



HOUSE OF LORDS

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

Inquiry on

THE EU AND RUSSIA

Evidence Session No. 15 Heard in Public Questions 220 - 239

WEDNESDAY 19 NOVEMBER 2014

10.05 am

Witness: Mikhail Kasyanov

Members present

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

Examination of Witness

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

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

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

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

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

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

Mikhail Kasyanov: I would say, first, that the reaction of the European Union was in the right manner. "In the right manner" means that it was a principled evaluation of what

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

But he was shocked by the unity position and strong attitude. There may not have been such a strong level of sanctions, which would have prevented him from further escalation, but he was shocked. But what happened later were immediate talks and the statements of different politicians that, “We do not want the sanctions”, and, “We are ready to lift the sanctions at any moment”. That was viewed by Mr Putin as weakness. After the so-called Normandy meetings, which Mr Putin was pleased with, he decided to go further with the escalation.

Therefore, right now, despite the fact that nobody wants declining relations or bad relations between Russia and the European Union, my recommendation would be to stay strongly on the values that unite us. The Russian constitution provides all the necessary platforms to be viewed like Great Britain and the European Union—countries of the same nature in terms of values, human rights priorities, and all those things—but the current Government do not want to implement these. There is the Russian constitution and all the international obligations—Russia is a member of the OSCE and a member of the Council of Europe—and the Russian government is bound to implement all these, but the Russian Government do not do anything.

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

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

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

There are not sanctions against the Russian Federation; there are no sanctions against the Russian people. There are sanctions against individuals who are involved in the decision-making process and implementing the illegal decisions of Mr Putin. In the other

direction there are so-called sectoral sanctions: sanctions against the instruments that are in Mr Putin's hands—the instruments that allow him to continue to operate in this manner.

The result is that sanctions are accelerating the collapse of the model. The model already collapsed, because it does not produce economic growth; there has been no economic growth in Russia for a year already, and industrial output has not grown for two years. Now we see pressure on the balance of payments, and despite the fact that Russia has huge international reserves, in 10 months we have already lost US\$90 billion in reserves, and the exchange rate of the national currency already fell by 50%. The oil price right now is at a level of 80, maybe 75. That is already unacceptable from the point of view of Mr Putin's policy, because being a populist he increases government expenditure by 20% every year. Right now, the overall redistribution of wealth through the Government reached a level of 36%, which is much higher. When I left the Government I reduced government expenditure down to 29% of GDP, and now, again, they redistribute a lot. More than 50% of revenue of the federal budget is due to the sale of oil and gas. The Russian economy's dependence on oil and gas prices has increased dramatically.

All the programmes that my government developed for developing different industries to diversify the economy were thrown out, because the oil price grew dramatically, and the whole policy was built on the oil price. Now the oil price has gone down, and the sanctions have already started to create problems for the oil and gas sector. Just to increase the physical volumes of exploration you need those technologies, and they are under sanction. Even keeping the level of existing exploration in the old exploration areas in Siberia needs equipment to keep this on the level, and that is also under sanctions. I expect a fall in the physical volume of oil exploration by 2% next year, and I think GDP will fall by 2% or maybe even 4%. That is an acceleration, and I would say that Mr Putin has two years to decide what to do. All those government reserves that were built on the basis of a mechanism established by my government will be exhausted within this period of time if the oil price stays as it is.

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

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

I do not think the Baltic states would be subject to this at the moment, but if Russia is allowed to perform in this way, we cannot exclude them. Of course, Ukraine and Moldova are not members of NATO, and there is no Article 5 that is applicable to them, but still, to understand that European security is untouchable should unite us in understanding what is

going on. It is difficult to believe that in the 21st century such methods of settling your wishes or your ambitions could be viewed as decent.

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

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

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

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

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

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

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

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

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

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

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

Why? Reform means risk; it means a risk of power. Mr Putin's whole strategy is to eliminate any risks. Therefore, we do not have any single feature of a democratic state. We do not

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

Talking about the economy, the clock is already switched on. I think it will last for two years. During these two years, the reserves that the government have now will be exhausted, and during this time Mr Putin should choose whether to build up a quiet exit strategy for himself and his team or just to move the country further towards collapse and disaster. That is why we should stay stronger right now, because it is already the beginning of the end of this process.

In the situation that we have now, we should not expect any further expansion or escalation. Mr Putin right now should consider his power inside the country. I do not exclude that there will be further pressure on opposition and civil society, and human rights activists, just because that usually happens. Even some features of fascistic ideologies start to appear. Mr Putin and his people already wake up feelings of post-empire syndrome for the Russian people, and he cultivates this vision that we Russians are the best, et cetera. The whole world should be afraid of us simply because of our existence, or something like that. I am simplifying it a little, but that gives you an idea of how propaganda works.

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

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

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

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

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

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

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

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

what I am saying. All that pressure, especially from a united position. Just now at G20 in Australia it was demonstrated once again that the West is united in its principled position.

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

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

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

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

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

Mikhail Kasyanov: The OSCE is an important instrument, absolutely, but more support should be given to those missions. For instance, now in Ukraine, the most important point is to implement the Minsk protocol commitment, which means border control by the OSCE. As soon as border control is established, which Mr Putin does not want to implement, this so-called separatist rebel republic would disappear within two months. The only reason they exist is through permanent support of weapons and other supplies from Russia, through the border. Every day NATO observers see this. Mr Putin does not want that. He

even said, “I will never leave the leaders of these rebels alone, as the West wants”, but that is exactly the way.

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

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

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

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

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

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

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

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

Mikhail Kasyanov: That is strange. I have no explanation for that. I think that is a feature of the old mentality. It puts a smile on the face of serious people, but he performs like during

the Cold War and expects that it will have an influence on changing your decisions. I believe that it absolutely will not, and I would say it is not serious. It is an irresponsible, reckless policy that is not acceptable at all.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mikhail Kasyanov: Thank you very much, and I hope you continue to take a principled position as a government.