



HOUSE OF LORDS

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 External Affairs (Sub-Committee C)

Inquiry on

THE EU AND RUSSIA

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Questions 52 - 66

TUESDAY 9 SEPTEMBER 2014

10.05 am

Witnesses: Mr Neil Crompton, Mr Hugo Shorter and Mr Chris Barton

Members present

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

Examination of Witnesses

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

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

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

Perhaps I may kick off and ask you a very straightforward question: can you offer us an update on recent events in eastern Ukraine and what you think the next steps are to resolve the conflict and stabilise the situation? Obviously, we have all read the newspapers, so we have a rough idea of what is going on, but can you cast any light on the significance of what is happening?

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

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

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

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

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

Neil Crompton: We had part of this discussion when we gave informal evidence before. Reflecting on that discussion, for the EU we have come to three reflections. First, for the last period we have largely regarded President Putin as a partner and someone the EU could work with in many different ways. I think that the notion of him as a partner has been challenged. The conventional wisdom was that Russia regarded the expansion of NATO as an existential

threat to its interests but was less concerned about the extension of EU influence. The events of the past few months have shown that Russia regards the extension of EU influence as a very serious threat to its own sphere of influence. We are still trying to absorb that lesson in how we respond.

Lord Lamont of Lerwick: On that point, that is exactly what Tony Brenton said to us; he said that there was a lack of pure, simple thinking about how the Russians would react at that stage. He said that the Russians have been very clear, right from the very beginning, about what they want as regards Ukraine. They want two things, the first which is no route into NATO, and he said that they regard EU membership as a route into NATO.

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

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

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

Neil Crompton: There is an understanding of some of those elements, but Ukraine is not the only country to have emerged from the post-Soviet orbit that did not really exist as an independent state, so it is not unique in that respect. Our view is that it is a sovereign state free to make its own choices. I think everyone recognises that there are very difficult

economic challenges in Ukraine which the Ukrainians first and foremost have to address. We have decided that it is in our interests to try to help through an association agreement. You commented, Lord Lamont, on the ethnic composition of the state, which we all know, but our understanding is that there are Russians spread throughout many countries in eastern Europe and their first loyalty is to the state in which they live. They also have an affiliation with Russia, but that is clearly part of the political challenge that we face and that that President Poroshenko faces. Trying to address concerns about the rights of Russian minorities in Ukraine forms an important part of President Poroshenko's peace plan.

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

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

Lord Foulkes of Cumnock: Deliberately?

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

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

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

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

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

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

Chris Barton: To start off with the trade side, the association agreement and the DCFTA are a key element of what we want to do to support Ukraine. It is part of a larger package, but it is potentially a very significant step in terms of its immediate impacts. The tariff reductions will provide a good boost to the economy of Ukraine; we estimate over \$1 billion a year. There is

also the longer-term impact of opening up to trade. Indeed, the DCFTA is more than just a standard trade agreement; it will also involve the adoption of a range of the EU *acquis* and will, we think, play a very important role in helping Ukraine develop in a positive direction.

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

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

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

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

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

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

Q56 Baroness Billingham: In direct contrast to the dramatic conflict between Russia and the Ukraine, the annexation of Crimea would appear to be a *fait accompli*, so we need to look anew at the situation there. The question is: is Crimea going to be under Russian control for the long term? What are the plans for the settlement of Crimea's current political status? The EU has an export ban on Crimean goods. Does the EU intend for this to continue for the duration of the illegal annexation, and is this genuinely a sustainable policy?

Neil Crompton: The honest answer to your question, Baroness Billingham, is that we do not know how this will end. We regard the annexation of Crimea as illegal. That is our position. It is also the view of 99 countries in the UN General Assembly. Clearly we could not get a resolution through the Security Council because Russia is a member. Our ability to think long

term about the future of Crimea has been affected by the day-to-day preoccupation with the situation in eastern Ukraine. Ultimately, Ukraine and Russia are going to have to address the issue. Our policy is one of support for the principle of territorial integrity, and sanctions will be applied to try to increase the cost to Russia of its policy. Where we will be in six months' or a year's time, we do not yet know. The Government will maintain a position of principled support for Ukraine's sovereignty and territorial integrity.

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

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

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

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

Q57 Lord Trimble: I will look at a few points in detail about Crimea. There is no land connection at present between Crimea and Russia. I believe that Crimea is dependent on electricity from Ukraine; it does not have enough domestic sources of electricity. It is also dependent on the Ukraine for other matters. I have heard water being mentioned; I am not sure if that is the case. That would seem to indicate that there are still powerful tools in the hands of the Kiev Government, provided that the Russians do not establish a land link. They are not going to build a bridge across the Kerch—that is simply out of the question—but the danger is that their military adventurism will get them as far as a land bridge. Without getting a land connection with Crimea, the Russians will have great difficulty in sustaining their position there: am I right about that?

Neil Crompton: Yes.

Lord Trimble: Why did you not say so?

Neil Crompton: I was not trying to ignore your point.

Lord Trimble: I mean, why did that not come out in your initial presentation, because it is a hugely important fact, is it not?

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

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

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

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

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

Lord Radice: What about the implementation?

Chris Barton: There have been discussions in Brussels and my understanding is that they will be implemented imminently, although I do not know the precise date.

Lord Radice: This is an associated question: to what extent has there been a flight of capital from the Russian economy following the events that we have seen over the past three or four months?

Chris Barton: The overall economic impact on Russia of these sanctions is of course something that we have been interested in. It is hard to come up with a precise figure, and indeed some of them will have a long-term impact, but I believe that Fitch has estimated that sanctions have caused international reserves to fall from about \$470 billion to \$450 billion by the end of this year, and that if they were kept in place they would cause those reserves to fall to \$400 billion by end 2015, which would be in total a reduction of about \$70 billion in their reserves by end 2015. We have seen the price of Russian debt fall by over 20%. The rouble has sunk to a record 16 year low against the dollar, and we also understand that sanctioned banks have been turning to the Government and asking for support of over \$4 billion. There

are also reports that Rosneft, the major energy company, has asked for help to pay off a \$40 billion debt, so is it clearly having some impact. It is difficult to put a precise figure on that, partly because there are other things going on at the same time; in some of our discussion with the financial sector, they said that they were already seeing some of the slowdown in business even before any sanctions were put in place, though the sanctions clearly take that to a new level. As I say, some of the impacts of the sanctions, particularly the energy high-tech ones, are likely to have more of a long-term slow-burn impact than an immediate one.

Lord Radice: What about Russian retaliation?

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

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

Lord Radice: My apologies, it was my fault.

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

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

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

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

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

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

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

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

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

Neil Crompton: We believe they are.

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

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

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

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

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

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

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

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

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

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

Q61 Earl of Sandwich: My question is to Mr Barton. We have talked about implementation, since Lord Radice asked you about that. You are obviously implementing sanctions. We are hearing about a cosy relationship with the EU, but what is actually going on in the monitoring section of the EU? Is it all done there? Are you expanding staff to monitor? To take the example of the bridge into Crimea, there must be people on the ground who can inform you through business channels. What is our role in relation to the EU monitoring process?

Chris Barton: I can answer that in two ways. First, in terms of having awareness of what is going on on the ground and the impacts on business, we are in regular discussion with the business sector to understand the impact of what is happening and what the potential impact of further measures might be. From the BIS perspective, the area that we are primarily involved in is through the export licensing system. If anyone wanted to export in one of the areas caught by sanctions, where —there is clearly a complete prohibition—they cannot get a licence at all. If there is any room for discussion, they would have to go through the export licensing system, so we have a whole mechanism that covers the export of military, dual-use and specifically sanctioned products. That is our prime way of implementing that from here.

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

Neil Crompton: I suppose I would say this, but that is not a characterisation that I recognise sitting inside in the Foreign Office. International diplomacy has been largely led by Chancellor Merkel. We strongly support that. Germany is the western European country with

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

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

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

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

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

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

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

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

Hugo Shorter: Thank you, Mr Crompton.

The Chairman: I think your response is clear.

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

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

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

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

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

Hugo Shorter: I think that the role of President of the Council, of all the senior jobs, is the one whose essence is to find common ground between member states that may have divergent positions. That will be the role that he will have to continue to pursue. The same is true of Federica Mogherini, the new high representative.

The fact is that member states' positions and the action of member states such as the UK will remain determinant in establishing the EU's position as time goes on—I am not saying anything that you do not know here. Whether Tusk's personal views will shift the EU view perceptibly in one direction or another remains to be seen, but this is an issue on which all member states have strong views and considerable interests. If he is able to find common ground between those, that is in itself a major achievement, without trying to add to that a reflection of his own personal agenda. I think he will focus on being a balanced and impartial President of the Council.

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

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

Neil Crompton: You are right: there are many different actors around Whitehall. That reflects the breadth and complexity of Russia and the extraordinary depth of the economic relationship. It is sort of co-ordinated through the National Security Council structures, which

bring all the departments together. We meet regularly as officials from across Whitehall, once or twice a week, either in the Cabinet Office or the FCO, to work through the issues of the day. These are brought forward to Ministers through the National Security Council. We have the Prime Minister or Foreign Secretary chairing, and then the Chancellor and Ministers from the economic departments, and other ministries with a concern, who work through these issues and come to a common view of how to deal with this, both with sanctions—

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

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

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

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

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

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

the National Security Council and are brokered around the ministerial table, which I suppose has probably replaced the role of what used to be the foreign affairs committee in the Cabinet. Lord Lamont would be more expert on that than I am.

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

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

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

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

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

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

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

Hugo Shorter: Yes, absolutely. There is a dual process. There is a lessons-learned review of what the EU has done in recent years and the money that it has spent. Then there is a process to develop an adjusted and updated set of policies. In the Foreign Office in London we have set a process in place to make up our own mind on how we think the European Neighbourhood Policy has or has not achieved its objectives. We have consulted other government departments and outside players. We are in the process of discussions with other member states, and the Government will come to a formal view in the weeks ahead as to how

the European Neighbourhood Policy should develop. But in Brussels, the way the system works is that you need to get a review launched so that an updated policy can then be developed on the back of that review. That has not yet happened, and I do not anticipate it happening until we have new people in the Commission and the EEAS.

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

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

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

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

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

The Chairman: Gentlemen, thank you very much. We look forward to your written papers. If there are any other observations that you wish to make as a result of thinking about the

questions that you were asked and the answers you have given, or if there are any points that with hindsight you feel you would like to clarify or add to, please do not hesitate to do so.