



HOUSE OF LORDS

Corrected transcript of evidence taken before
The Select Committee on the European Union
 External Affairs (Sub-Committee C)

Inquiry on

THE EU AND RUSSIA

Evidence Session No. 2

Heard in Public

Questions 9 - 28

THURSDAY 17 JULY 2014

10.05 am

Witnesses: Mr Ian Bond CVO

Mr Alexander Kliment

Members present

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

Examination of Witness

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

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

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

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

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

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

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

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

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

breaches of international law involved in annexing Crimea and interfering in eastern Ukraine. Those, it seems to me, have been the big drivers.

In terms of the mistakes that the EU has made, in an odd sort of way I think the relationship would have declined more quickly if the EU, when Russia invaded Georgia in 2008, had taken a more realistic and robust line. In fact, we got back to business very quickly. We thereby improved the relationship in the short term, but in the long term I am afraid we created a sense in the Kremlin that they could get away with that sort of thing in their near abroad. That is very unfortunate.

Lord Lamont of Lerwick: Could I ask you about the treatment of Russian nationals in the Baltic states? Do you think the EU has failed to live up to its own standards in any way in the treatment of ethnic Russians, who are sometimes denied full citizenship?

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

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

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

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

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

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

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

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

Mr Ian Bond: I have to say honestly that I do not think we have been as active or as visible on this as I would have expected and as we might have been a few years ago.

Lord Foulkes of Cumnock: Do you think we should be active now and try to have a bigger influence? Would that be a useful thing for us to do?

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

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

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

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

Mr Ian Bond: Yes. My view is that it is in our long-term interest to make sure that the anti-money laundering and other provisions of that sort are being effectively implemented, both in the City of London and across the whole of the European Union. We are not the worst offenders, by any means. From a purely formal point of view, British financial institutions filed something close to 250,000 suspicious activity reports a year—globally, not just about Russia. Cyprus, in the last year for which figures were available, filed 510—not 510,000—when a very sizeable part of the Cyprus banking industry depended on deposits from Russia. That suggests to me that there is very uneven enforcement of the regulations. But I notice that the latest anti-money laundering report from the Financial Conduct Authority, which has come out in the past few days, once again says that it is disappointed by the level of compliance with anti-money laundering regulations that it has found in British financial institutions. It made a similar observation when it did a sampling of financial institutions in 2011. Clearly there is still quite a lot of work to be done on that, which is not Russia-specific but is about cleaning up the way in which we deal with financial transactions from suspect areas such as Russia. That is so important because we are facilitating the theft of large

amounts of money from the Russian people, which are then laundered through London, Cyprus, Latvia or the British Virgin Islands, and that perpetuates a system that is actually inimical to our long-term interests in Europe.

The Chairman: That is very interesting. Perhaps I might ask a supplementary on that. Given the dependence of Cyprus on the EU institutions and the other member states, whose responsibility would it be—the Commission's, the European Central Bank's or the member states'—to press Cyprus to adopt a more rigorous approach to these matters?

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

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

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

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

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

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

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

Lord Lamont of Lerwick: How many ships?

Mr Ian Bond: I honestly could not say.

Lord Lamont of Lerwick: Fifty, 100?

Mr Ian Bond: From a very distant memory, I think at one point there were about 100 ships of various sizes¹. How many of those are serviceable, I could not say.

¹ The International Institute for Strategic Studies gives the current figure as 25 ships, not including some 30

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

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

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

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

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

Q14 Lord Trimble: My question is about civil society in Russia, but if you do not mind I would like to backtrack to some things you said earlier. I very much liked what you said about sticking to our own rules, particularly with regard to money-laundering and the products of corruption in Russia. I would be delighted to see the City being stronger on this. I have seen in a number of reports that in Ukraine corruption is as high if not higher than in Russia.

which were seized from Ukraine when Crimea was annexed.

Presumably we would have to apply the same restrictions or vigilance with regard to money coming from Ukraine to make sure that we are not laundering the proceeds of corruption. I see you nodding your head at that. That is important as a general issue in our approach to all the countries in Eastern Europe, where there are large problems with corruption. We are not going to have a good relationship with these countries by treating them as if they were equivalent to our own societies when they have this huge problem with corruption.

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

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

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

With regard to the support that we can provide to the organisations themselves, first we can do things outside the country. In the parallel case of Belarus, the EU and individual member states and donors have been able to do quite a lot through funding programmes in Lithuania and Poland to enable civil society organisations to get together, to learn new skills and to be able to operate more effectively within their countries. We should work on the European Endowment for Democracy. At the moment its sphere of activity does not include Russia, only the countries of the Eastern Partnership and the Mediterranean partners of the EU. We should urgently extend it to cover Russia, and the British Government should make a contribution to it. The British Government have not contributed so far to the European Endowment for Democracy, unless that has changed very recently. They had promised, I think, some in-kind support in the form of a staff member, but even that had not materialised the last time I asked. We should do better on that.

The last thing I would say is that we should be guided by the civil society activists themselves. There is a tendency among western Governments to say, “Now that Russia has said that any civil society organisation that takes foreign money will be branded as a foreign agent, we have to back away from them”, but that is a decision that the organisations themselves have to make. They might feel that it is safer for them not to engage with foreign support, but equally they may say, “We have the right to do that. We have the right to decide what level of risk we are prepared to accept”.

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

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

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

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

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

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

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

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

Lord Jopling: We are coming towards the end of this section of questioning. I want to go back to your very first statement to us, when you said that our relationship with Russia over

the years had been based on self-deception. You have given us some examples of that but would you like to enlarge on that statement and suggest to us in a wider way what you meant by that?

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

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

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

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

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

Mr Ian Bond: The role of the Commission is important. From a practical point of view, I do not believe that the Commission would be able to enforce best practice on all European companies that operate in the Russian market, but it can certainly do more to ensure that national authorities are enforcing existing regulations properly. Those are largely the anti-money laundering regulations; a fourth anti-money laundering directive is on the way,

although it will not enter into force for a couple of years. That is very important, as I suggested in an answer to an earlier question. If there is evidence that particular member states are deliberately thwarting the intentions of some of those regulations, the Commission should be taking infraction proceedings against them.

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

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

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

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

Mr Ian Bond: That is a very hard question that I would like to write something about in the coming months. There is a very difficult set of issues as to whether Europe comes to a cliff-edge or a beach that slopes gently down to the sea. At the moment we have a bit of each and that is not very helpful because it leads to a lack of clarity. I have always been a supporter of EU enlargement. I think it has been good for the countries that have joined the EU and for the

countries that were in the EU to begin with in spreading an area of democracy and free market economics. Yes, I think there are limits to Europe, so perhaps in that sense there is an eventual cliff-edge but at the same time what I see at the moment with the association agreements is that at the very least we are trying to ensure that the countries to our east can benefit as much as possible from what the EU has to offer. Certainly, the association agreements include at least three-quarters of the *acquis communautaire*, so we are asking those countries to do a lot of the things that they would be asked to do if they were in fact members, and hope to see them benefiting economically and politically from doing that.

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

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

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

Earl of Sandwich: Would you not say that Russia had softened its approach to Serbia in its application to join? That is an example of Russia not on the retreat but accepting the inevitable, is it not?

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

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

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

Examination of Witness

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

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

Mr Alexander Kliment: I can indeed.

Q19 The Chairman: Good. It is a great pleasure to welcome you to this Committee. Years ago, in a different incarnation, I met Ian Bremmer when he was just starting out on this enterprise of which you are a part, so please remember me to him. This is part of a formal evidence session for our inquiry into the relationship between the EU and Russia. Therefore, we are recording the meeting and recording your views. We are extremely grateful to you for agreeing to appear in front of us. A number of my colleagues have questions and we will try to complete the session within the hour.

Let me start by asking you about WTO obligations. How do you think Russia views them? Is it a responsible member of the WTO? How would you assess the international community's efforts to engage Russia and hold her to her WTO obligations? Is it true, as one of our witnesses has suggested, that the Russians are not very good at observing their obligations and that not very much pressure has been put on them to do so?

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

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

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

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

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

immense bribes, which are all part of their policy of trying to get more and more members, whether it is Tajikistan, Kyrgyzstan or Moldova. Sorry, there are a lot of questions there, but it would be interesting to hear your views.

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

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

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

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

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

On the economic front, I am not sure that Russia gains a whole lot by integrating with Kazakhstan and Belarus, except that it secures those countries as hospitable destinations for Russian capital, but it does not actually boost economic growth all that much. On the geopolitical front, the aims will be undercut by a reluctance on the part of member states to be dominated by Russia, and that reluctance will be bolstered by the fact that some of those member states have other options.

Q21 Lord Lamont of Lerwick: Can you tell us how EU free trade agreements and the regulatory alignment that goes with them have an impact on the Russian economy, perhaps with some specific examples? What do you think about Russian fears about the negative impact on their economy?

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

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

Given that the stated economic objections to Ukraine joining the DCFTA can be met, it is logical to conclude that in fact there is something else at play here. In our view, there is. There is a geopolitical component here also. Russia views the closer alignment or integration of Ukraine with European economic and even political structures ultimately as a stalking horse for Ukraine's eventual NATO membership. Irrespective of whether or not that is likely from the NATO perspective or the European perspective, the Russians very much view this as a threat. That has a lot to do with why the Russians have been so vociferously opposed to

Ukraine joining the DCFTA and signing the political chapters of the association agreement with the EU. From Russia's perspective, this is part of an ongoing attempt to pull Ukraine from Russia's sphere of influence, not only economically but politically and strategically. It is impossible to overstate the extent to which not only the Russian elite but the Russian population at large view Ukraine as part of Russia's sphere of influence—historically, economically, culturally and even religiously. The arguments about Ukraine's free trade agreements with the EU are bound up in a much larger concern of Russia's about the geopolitical implications that would follow Ukraine joining these political and economic structures. I am happy to talk about that in more detail, but let me leave it there and go back to your questions.

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

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

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

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

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

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

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

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

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

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

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

To go back to the point, Europe needs to define its interest with respect to Russia and leave aside the question of values, because values are not converging. On the question of interests, the European Union also needs to decide what is more important: a functional relationship

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

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

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

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

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

Mr Alexander Kliment: In 2008 and 2009, the Obama Administration tried to effect what they called a “reset” of relations with Russia. The idea was that with the election of Dmitri Medvedev as President of Russia, who in many respects is more cosmopolitan and outward-looking than President Putin, there was a real opportunity to build or rebuild a US-Russia relationship, which had got very bad during the Bush years but was full of promise for economic, political and diplomatic relations. Again, this was based, I think, on a failed assumption of convergent values. The Obama Administration put a lot of effort into the idea that they could lobby President Medvedev on a lot of these issues, ignoring the fact that in

actuality the Prime Minister at the time, Putin, was still the most powerful person in Russia and that his views of the West in general and the US in particular were characterised by significantly more scepticism. So again there was a mismatch of expectations and a misreading of who actually was defining the agenda in Russia.

Since then the reset has totally failed. Obviously, the Ukraine issue is what really buried it, but even before that there were conflicts over human rights and political issues in Russia. The protests that preceded the re-election of Putin as President in 2012 were viewed in Moscow as having been fomented largely by the West. The rhetoric at the time was that the State Department had been fomenting those protests to destabilise, encircle and weaken Russia. However ridiculous it might sound from the outside, it was very much believed inside Russia, particularly in the Kremlin, that those protests were part of western designs to weaken Russia politically.

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

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

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

Lord Trimble: Whichever way you like.

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

The difference, of course, comes in how to shape and frame sanctions policy. The US is already willing to move ahead with wider sectoral sanctions on the Russian economy. This is partly because the US has much less economic vulnerability to Russia. Trade between the US and Russia is minimal. While there are specific companies in the US that have strong interests in Russia—ExxonMobil, John Deere and other companies in the energy and natural

resources-related spaces—the US can impose sanctions on Russia without a huge amount of cost to itself directly. Obviously, the same is not true for the European Union. The differences are that there is internal disagreement within the European Union about the wisdom, scale and scope of sanctions against Russia, the details of which you are certainly more familiar with than I am. There is also a dispute between the European Union and the US about the timing of those sanctions. The timing question can be resolved. Our view is that there is a strong likelihood that over the next several months the European Union will in fact move to greater sanctions against Russia in co-ordination with the United States. The difference has to do with timing more than intent.

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

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

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

How do Russians view the turning away from Europe and European values? There is an interesting duality here. In one sense, views of Europe and of the United States in particular among Russians have deteriorated significantly over the past several years and particularly the past several months. At the same time, Russians view Europe as a place where they like to spend money, park their capital and take their vacations. The Russian middle-class is very pleased to send its children to school in European capitals. It will become a problem for the

Russian Government if those avenues to Europe become increasingly closed because of either European action or Russian action. It is a great question. In the abstract, Russians feel increasingly encircled by the decadent West, as I mentioned earlier, but as a matter of personal interest, wealthy Russians increasingly have very extensive ties to Europe. To the extent that those ties would be closed off, that would hurt their interests.

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

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

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

If we look at the way in which the Ukraine crisis has been framed, Putin is riding high on the notion that Russia is defending its interests in eastern Ukraine, defending the rights and security of Russian speakers and Russian ethnics. But this is a dangerous path for him to be on in the sense that it is hard for him to go much further than eastern Ukraine. He cannot go to the Baltics, because those are NATO countries, as I mentioned earlier. He cannot antagonise Kazakhstan and Belarus because those are his only two close allies in the region. So the room for this kind of Russian revanchism to grow and bear fruit is actually quite limited. In a situation where the economic rationale for Putin's system has evaporated and the popularity and support around it depends on this kind of combative and pugnacious foreign policy, that creates a significantly heightened risk of conflict between the EU and Russia—not open conflict but indirect conflict of the kind that we are seeing in Ukraine.

Q28 The Chairman: Thank you very much, Mr Kliment. I will conclude with a question I was composing as you were answering a number of others. Do you agree with the statement that the present crisis between the West and Russia has arisen from differences between the EU and Russia over association agreements with Ukraine and others—I am not attempting to apportion blame, but the *casus belli*, as it were, has been the differences between the EU and

Russia over EU relationships with these countries—yet the key dialogues now are between Washington and Moscow and Washington and Kiev, and the EU is not the main interlocutor for either Moscow or Kiev? Is that an accurate statement, or do you think that I am understating the EU's position?

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

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

Mr Alexander Kliment: Thank you very much for having me. It has been an honour.