



HOUSE OF LORDS

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THE EU AND RUSSIA

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Questions 134 - 153

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2 pm

Witnesses: Mr Jean-Luc Demarty and Mr Luc Pierre Devigne

Members present

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

Examination of Witnesses

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

Q134 The Chairman: Thank you very much for coming. As I think you appreciate, this is an inquiry we are doing on the EU and Russia and their relationship. This is a formal meeting, so we have a note taker. If there is anything that you wish to say off the record, make it clear and we will respect that. If, when we have finished, there are points on which you would like to send in a written memorandum, please do. I will kick off. As it happens, we have just been with the Russian ambassador, who made a great deal of the fact that the DCFTA with Ukraine

would have had a very detrimental impact on Ukrainian trade with Russia. He argued that it would have been perfectly possible to structure an FTA that would not have a detrimental effect on trade with Russia, but that the European Union had not been listening to Russian concerns. Can I put that to you?

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

Lord Lamont of Lerwick: Sorry, which year?

Mr Jean-Luc Demarty: November 2013. Sorry for my French accent. It was on the economic effect of the EU-Ukraine DCFTA on Russia's economy. We have already provided all these explanations to Russia at many meetings.

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

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

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

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

Another argument from Russia is the displacement of Ukrainian goods by imports from the EU, but this is unlikely. These products are priced differently, which means that EU products are in general more expensive. At this stage, the purchasing power of Ukrainian consumers will restrict their ability to switch to higher priced EU products. In addition, certain sensitive

sectors—for example, the Ukrainian automotive sector—will benefit from a transition regime that gives time to local industries to adapt to more competition.

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

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

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

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

I have not answered your SPS questions.

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

Baroness Billingham: It was about swine flu.

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

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

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

Lord Lamont of Lerwick: After eight years.

Mr Jean-Luc Demarty: After five to eight years and, again, if they are serious in their preoccupation, these things can be discussed. It is something that does not require any modification of the DCFTA. This flexibility is also part of the DCFTA on standards.

Q136 Baroness Billingham: Changing tack, can I ask how you would account for the differentiated Russian response to the Ukrainian DCFTA on the one hand and the Moldovan and Georgian DCFTAs on the other?

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

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

Lord Lamont of Lerwick: What is SPS?

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

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

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

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

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

Georgia. It came very late, just before the Vilnius summit in 2013. Everything was already done.

Q139 The Chairman: Do you think this is because it thought the Ukrainians would not sign, that the President of Ukraine would not do so in the event?

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

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

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

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

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

Lord Maclellan of Rogart: Have they listed them yet?

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

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

Mr Jean-Luc Demarty: The question is, as I have tried to explain, that we do not understand the Russian concerns as they were expressed because, by definition, when you are concluding

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

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

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

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

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

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

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

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

Thirdly, customs union members should fully respect their commitments in the framework of the WTO. This is certainly not the case with Russia which is the only customs union member

also in the WTO. There is already an unprecedented number of cases against Russia, in particular for a recently acceded member.

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

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

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

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

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

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

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

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

Mr Jean-Luc Demarty: Yes, I am not saying that. I am saying that I am not commenting on issues which are not in my field of competence, at least in official hearings.

Q145 The Chairman: Could I move on, then? In view of the difficulties in dealing with Russia—I am thinking not just of the present situation but the WTO and everything else—do you think it would be helpful, looking to the future, to have a set of rules and criteria

governing EU trade with Russia? Should we look on EU trade with Russia in a different context from trade with other partners?

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

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

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

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

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

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

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

Q148 The Chairman: On the basis of your experience, which is obviously very deep, what do you think Russia would like to achieve in relation to Ukraine, Moldova and the other former Soviet states? Is it simply to keep them out of the European net, as it were, or do you think they have a further strategic objective?

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

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

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

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

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

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

Baroness Billingham: Okay, I withdraw the cynical bit.

Mr Jean-Luc Demarty: Thank you.

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

Mr Jean-Luc Demarty: I think again it is much broader than trade. On trade, the picture is very clear. I am not responsible for EU foreign policy, but it is clear that on trade I have mentioned the possible avenues, and we could be constructive with Russia. Outside trade, I have no comments to make on the record.

Q151 Lord Lamont of Lerwick: Can I ask a question? I have found what you said extremely persuasive—this idea that the Russian economy in one sense may be going slightly backwards with oligarchisation; it is not becoming a modern capitalist economy but is dominated by vested interests. At the same time, it is now a member of the WTO and it has this building up of masses of cases and complaints. That, as a restraint on the economy, must be having some influence on the direction of the Russian economy. Over time, the continued membership of the WTO must exercise a shaping influence, one would have thought, on the Russian economy.

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

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

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

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

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

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

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

Mr Luc Pierre Devigne: By the EU heads of state and government .

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

The Chairman: Thank you very much indeed.