Clearly they have interests in Ukraine and Ukraine is a deeply divided society. There are quite a lot of ethnic Russians, the Black Sea fleet of course is based in Sebastopol, so Russia does have quite extensive interests in Ukraine and no doubt has an interest in the outcome of the current political crisis. We have not seen any evidence of subversive behaviour, no.

Q59 Lord Swinfen: They are not giving out quantities of Russian passports?

Sir Mark Lyall Grant: They certainly have done that in the past. I do not know whether that is still continuing.

Mr Davenport: It is very difficult to get accurate statistics for that. There is clear anecdotal evidence that Russian passports have been issued to citizens in Ukraine but of course Ukrainians have no statistics on the numbers of passports issued by the Russians to their citizens and we have no figures to get at from the Russians on that either. It is certainly something that is happening and something which, for the reasons that were discussed earlier, we need to keep a wary eye on.

Q60 Chairman: You referred to the EU/Ukraine summit. After that the Ukrainians were somewhat disappointed that they were not given a rather clearer membership perspective. Indeed, there is a slight contrast between the position that was taken at that summit and the speech of the Foreign Secretary in Kiev where he did give an indication of a membership perspective. Do you think there is some chance of the EU moving towards the position of the British Government in this respect?

Sir Mark Lyall Grant: In the medium term, certainly there is. In the short term, the whole issue of enlargement has got a little bit tied up with the ratification of the Lisbon Treaty and the reluctance of some Member States to go forward with the enlargement process until there is greater clarification on the institutional changes within the European Union. I think it is fair to say that some of the countries in the eastern neighbourhood have been victims of that.

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Q61 Lord Hannay of Chiswick: Could you just say a quick word about what the implications are for relations with Belarus of the Georgian episode but also of certain modest shifts that seem to have taken place in the last few months? Do we think something really is shifting there?

Sir Mark Lyall Grant: Potentially, there is something shifting there. It is interesting that the Russians were very strongly encouraging Belarus to recognise South Ossetia and Abkhazia and they did not do so. There have been suggestions that the Russians would like to site missile bases in Belarus but that has not happened yet. There have been some feelers being put out by Belarus towards the European Union. Belarus would be included in the eastern partnership when it is agreed. Clearly, there are a huge number of concerns about politics in Belarus but also there have been some positive developments. The fact that I think all political prisoners—certainly prominent political prisoners—have been released is promising. On the other hand, the recent elections would not have passed many tests of fairness. I think it is a mixed picture but we recognise that some progress has been made and we want to respond to that in a positive but cautious way. The Prime Minister of Belarus was in the UK recently.

Q62 Lord Hamilton of Epsom: I think Ukraine is on the record as saying they will not renew the lease on Sebastopol. Do you think it is going to map out like that or do you think, when push comes to shove, the Russians will—?

Sir Mark Lyall Grant: A lot of water will flow under the bridge before 2017, when the lease runs out, it is difficult to predict accurately what will happen then.. The current government of Ukraine took that position. I do not know whether all future governments would. Quite what the Russian reaction would be if they tried to implement that commitment I do not know. It is a very sensitive issue for both sides and one that we watch very carefully, but I would not like to predict what will happen.

Q63 Lord Selkirk of Douglas: Do you think the EU should strengthen its ties with Ukraine and in what ways? We have heard in evidence recently that the majority of Ukrainian people might not wish to join NATO. Do you have any clear assessment on that particular issue and any views on it?

Sir Mark Lyall Grant: On the first, my Lord, we would like to see a very significant deepening in the relationship between Ukraine and the EU. Of the six countries that are part of the eastern partnership, Ukraine is the one that is probably the most able to move closer to the European Union most quickly. We would like to see that happen and to see Ukraine given a membership perspective. We hope that, once

some of the reticence of our partners to furthering the enlargement dossier is overcome, we will be able to move in that direction. There is also the question of the NATO track and the foreign ministers of NATO will be looking at both the Ukraine and Georgia applications again in December, in 10 days' time, and will be looking to implement the decision that was taken at Bucharest at the summit in April this year. That too is a highly contentious issue and one that Russia has a very strong vested interest in.

Q64 Lord Selkirk of Douglas: Sir Mark has not answered the specific question I was asking. We have heard evidence to the effect that the majority in Ukraine might not wish to join NATO. We wonder what your assessment might be on that particular point and what your views on it would be.

Sir Mark Lyall Grant: The opinion polls that we have seen have fluctuated quite wildly. As far as the NATO countries are concerned, we have to take seriously the application that is put forward by the elected government of Ukraine and they did put forward a formal application. Whether that is supported by a majority of the people is, in a sense, a problem for the government of Ukraine rather than a problem for NATO, but it does mean I suppose that a future government of Ukraine might withdraw the application. That is always a possibility, but I have not seen any recent polling evidence to suggest there has been a major shift one way or another on the NATO issue.

Mr Davenport: I think that is broadly right. The polling that I have seen has suggested that only a minority of Ukrainians, at least according to the polls, actively support NATO membership. There are a lot of undecideds in the polling results as well and the polling results tend to reflect the regional diversity which you were referring to.

Q65 Lord Truscott: My understanding is that the British Government looks favourably on the applications of Ukraine and Georgia to join NATO at some point in the future or at least become candidates and join the road map to membership. Is that understanding correct?

Sir Mark Lyall Grant: It is. All NATO heads of government took a decision in April this year that Ukraine and Georgia will become members of NATO. I think it is a question of when rather than if.

Q66 Lord Anderson of Swansea: The proposal of President Medvedev at Evian for a European security treaty, when the Russians have sought radically to recast European security structures in the past, we have responded very warily. Is there a way of decoupling Europe from NATO? When the Russians then tried to build up OSCE they rapidly changed

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their view when the OSCE started giving unfavourable views when monitoring elections and so on. Why the change now when we had the EU/Russia conference? Why did we respond positively by agreeing to hold such a conference next year?

Sir Mark Lyall Grant: We look at the proposals that President Medvedev has put forward against a number of principles. One is that it should be inclusive and therefore should include the United States, which originally President Medvedev's idea did not include. Secondly, we believe that it should be considered in existing fora and the OSCE is an obvious one to do so. Thirdly, it should not undermine existing security structures that we think are working perfectly all right. Against those principles, it is encouraging that President Medvedev is coming up with ideas, even if we are wary about the motivations behind them. What happened in Evian was that President Sarkozy suggested that this might be discussed at a special summit in the OSCE in the middle of next year. I think it is fair to say that came as something of a surprise to us and indeed to his own officials.

Q67 Lord Anderson of Swansea: It has now been adopted in the summit.

Sir Mark Lyall Grant: It was agreed in the summit. That does not have any legally binding value. It may turn out to be rather too early, not least with the new American President, to be having a big summit on future security arrangements as early as the summer. The original idea was maybe towards the end of 2009 or the beginning of 2010 might be a more suitable time.

Q68 Lord Anderson of Swansea: What topics in our judgment should be addressed and should they include the frozen conflicts in Moldova and the Caucasus generally?

Sir Mark Lyall Grant: I think they should. If we are going to have some discussion of new security arrangements, it has to be clear that they are based on certain principles and some of the principles have already been agreed at Helsinki. They have to be based on the principles of sovereignty and territorial integrity, respect for borders, non-interference etc., and tackling the frozen conflicts. All those issues will come into play, but so also will some of the wider issues that the OSCE does deal with, some of the value based issues in terms of human rights, democracy, freedom of expression etc. I do not think one could narrow it to a purely security focus as I have the impression the Russians would prefer.

Q69 Lord Hannay of Chiswick: Would this include also the other frozen dispute over the conventional forces in Europe?

Sir Mark Lyall Grant: One of the advantages of this sort of proposal is that there are certain issues, particularly the CFE issues, but there is also Post Start and a whole range of disarmament issues that are frozen and would usefully restart. That is an issue that will be on the agenda of the new American President. We would like to see the disarmament agenda taken forward with more vigour than it has been over the last few years.

Q70 Lord Hannay of Chiswick: The issue of siting missiles in the Czech Republic and Poland which has been endorsed by NATO and thereby by a large number of members of the EU has been greeted with considerable hostility by the Russians in their pretty truculent performance in the state of the union speech that President Medvedev produced. To what extent are those tensions affecting the EU/Russia relationship and do you foresee the EU getting involved in a discussion with the new Obama administration about how each of them should handle their relationship with Russia?

Sir Mark Lyall Grant: On the first issue, my Lord, I would not expect it to be a big feature of the internal EU discussions or between the EU and Russia. It is really an issue for NATO and Russia. The siting of the missiles, the BMD concept, has been approved by NATO members as a whole. The deals have been signed but not ratified with Poland and the Czech Republic. President Medvedev recently responded to that by threatening to site Iskander missiles in Kaliningrad and I think that was part of his messaging, if you like, to the newly elected President in the United States. We sense a little bit of rowing back and I think a recognition that some of the messaging that the Russians have greeted President Obama with has been rather misplaced and an opportunity missed. We do sense that the new signals coming out are slightly more positive on that front, but there is no doubt, as you rightly say, my Lord, that the hostility to the siting of BMD is very strong in Russia and is unlikely to go away. I would not however expect it to directly affect the EU/Russia relationship.

Q71 Lord Hannay of Chiswick: Do you expect the EU to discuss with the incoming Obama administration how each of them is going to carry forward their relationships with Russia?

Sir Mark Lyall Grant: I think there will be some collective discussion between the EU and the United States about Russia, but as we were hinting earlier, Russia is probably the issue on which the EU finds it most difficult to reach concrete agreement. There is a broad consensus of approach but, when you break that down to individual dossiers, it becomes a lot more difficult to maintain agreement. I would expect

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it to be more likely to be a subject of discussion between individual EU Member States and the United States.

Q72 Lord Crickhowell: In your previous reference to NATO enlargement, you said it was a question of when, not if. Would it not be in everyone's interest that the "when" was a good deal further off? This is a feature which is disturbing relationships rather than helping anyone. We will not elaborate but obviously there is what NATO could do given certain situations in the area. Should we not all be playing this rather long, indeed some would say very long, rather than holding out for the prospect of immediate moves in this direction?

Sir Mark Lyall Grant: In practice, it will take a certain amount of time. Clearly there are different difficulties we discussed with Ukraine in terms of the popular support for NATO membership, the political crisis and the relative immaturity of the democratic institutions. That is a big issue in Ukraine, let alone the presence of the Russian Black Sea fleet etc. In Georgia, because of the attacks on its

territorial integrity and now these frozen conflicts in South Ossetia and Abkhazia, clearly NATO is not ready to extend an Article 5 guarantee in those circumstances. In practice, although it is a question of when rather than if, that when will be some way down the track because it is fundamental for NATO, the Article 5 guarantee. I do not think one would want to offer that sort of security guarantee unless one was prepared to back it up. I do not think in the current circumstances that is realistic in Georgia.

Chairman: Sir Mark, can I thank you very much indeed for having given us such very clear answers. If this is what you are like when you have flown across the Atlantic, we are terrified to imagine what you are like when you have not. Thank you very much indeed. It really has been extremely helpful and it will be useful for us in preparing our report. The committee which will be set up in the new Parliament will prepare a report on this subject but we feel your evidence, together with the evidence we had last week, will be very helpful in that respect. I would like to thank you and your colleagues again for having come to see us this morning. Thank you very much indeed.

Written Evidence

Letter from Rt Hon Caroline Flint MP to Lord Grenfell

EU-RUSSIA SUMMIT—14 NOVEMBER 2008

The 21st EU-Russia Summit took place on 14 November in Nice, France. The EU side was led by the French Presidency represented by Mr Sarkozy, the High Representative for CFSP Javier Solana, and European Commission President Jose Manuel Barroso. The Russian side was led by President Medvedev.

The discussions focused mainly on Georgia, pan-European security and the international financial crisis.

With regard to Georgia, the EU noted that Russia had fulfilled a large part of its commitments: endurance of the ceasefire, withdrawal from most parts of the buffer zones, the deployment of EU observers, and the beginning of international talks in Geneva. Events in Georgia have had a significant impact on the EU-Russia relationship, casting a serious shadow over it. The EU used the opportunity of the Nice Summit to continue calling for full implementation of the ceasefire agreements, and especially for Russian commitment to the Geneva process. President Sarkozy emphasised the need to make progress with regard to the withdrawal of Russian forces from two specific areas—the Akhagori valley in South Ossetia and the village of Perevi in west Ossetia.

A resumption of negotiations on the new EU partnership and cooperation agreement (PCA) with Russia was announced at the Summit. High level discussions will begin in December. We welcome this as hard headed engagement and not isolation is the way forward in the EU's relationship with Russia. The PCA provides a mechanism for the EU to engage Russia in a more coherent and united way. And the mandate is ambitious and comprehensive and covers a range of issues important to us such as Climate and Energy Security, Trade, Human Rights etc. Negotiations on the PCA will also provide further opportunities for the EU to press the Russians on the need to work to resolve frozen conflicts. But we are clear that this does not mean a return to a "business as usual" relationship between the EU and Russia. We will continue to insist on full Russian implementation of the ceasefire agreements and their cooperation in the Geneva talks. We also welcome the earlier EU commitment to ensure that the EU-Russia audit will inform negotiations on a possible successor to the PCA.

On the issue of pan-European security, the European Union expressed its concern about President Medvedev's speech in Berlin and his statements on the potential deployment of Russian missiles, stating that no missiles should be deployed until the new geopolitical conditions of pan-European security had been discussed. President Medvedev reiterated Russian views that current "European security mechanisms in Europe are imperfect" and pressed for a discussion on their proposals for a new "European Security Architecture". President Sarkozy proposed holding a meeting in mid-2009, in the framework of the OSCE, to discuss these proposals. We are open to this suggestion and will coordinate with Allies how to move forward. It is too early to say what would be on the agenda for such a conference or where would ultimately be the most appropriate forum for discussion but we are absolutely clear that any discussion on European security should include transatlantic allies.

President Sarkozy appraised the Russian proposals to address the international financial crisis to be of high quality on the technical, financial and economic fronts. We believe they provide a good basis for further cooperation as it is in the joint interests of the Russian Federation and Europe to work on the perspective of a common economic area. President Medvedev agreed on the importance of implementing an action plan to deal with the current economic crisis. Both sides agreed to stay in close touch on these important matters.

President Barroso recalled the European Commission's support for Russia's entry into the World Trade Organisation. It is in our interest for Russia to become more integrated in the world economy and WTO membership would provide an institutional framework to underpin trade and investment between Russia and European and other partners.

President Barroso also emphasised the importance of intensifying dialogue on energy, and welcomed the Russian decision to postpone increasing the export tariffs on certain forestry products.

I am writing in similar terms to the Chairman of the House of Commons European Scrutiny Committee. I am also placing this letter in the Library of the House.

26 November 2008

Letter from Rt Hon Caroline Flint MP to Lord Roper**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL ON THE REVIEW OF
EU-RUSSIA RELATIONS (15299/08,15300/08): ABKHAZIA AND SOUTH OSSETIA**

I am responding to your letter of 9 December 2008 on the points raised by EU Sub-committee C in its initial scrutiny of the above paper.

As you will have seen, negotiations on a new mandate for the OSCE Mission in Georgia collapsed on 22 December. The Foreign Secretary commented that “Unfortunately the Russian Federation’s refusal to accept [a] compromise package, or to agree a short-term rollover of the current mandate, mean that negotiations have now collapsed due to Russian insistence on a revised mandate recognising the independence of South Ossetia. The Mission’s activities will therefore come to an end on 31 December 2008. I share Foreign Minister Stubb’s [Finland; the then OSCE Chair] deep regret over this outcome. As the Chairmanship has made clear, among the 56 participating States of the OSCE, only Russia was unwilling to agree to a rollover of the mandate. It is especially difficult to understand when those who aspire to reform European Security architecture are unwilling to use existing mechanisms constructively. Despite, this disappointment I was heartened by the very strong support among OSCE participating States for the Chairman’s approach. Russia has isolated itself on this issue. The UK joins its international partners in calling on all parties to refrain from provocations in the weeks and months ahead. In particular we hold Russia responsible for security in the separatist regions and for ensuring instability does not spread from those regions into the rest of Georgia”.

Currently only the UN Observer Mission in Georgia (UNOMIG) has reasonable access to Abkhazia. UNOMIG’s mandate will expire in mid-February; we are discussing with partners how best to effect a renewal. We call on Russia to avoid self-isolation; to act constructively over UNOMIG renewal and give the EUMM (EU Monitoring Mission) immediate access to Abkhazia. We are in close touch with EU partners and the USA on these issues. The Russians are also still denying all but the most cursory access for the EUMM (EU Monitoring Mission) to South Ossetia.

Since the Russian military action from 8 to 12 August 2008 the security situation in Georgia remains fragile. In particular the position of ethnic Georgians in Abkhazia and South Ossetia is precarious. Human and minority rights violations continue to be reported from the two breakaway regions and the Russian-occupied areas of the rest of Georgia. We hold Russia responsible for protecting human rights in all the areas under its control. However there is little sign of Russia wishing to bring those responsible for illegal acts to justice. Of the international humanitarian aid organisations, only the ICRC has been able to gain access to South Ossetia.

9 January 2009

Letter from Rt Hon Caroline Flint MP to Lord Roper**EUROPEAN UNION AND RUSSIA: FOLLOW-UP REPORT**

I am grateful for the opportunity to provide a further contribution to the follow up report that Sub-Committee C is preparing to its May 2008 report on the European Union and Russia. Since Sir Mark Lyall Grant gave evidence to the Committee on 20 November there have been further developments as the effects of the global financial crisis on Russia have become clearer.

The initial impact of the global financial crisis in Russia was felt by the banks. Most banks relied on the international money markets and, like many since autumn 2008, have faced severe liquidity shortages. At the same time, Russian equity prices have fallen significantly as foreign investors moved to less-risky assets. The Russian government sought to stabilise the banking system by injecting money, offering direct lending, and by placing unspent budget funds on deposit at banks.

In late October, the collapse in global commodity prices dealt Russia a second shock. Oil, gas and metals account for 85% of Russia’s exports—and oil alone contributes 50% of federal budget revenues. By the end of October, Urals oil prices had fallen from \$123 a barrel in July to just \$60.

Banking sector problems have spread into the real economy, particularly in the most highly-leveraged sectors, notably real estate, construction and retail. In November, industrial production fell by 8.7%. In December, it fell by 10.3%. Early government estimates indicate that Russian GDP contracted by 0.7% in December. This compares to 7% annual growth averaged between 1999 and 2007.

December saw net capital outflows of \$130 billion. This level of capital flight alongside the fall in global commodity prices has placed downward pressure on the rouble. The Russian government has sought to defend the currency given the likely social impact of a rapid devaluation.

In the final quarter of 2008 the Central Bank of Russia (CBR) adopted a strategy of regular and managed devaluations, spending an average of \$2 billion a day on the currency markets. Last week the Central Bank of Russia (CBR) allowed the rouble to weaken by around 10% against the dollar. Between August 2008 and mid-January, Russia's foreign currency reserves fell by \$200 billion from their \$597 billion all-time high.

The Russian Government has responded to the global economic crisis by announcing a series of measures including assistance to companies to refinance foreign debt, assistance to priority sectors in the real economy, increased benefits to the unemployed and a cut in profit tax by 4% to 20%. In the last few weeks, the Ministry of Finance has recast its 2009 budget to better reflect the oil price.

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