



## Oral evidence: [The UK's relations with Russia](#),

HC 120

Tuesday 14 June 2016

Ordered by the House of Commons to be published on 14 June 2016

[Watch the meeting](#)

Members present: Crispin Blunt (Chair); Ann Clwyd; Mike Gapes; Stephen Gethins; Mr Mark Hendrick; Mr Adam Holloway; Nadhim Zahawi

Questions 65-126

*Witnesses:* Dr Valentina Feklyunina, Newcastle University, Professor Alena Ledeneva, University College London, and Alex Nice, Economist Intelligence Unit, gave evidence.

Q65 **Chair:** Welcome to this afternoon's session of the Foreign Affairs Committee's evidence taking on our inquiry into Britain's relations with Russia. I welcome our first panel of the afternoon. Please introduce yourselves for the record.

**Dr Valentina Feklyunina:** I am Dr Valentina Feklyunina of Newcastle University. I am a lecturer in politics.

**Professor Alena Ledeneva:** I am Professor Alena Ledeneva of University College London. I am professor of politics and society, and Russian.

**Alex Nice:** I am Alex Nice of the Economist Intelligence Unit.

Q66 **Chair:** Thank you. For most of the questions to the first panel, I will invite my colleagues to direct their question to one of the panellists. If others of you are in violent disagreement or think that something has been glaringly missed from the answer of your colleague, please feel free to chip in. Otherwise, we will try and do individual questions until we come to a more general question at the end of this session.

I will start with you, Dr Valentina—I am slightly more confident with your first name than with your second name. Who are the key decision makers in Russian foreign policy?

**Dr Valentina Feklyunina:** I think the most important point to stress is that the process of foreign policy decision making is very non-transparent. We know that foreign policy is driven strongly by President Putin. We can only guess or work on the basis of public statements in terms of deciding who are the people who are contributing to the decisions, so we should be very careful when we talk about this.

Probably it would be easier to talk not even about particular individuals, but maybe groups of different interests around the President. One of the most important groups

has traditionally been the group of so-called siloviki, the security part of the Russian political elite. It is important to look at how they understand the world and what they see as the priorities for Russian foreign policy.

We can also find the presence of so-called economic liberals who are still present in the Russian political elite, but their presence has dramatically declined over the past years. Over the past couple of months we have seen some kind of livelier discussion in that part of the Russian political elite, but I would be careful in terms of trying not to overestimate the significance of that. We can also think about the interests of business and the effect of business interests on Russian foreign policy, but Alex would probably be better placed to talk about that. I think it is important not to speak about particular individuals, because then we are in the realm of the guessing game. We have to think about the bigger issues that are behind Russian foreign policy.

Q67 **Chair:** So could we write off Mr Lavrov as a serious player in Russian foreign policy?

**Dr Valentina Feklyunina:** When we speak about Russian foreign policy, the Foreign Ministry in Russia is more involved in the implementation of Russian foreign policy than the decision making. It has been a very assertive implementation over the past couple of years, but nevertheless I would still place the Ministry in the implementation realm rather than the decision making realm.

Q68 **Chair:** Mr Nice, is there anything you want to add to that?

**Alex Nice:** In terms of business influence on foreign policy, and obviously in terms of the sanctions regime that has been imposed, based partly on the premise that there is an inner circle of friends of Mr Putin who potentially have shared business interests and could potentially influence other areas of Government policy, I'm sceptical about the extent to which that is actually true. There are different groups that are consulted and have input on different aspects of Government policy, but it is very hard to see businessmen—for example, Mr Rotenberg, who is under sanctions, or Mr Kovalchuk—influencing foreign policy decisions.

Coming back to the issue of the influence of the siloviki—men of power in the security services—clearly that is important, but it is also important to stress that they are themselves a very heterogeneous group with diverging and competing interests, and different agencies within the secret services have their own agendas and their own views as well. We should not assume that there is a single world view or a single policy that is being pursued by a group that we can identify as the security services.

Q69 **Chair:** What about the Security Council? How important is that in the delivery of national security policy?

**Dr Valentina Feklyunina:** When we speak about the Security Council, again, it is important to place it into perspective. Clearly it is the place where the situation is discussed, but it is difficult to judge to what extent the members of the council actually affect the decisions that are being made. Again, when we look at public statements by members of the Security Council, we can draw some conclusions about how they see the world and how they understand Russia's priorities, but it is very difficult to judge their impact on decision making.

**Alex Nice:** I will stress one thing in relation to the security services and the Security Council. One thing we have seen in the last couple of years that is significant for Russia's development is the growing influence of the security establishment in formulating economic policy, in particular the emphasis now on import substitution, protectionism and a greater discussion about the role of the state in development. We see individuals who we would traditionally view as having a security background or largely being responsible for security issues speaking more frequently on economic issues. That also has important implications for economic policy.

**Dr Valentina Feklyunina:** Can I add a point to that? I think there is a very important point. I draw your attention to an interview with Nikolai Patrushev from December last year. He was discussing the new security strategy and he was emphasising the role of the defence industry in the modernisation of the Russian economy. The idea that the defence industry should drive that modernisation is a very important point.

Q70 **Chair:** While we are on the defence industry, perhaps we should reflect on the role of the Defence Minister in Russia. Can you tell us what the creation of the National Guard says about the current political climate around the regime? Is it about corraling the authority of the Defence Minister, or is there something else going on there?

**Dr Valentina Feklyunina:** It is probably too early to say because we have not seen much yet and it is too early to make a judgment. One of the views that some commentators on Russian politics have taken is that it could be interpreted as Putin's attempt to rebalance, or introduce more balance to, the relationship between different groups of the Russian political elite, in particular that heterogeneous group of siloviki. There is a view that it could be an attempt to somehow counterbalance the Minister of Defence.

**Alex Nice:** The National Guard is a significant development. Notionally, it has been created to fight terrorism and organised crime, but it does not have the investigative powers that you would normally associate with anti-terrorism, although those may develop over time. Therefore, in the view of many analysts, the real agenda is about public order. Clearly, given the context in which it has been formed—a time of economic crisis with growing concern about unrest—it seems reasonable to assume that that has informed the decision to create the National Guard.

There is a tendency to create doubling and overlapping agencies. We have seen that in the past with the creation of the Investigative Committee from outside the Prosecutor General, and it tends to create conflicts and balancing between different agencies. The National Guard has taken over a lot of the responsibilities of the Ministry of the Interior. It is likely that there will be internal conflict as a result. The head of the National Guard, Zolotov, reports directly to the President and the Government, which does seem to suggest that there is a concern or desire to have manual control over the management of public order. That is certainly the reading that many have given to the creation of the National Guard.

Q71 **Mike Gapes:** Can we focus a bit on the actions that President Putin has sanctioned in the past few years, and in particular the so-called successes abroad: Crimea, Ukraine and Syria? How much is his popular support and legitimacy dependent on these so-called foreign policy successes?

**Dr Valentina Feklyunina:** I would argue that these perceived successes play an important role. If we look at Putin's support ratings since he came into office, for a very long time the levels of support seemed to be very closely linked with Russia's economic performance. It was logical that it was performance legitimacy. We saw the levels of support dropping, although they remained very high. They nevertheless dropped in 2011-12 at the time of the protests following the parliamentary elections and then around the presidential elections. That was quite a difficult time for the legitimacy of the regime.

I emphasise that, compared with many western leaders, Putin's support ratings remained very high, although they were significantly lower than earlier ones. Then we saw that dramatic rise in levels of approval following the annexation of Crimea. The ratings remained at a significant level, and have now only dropped a little, and that drop is not very significant. We can argue that foreign policy plays a significant role. To a large extent, in a situation where Russia's economy has been deteriorating and a perception of Russia's economy being successful is not necessarily there, those perceived successes are important.

- Q72 Mike Gapes:** In that sense, if the economy continues to deteriorate or does not improve significantly, is there going to be another conflict? Will Putin just do something more in Ukraine or do some other provocative action, such as in the Baltic states or somewhere else, that could increase his popularity at home but cause major problems internationally?

**Dr Valentina Feklyunina:** It is a very difficult question, and I probably will not be able to answer it in precisely the way you want to me to. I would probably emphasise that the way those successes are interpreted in Russian public opinion—from what we can judge from public opinion surveys—is that there is success in strengthening Russia's position internationally. It is not necessarily about Russia's participation in a particular conflict, but about the idea that Russia is acting as a great power and deserves or yields more respect—the respect that it deserves, compared to the respect that it lacked previously—so it is not necessarily linked to conflict, although it has been over the past couple of years. Some analysts consider this option, in terms of what is going to happen if the economy continues to deteriorate. So this is a very important question and we can probably assume that for President Putin and his advisers it is a big question as well. A lot will depend on how the economy is going to perform.

- Q73 Mike Gapes:** So what you are saying is that if the economy improved, Putin might be less inclined to use foreign policy initiatives to increase his popularity or offset the fear of any decline.

**Dr Valentina Feklyunina:** Again, it is a very hypothetical question, but probably, because we can see that in the past. The economic legitimacy or perceived economic successes have been so important in driving his legitimacy. We can probably legitimately suggest that the levels of his public approval will then be sufficiently high for the regime to be more secure, in terms of its domestic cohesiveness.

- Q74 Mike Gapes:** Let us say that events in Syria turn and Russia gets bogged down for

several years, and casualties start—we have seen the recent bombing near Tartus, and so on. Would that affect Putin’s popular support? What would be the effect of that?

**Alex Nice:** I think there is an important nuance that we need to put on this notion that legitimacy is now about charismatic leadership and the projection of Russia as a great power. This thesis is very widespread at the moment. Last month I think, the European Council on Foreign Relations, produced a report saying to expect more small victorious wars abroad. Yes, Crimea boosted the popularity of the President and the Government, but it appears that there is little support for wars involving high casualties. In fact, there was a great deal of sensitivity about Russia’s involvement in eastern Ukraine, the threatening of journalists who reported on casualties and a great deal of anxiety about the impact domestically of high numbers of casualties or the reporting of such. I think the notion that a downturn therefore means Russia will be seeking conflict everywhere needs to be finessed.

- Q75 Mr Hendrick:** Let us say that sanctions continue to bite and the oil price stays below \$50—signals at the moment are that it will go even lower. Foreign policy is not a substitute for food in people’s stomachs and standard of living. How bad do you think things need to get, in terms of the economy, before any foreign policy success is seen for what it is: a diversion from the reality of everyday life in Russia?

**Professor Alena Ledeneva:** There is a very good metaphor that describes the answer to your question: the current situation in Russia could be described as a fight between television and a fridge. I have to say that the television has been working very effectively to advance Kremlin-driven propaganda to raise support for Putin—popular support for his foreign policy—and for Russian patriotism. There is a lot of symbolic value that Russians associate with the second world war victory anniversary.

It is fair to say that statistics show approval has been genuine and on the rise. What is happening lately though—I would say for at least half a year for sure—is that the numbers are going to soar, and that is visible. For example, the Levada Centre, which is the most independent opinion polling centre in Russia, just recently said that the percentage of the population who report that Russia is moving in the right direction has gone down to 50%. That is a very significant change. So people joke now that the refrigerator is fighting back, which means that the economic position has fallen through. Sanctions have been an important part of the story here.

- Q76 Mr Hendrick:** So things are changing then in terms of the perception of Russian people and how they view the situation, irrespective of possible future foreign conflicts?

**Professor Alena Ledeneva:** There is a limit to everything, in the sense that you could brainwash or zombie the state-owned media, but the population only so much. I think that resource has been exploited enough.

- Q77 Stephen Gethins:** In terms of the conflict and gaining legitimacy from conflict, which you mentioned earlier, I am quite interested in how you think that might impact on the frozen and not-so-frozen conflicts in the South Caucasus, for instance. They have often been overlooked in recent times, with western attention on Latvia or the conflict in Crimea as well. Is there a solution, or do you think these conflicts will

remain frozen over the next few years?

**Alex Nice:** I don't think that Russia has any interest in unfreezing the conflict in Nagorno-Karabakh, if we take that conflict specifically. I also think that in the case of Nagorno-Karabakh specifically, we should avoid attributing too much agency to outside powers. Fundamentally, the conflict can't be resolved without the involvement and the will of the leaders of Azerbaijan and Armenia first and foremost. Having said that, the maintenance of unresolved territorial conflicts in the former Soviet space has served the policy of preventing the expansion of western influence in that region. So a case could be made that therefore it is not necessarily in Russia's interests for the conflict to be resolved entirely.

**Q78 Stephen Gethins:** So you see the status quo as ongoing, even in South Ossetia and Abkhazia, as well as Karabakh?

**Alex Nice:** In those conflicts, I think that that is probably the most likely scenario, but it's a very dangerous situation. In Nagorno-Karabakh recently, in early April, we have seen the most serious violence since a truce was reached in the early 1990s. There are very few confidence-building measures, as well as little trust between the sides, little monitoring of the border and a highly militarised line of contact, so I wouldn't exclude the risk of a return to violence, as again we have seen in Ukraine. In Ukraine there is notionally a peace, but plenty of fighting takes place across the line of contact. In some ways, this notion of frozen conflicts is a misnomer. Soldiers die on a regular basis in many of these conflicts.

**Q79 Nadhim Zahawi:** On the economic reforms, does the return of Alexei Kudrin to government signal a genuine commitment by the regime to long-term reform?

**Alex Nice:** The fact that he has got a formal post—it may or may not be significant that it is not a governmental post: he is not a Minister—does not necessarily mean that there is a fundamental shift in policy. For a long time there have been strong voices within Government and outside Government arguing for the need for reform and for a change in economic policy, and many plans have been officially adopted—the largest major strategic plan was in 2012, which had a very strong and very comprehensive vision of the modernisation of Russia—but there are other voices calling for a very different economic policy, which would involve a high level of state involvement in the economy, import substitution, a high level of protectionism, fixed exchange rates, and all kinds of proposals that are anathema to the agenda of Mr Kudrin.

The other issue—which Professor Ledeneva is much better placed than I am to talk about—is that there are very strong obstacles to reform, even if senior figures in the establishment wish to push them through.

**Nadhim Zahawi:** Professor Ledeneva, would you like to comment on that?

**Professor Alena Ledeneva:** Absolutely. Economic reform is something that has been acknowledged quite openly by Mr Putin, and we will see more of that at the forthcoming St Petersburg business forum, where we will have the President of the European Union in attendance. It looks as though, on the whole understanding of the situation that the economy has been a huge problem, the coin has finally dropped. So

we are very optimistic as analysts, all three of us, about the return of Alexei Kudrin, because historically he has generally been good news, in the sense that he has been representative not only of the liberal clan, but also as a father of the sovereign fund that has been very instrumental in Russia sailing through a number of economic crises, global or not, previously.

It is also fair to say that Kudrin has been close to Putin and is a trusted economist. That is very important in the case of President Putin's perception of expertise, which in many ways is personalised. Trust is absolutely essential in that respect. Putin has never left "sistema", as I call it, and I have submitted written evidence to this Committee in the form of two articles about sistema and its inner workings. When he left the Government, it was clear that there was disagreement between Mr Medvedev and himself, and of course there is no way he could return to the current cabinet under Dmitry Medvedev. I suppose that his heading the presidential economic committee is a fair comeback and I think it will bring its results.

You know that the start has not been smooth: in the first committee, he was shut down by Putin on the subject of sovereignty being the priority. That is something that people in the West sometimes fail to understand in terms of Russian perception of how things are. This may be a good place to mention that the economic logic—the logic that is driven by market democracy and liberal values—bases itself on the idea if the economy does good, then you are a good leader and everything works for you and you will get the next election. That is not quite the premise that you could apply fully to Russia. Although historically you can see that happening too, the hidden side of the story is that Putin does give huge value to sovereignty, respect and international reputation, and a lot of economic resources are being spent to achieve that, according to his view of what that might be.

**Alex Nice:** In my interpretation of Kudrin's return and whether or not it pushes through major economic reform, I am more sceptical that that is possible; but it is an indication that there is still a commitment to the basic tenets of a market economy and careful fiscal policy. As the professor said, Kudrin was the architect of the creation of the sovereign wealth funds paying down Russia's debt and essentially bringing its finances into order. There is a lot of pressure at the moment—and there will be for many years—on Russia's budget. Many demands for spending are simply not affordable, including from the military-industrial side. Kudrin is a counterpoint to that; a voice warning of the dangers of high spending, running large deficits and high inflation. His appointment brings those things.

- Q80 Nadhim Zahawi:** Presumably it is fair to say that allowing the rouble to free-float has helped Russia come through part of the crisis. Although inflation is running at over 8% and interest rates at 12%, employment remains high and unemployment low. Does that give Mr Putin more confidence to push further with reforms? Professor, you have partly answered my next question, which is: can you deliver such reforms without political change or political flexibility? Reforms need democracy because reform is tough, and you need to carry the good will of the people with you.

**Professor Alena Ledeneva:** The political theory of authoritarian regimes states that, in many ways, their methods of mobilising resources and people are superior

to democracy because they do not have to worry about elections. They could use vertical power and also power network-based governance to promote the reforms. If you go to Moscow or St Petersburg, there are many visible signs of successful development, which are in stark contrast to the picture in the western media of how poorly Russia does. In a way, my thesis in the book “Can Russia Modernise?” is that sistema works, but according to principles that we refuse to understand here because our ideological framework is democracy plus the market. Whatever we say, we want that to happen in Russia. My perception is that it will not happen any time soon, if only because there seems to be limited demand for that kind of model in Russia. A fair question is: what do we do to enhance that demand? How do we work with the youth? Putin’s strategists have been watching out for that very carefully. The attention on youth can be traced back to his arrival in office. To me, that means that he is thinking about the succession and the reproduction of sistema, although it is a taboo topic in the Kremlin.

**Q81 Ann Clwyd:** Is there any public view in support of political change or has it all been stifled?

**Chair:** I think that is for you, Professor. It follows up the theme that you were on with Mr Zahawi.

**Professor Alena Ledeneva:** Yes, I think that there is certainly some demand for democracy, a huge demand for change and a lot of hidden demand for a change of leader. That might not be claimed openly or stated in the opinion polls, but from my experience of interviewing sistema insiders, the key impression I receive is that people are hugely ambivalent about Mr Putin himself and about the route that he is taking the country down.

There is kind of an understanding that you could not just break sistema, because you could think of sistema—the system—as a network-based system of governance, rooted in personalised trust-based relationships, which glues society together and helps everything to work, including economic reforms. You cannot just break it, but if you don’t break it, it has a certain tendency that I call the modernisation trap of informality. If you are relying on informal power to get things done at the level not just of the informal economy and informal politics but of informal war, it is an altogether different type of game. This is, in my view, a trap in the long-term perspective, because those informal networks, although effective, have their limits and you as the leader become the hostage of that sistema yourself. That is the limitation that I think Mr Putin feels very strongly now, hence the National Guard.

Perhaps I could sum up that discussion. The National Guard shows that the pressures are coming from citizens, so you have to use it to create order. They come from the colour revolution, so you have to use it against such external threats. They come from people such as Mr Kadyrov who develop very powerful inner regimes that might be a danger, which was by the murder of Nemtsov, one of the opposition leaders. Then there is also a danger from power networks that might decide that Putin is becoming a liability, therefore another leader would do just the same good job. That is a dangerous track but Yeltsin attempted and succeeded in that so there is no reason why it could not happen again.

**Q82 Ann Clwyd:** I monitored the first elections to the Duma, which were looked on at the time by the international monitors as fair, overall. There were some discrepancies—the use of television time, for example, because those with money could buy most of the time. How important do you think the Duma elections are now, or are they not important?

**Professor Alena Ledeneva:** In the very catchy phrase of Vladimir Gel'man, who is a political scientist, an election in Russia is not an election but a selection. That is to say that elections are not really competitive. They are a way of legitimising of the kind of scenario that is considered to be appropriate. There is the elimination of any competition at the level of registration of candidates. They are a kind of manipulation of the system, which would be very happy with cameras at the polls because this happens in a much more pervasive way.

I said that there was no demand for democratic change; this is not an accident in the sense that people genuinely agree with the kind of message that Putin delivers—not all of them, but a considerable part of the population. Some people ask me how much of the population I think belong to sistema, or are sistema insiders, and I always say to take the approval rates and divide by two, that's for sure, but probably much more. What sistema does is redirect resources; it mobilises people; it co-opts and rewards and makes you part of the society. That is basically where its power comes from.

It is a bit unfair to say that the Russian population has been “zombied” by Kremlin propaganda and that there are no alternative ways to receive information. Yes, our television still covers about 89% of the Russian Federation and Channel 1 and Channel 2 are the only channels that cover that much, and it is still a primary source of news and information for Russians, but at the same time, the internet works. There are no restrictions on the internet as there are in China. People would have access if they wanted it. The trouble is that they don't. They are not interested because they actually agree.

The situation in Ukraine has been traumatic for Russian society because families have been divided over it. People in Russia are exposed to the propaganda, and we must admit that it has been excellent—witty and intelligent—and it pressed all the right buttons with people in Russia. Others took a liberal view and said, “It is a violation of international law.” There is a powerful divide. I could see people defriending others on Facebook; families have been broken. It has been an interesting social development, which emphasises that inside the country the demand for a change from Putin is not very high.

**Dr Valentina Feklyunina:** May I add a couple of points? On your first question on the public demand for change, often in the western mass media, and sometimes in policy circles, there is an idea that once the economic situation deteriorates there should be more protest or public dissatisfaction. I think that we should be very careful, because so far, although dissatisfaction has increased, it has not done so significantly yet; we will see later. To a large extent, there has been a reversion to survivalist mode. The Russian population is trying to survive the way it survived in the 1990s or before. It is not necessarily transforming quickly into overt

dissatisfaction. It might be some sort of hidden dissatisfaction, but that does not necessarily immediately lead to protests, and we should be careful of expecting that.

The second point was about the importance of elections. When we think about elections at both the parliamentary and the presidential level, it is important to try to understand how those in power in Russia will see them. They will see them as a point of vulnerability—the point when bad things can happen, looking at the Orange revolution in Ukraine, and the 2011 protests. So regardless of very high approval ratings, the regime is likely to feel much more insecure around election time.

Now we are in this electoral cycle and will remain in it until the presidential elections, and perhaps slightly after that, depending on how the presidential elections go. If we link this back to foreign policy, you would expect that it is extremely important for the Russian authorities, the way they see it, to send a continuous message that they are doing well and in the international arena achieving what they promised to achieve. It would be difficult for them to do anything that might be interpreted as a compromise that undermined the Russian position. The electoral cycle makes such a compromise—or at least a public compromise—much more difficult.

- Q83 **Ann Clwyd:** So there could be a tipping point scenario, which Mr Gapes mentioned, but it could be almost anything.

**Dr Valentina Feklyunina:** The critical point here is that the authorities, despite very high ratings, feel that they should be prepared for such a situation. The task of consolidating the regime—proofing it against any potential development, making sure that this does not happen—would drive not only domestic politics, but foreign policy. It is not necessarily that it will actually happen but, very importantly, there is the perception that it might happen, even though we as analysts do not necessarily see it.

- Q84 **Stephen Gethins:** To pick up on what Dr Valentina was saying about the sistema level of Government, how do you think that operates outside Moscow? Obviously, we often focus on Moscow, but you also have the very important republics. Does it work in much the same way in the republics?

**Professor Alena Ledeneva:** On page 11.47 of the article that has been submitted, I created a hybrid model for you, in which theories of leadership have been criss-crossed with a model of informal governance with a view of what the leadership agenda would be, how it is enforced into the policy, how economic resources are co-opted for its exercise and how sistema reproduces itself. It is interesting that at every level—not just the Kremlin level, but every corporate leader—pretty much the same pattern of informal governance is followed, because that's the one that works in Russia.

It is safe to suggest that every person in a position of power has an inner circle, core contacts for policy implementation, affiliated contacts for rechannelling or offshoring resources, and media contacts to ensure other possible agendas and communicate informal signals in order for informal governance to be effective. This model explains in alternative terms how we can look at the decision-making process in Russia. It might be useful if I could also submit as written evidence—

**Chair:** That would be useful, professor, because there is a lot of detail here, and sadly we don't have long enough in oral session to go through it. That would be helpful. I am very happy to have crisp answers, and then if there is need for more elucidation, we are absolutely in the market for more written evidence or articles.

**Professor Alena Ledeneva:** I just wanted to mention that it is actually an article by Gleb Pavlovsky, who is a former foreign affairs adviser to the Kremlin.

- Q85 **Stephen Gethins:** In terms of the republics, you obviously have one with the greatest amount of focus, and I would like to talk about that in just a moment. Obviously, you have Chechnya, which is very relevant. What do you think would happen—and is it going to happen?—if Moscow cuts back financial or other assistance to Chechnya? Can you comment on the relationship between President Putin and Kadyrov?

**Chair:** That is another question for Mr Nice.

**Alex Nice:** I think it is unlikely that there would be major cuts in funding to Chechnya, precisely because there are levers to put great pressure on the federal authorities if they did that.

- Q86 **Chair:** Like what? Might they kill more people?

**Alex Nice:** The concern about a return to instability in Chechnya is always going to be there.

- Q87 **Chair:** Kadyrov will promote instability if the budget is cut?

**Alex Nice:** The threat of such is always in the air.

It can't be excluded that there will be cuts—there have been cuts to federal funding—but it would be unwise. The situation in Chechnya and the relationship between it and the central Government has been described as a time bomb underneath the Government. The relationship between Kadyrov and Mr Putin has been the subject of great focus. It appears that the federal security services are not able to operate within Chechnya. It is clear that aspects of the Russian constitution are not implemented in Chechnya. The extent to which central control can be exercised in the republic is certainly an open question. Given the great sensitivities, I think it unlikely that there will be major cuts and we haven't seen much instability to date.

- Q88 **Stephen Gethins:** But you think they are holding this threat of violence over Moscow in terms of the finances that are going there.

**Alex Nice:** In some ways the fates of Mr Putin and Mr Kadyrov are bound together.

- Q89 **Stephen Gethins:** How much control do you think the Kremlin has over other regional leaders? Are there any that stand out as relationships that we should be looking at?

**Alex Nice:** It has been argued by some that there will be a shift in power from the centre to the regions, in part because the amount of federal funding available is lower. The regions are under a huge amount of pressure: they have been given responsibility

for fulfilling a lot of the President's decrees since May 2012, which is very hard to do in the current climate, and as a result, many of them are running up large deficits. In addition, there have been changes in the electoral system so that governors are now elected, not appointed from the centre, which potentially gives them a certain amount of political capital.

Q90 **Stephen Gethins:** Are you saying that the election rather than the appointment of governors—

*Alex Nice:* Well, with a presidential filter.

**Stephen Gethins:** Of course, but are you saying that that has made a difference in terms of empowering the governors?

*Alex Nice:* I am saying that it could.

**Professor Alena Ledeneva:** There are also informal ways to control regional leaders.

Q91 **Chair:** Please explain.

**Professor Alena Ledeneva:** Historically, all Russian and Soviet leaders, going back a long time, always collected compromising materials on everyone who could possibly make it big in politics, so that you are co-opted into the system. You work, but you know that you are only trusted because, at any minute, that file could go to the court and a case could be opened against you—so much so that some people feel that, in order to be trusted, they have to do something that makes them loyal.

Q92 **Chair:** So they will produce their own private evidence of misbehaviour in order to get promoted?

**Professor Alena Ledeneva:** You would be surprised, but that is exactly the mechanism that has been described in the origins of the Italian mafia. That is how you create trust: you submit a tape on yourself, and it is kept as leverage for you to become an insider.

**Mike Gapes:** I would like to pursue that, but I have to switch focus.

**Chair:** Feel free. We are getting on to much more interesting territory. *[Laughter.]*

Q93 **Mike Gapes:** No. What has been the impact of sanctions and, linked to that, the economic downturn on the political elite? How do they specifically feel about things at the moment?

**Professor Alena Ledeneva:** Sanctions are a very interesting topic. You see a lot of anecdotal evidence that domestic producers welcome them very much, especially the response sanctions that Putin has announced against the European Union. That is particularly supported by statistics showing that the agricultural sector has been growing by 3% a year, which is unprecedented.

For the elites, it has been traumatic. It has been perceived as part of Russia's direction toward isolationism, which is considered to be dangerous by the elite for obvious reasons—they are much more integrated into the international community and business financially, legally and otherwise. Personalised sanctions were particularly badly received but their impact is minimal in comparison with the damage

experienced by the large corporations that have been kept from financial loans and access to financial institutions.

- Q94 **Mike Gapes:** What about the impact specifically of the financial sanctions on the elite's ability to do business, both in Russia and abroad?

**Dr Valentina Feklyunina:** If I may, I will come back slightly to the bigger question. What Professor Ledeneva said is very important and I'd like to emphasise that the sanctions strengthened the position of those who would prefer a more isolationist position. They helped to consolidate that part of the political elite that has a particularly suspicious outlook on the world and sees the United States as the mastermind behind all the evil in the world. To some extent, you can argue that sanctions did help to strengthen that particular attitude.

- Q95 **Mike Gapes:** And financial sanctions?

**Alex Nice:** In terms of individuals, we have seen the effects on some of those sanctioned. Mr Timchenko has gone on the record to say they have affected his business. We have even seen the US implement follow-up sanctions to try to prevent workarounds—for example, he has transferred assets to other people within his company, other business partners and family members, and selling companies. Clearly they have an impact. It should also be noted that these individuals have long experience of hiding their ownership and creating complex ownership structures abroad, so I am sure there are many avenues to try to limit the impact of sanctions, but from their public statements it seems that they have had effect.

For some other individuals—for example, Mr Rotenberg, who worked almost entirely within Russia and whose wealth is based largely on state contracts—sanctions emphasise the fact that they are bound to the state and to the system. In fact, he has benefited from some very high profile state contracts following the imposition of sanctions, including to build a bridge between Crimea and the rest of Russia.

- Q96 **Mike Gapes:** What about the impact of sanctions on ordinary Russians? How are they perceived?

**Alex Nice:** Trying to disaggregate the specific financial impact of sanctions on Russia at the moment is very difficult, because at almost the same point that sanctions were imposed, the oil price collapsed, so many of the things that have happened as a result of sanctions—reduced investments and a fall in the rouble—would have happened anyway. The IMF has come up with an estimate that they have cost 1% to 1.5% of GDP. Obviously, that also has an impact on ordinary people and on income levels, wages and employment, but I would treat that estimate with a lot of caution because the impact of the oil price so outweighs, in the short term at least, the impact of sanctions.

- Q97 **Ann Clwyd:** Do you think the UK could do more to pursue the London-based assets of the Russian political elite, particularly those who could reasonably be suspected of being involved in corrupt practices?

**Chair:** Alex, why don't you lead on that?

**Alex Nice:** Yes. I would like to say three things on this. First, it is important to stress that Russian capital leaving the country and being invested abroad is not in itself malign. If I were a Russian businessman, I would probably want to hold my assets abroad. They come to London precisely because they are looking for the rule of law and safety. However, there is clearly a law-enforcement aspect tied to the fact that much of the money that comes into London may have been made through criminal means and corruption.

There is also a national security aspect. We have seen that funding through Russian companies has also been combined with either organised crime or, indeed, the Russian intelligence services, which is something where vigilance is needed. We need to strengthen the supervisory capabilities that we have—indeed, the conclusion of the risk assessment of financial oversight in 2015 was that this could be strengthened. This is an area where certainly more can be done, and it is becoming an area of pressing public concern, as we have seen with the recent public debate about the influence of foreign money of uncertain provenance being invested in London.

**Q98 Ann Clwyd:** Apart from the financial and property markets, are there any other areas that the UK could use as a negotiating point in the UK-Russia relationship?

**Professor Alena Ledeneva:** I absolutely agree with Alex. My research into the proceedings of the UK commercial courts indicates that when we have Russians here, when they are testifying in court and when they are buying property, they are exposed to mechanisms that change their entire understanding of how systems should be working, and that in a way is a driver of the demand for change back home. That is a very important point indeed, and we agree on that one.

In terms of engagement with Russia, I see a lot of mixed messages from the UK, which is to say that it is very hard to engage with Russia without compromising something else. In a way, the double standards where we want to have influence on Russia but, at the same time, are not prepared to go all the way is something that Russia would always play against the West, and they do these divide-and-rule policies so effectively vis-à-vis the European Union.

It also has to be said that if you single out Russia, Russian oligarchs or properties owned by Russians in this country, you are immediately on the very treacherous territory of double standards. How is corrupt money from Russia different from corrupt money from Africa or other regimes? The overall policy has to be looked at. My final point is that no one in this country, to my knowledge, has done an analysis of foreign policy that has worked with Russia. We always look at things that didn't work, that backfired or that were based on punitive sanctions. There is very little perspective that would allow us to say, "When we did that, it changed Putin's view." There is a role for that type of analysis. I am not a foreign policy specialist, but I see that as a huge hole.

**Q99 Chair:** Okay. I will ask a final question to each of you, and perhaps you can then answer the point raised by the Professor on examining things that have been positive about British policy towards Russia overall. Can you give a brief assessment of British policy towards Russia overall? Is there anything in the recent past that has worked?

**Dr Valentina Feklyunina:** There are several points that I would want to emphasise. The first is building bigger capacity for understanding Russian foreign policy, and not just foreign policy but Russian politics, which is extremely important in the UK.

Q100 **Chair:** Why?

**Dr Valentina Feklyunina:** Losing this capacity after the collapse of the Soviet Union, or allowing it to shrink, was a very significant mistake. It happened not only in the UK, but in the US and the West more broadly. This is very, very significant, regardless of what is going to happen to the Russian economy. Even if we assume that Russia is a declining power and its role will be less significant, it is still going to be very, very important for quite a long time, so it is extremely important to build this capacity. That goes to the learning of the Russian language, which is an extremely important and problematic issue in the UK at the moment, and it goes to the discussion of Russia more broadly. That is the first point.

The second point is about what worked, what didn't work and what could potentially work but in a very long-term perspective, which in my view is the idea of widening the engagement between the societies, and not focusing just on Putin when we think about Russian foreign policy. The extent of his domestic support and domestic popularity, and the support for his actions in the international arena, indicate that we have to engage with the society more broadly in a much more consistent manner, and with a long-term perspective. It is something that cannot be fixed within the next three years; it has to be dealt with in a very long-term perspective. And that is people-to-people relations; it is not necessarily something pursued from Government to Government.

That is something that was to an extent successful even at the time of the Cold War, and we can argue that it is one of the factors that we can see is working. It is working at some points of the relationship better than at others, but I think it is something where the UK should develop its expertise and invest more resources.

**Chair:** Professor Ledeneva?

**Professor Alena Ledeneva:** When I look at policies towards Russia, what I see is a lot of missed opportunities. Those occur every time you have some initiative from Russia. For example, when Dmitry Medvedev in his presidency wanted to co-operate on EU security issues, there were no takers. These kinds of moments are where the policy failure is best seen. That was a chance to actually engage around the agenda, and it could have transformed the process, but there is always a sharp no. The way the Russians see it is that everything that comes from Russia is met with a no, but everything that comes from the West is imposed on them as if they are the inferior partner. This is something that does not, especially currently, sit well with Russians, because Putin creates respect, and that is what he wants. So if you ask me what has to be done to improve the future, we need to find an opportune moment in time at which a virtuous circle could be created to bring him back into the G8. At the moment, it is just humiliating. This is something that cannot be done routinely; one should think about how it can be done, but that would certainly be a breakthrough, because in all likelihood, we are looking until 2024, and we do want to create certain working channels of communication with the Russian leadership.

**Q101 Chair:** It would be quite nice for the Committee to make a recommendation about that—about exactly what we should do—so if you have any suggestions, I invite you to write to us on how one should accomplish that objective. It is certainly an area we are looking at. Alex, finish off with your analysis or assessment of British policy towards Russia overall.

**Alex Nice:** I agree that it is useful to have an off-ramp for the current tensions, to use that phrase—a road map of actions that could be taken that would lower tensions and possibly lead to a reduction in sanctions. The other side to that is that we have absolutely to be clear about and to maintain a principled stance on sanctions in the current environment. The Foreign Secretary has made this clear, and the EU as a whole has drawn a clear conditionality between the current sanctions regime and progress on the Minsk II agreement.

However, there are noises off within the EU, and even within the UK, suggesting that the sanctions regime could be relaxed before any meaningful progress is taken to resolve the conflict in Ukraine, and before Ukrainian sovereignty is re-established in the East of the country. That creates uncertainty. To quote Arkady Moshes, a Russian analyst based in Finland, “Say what you mean and mean what you say.” That is absolutely vital to maintaining the credibility of British policy towards Russia, and ultimately respect. Within that context, I would also draw attention to the Litvinenko case, where the conclusions from the inquest—when it took place—were stark and frankly shocking, and yet the response of the Government to the murder of a British citizen on British soil, with the conclusion that the Security Service was probably involved, and that it may have been at the initiation of the President, was close to non-existent.

**Q102 Chair:** Do you not assess that that had already been done in 2007, when the Government would have come to that assessment themselves, rather than it being produced by a coroner?

**Alex Nice:** If that was the logic of the response, it wasn’t clear to me. The impression at least given was that there were these very strong conclusions, which assumed that they had been expected, and no response to them.

**Q103 Chair:** How much worse could our relations get with Russia?

**Alex Nice:** There were further steps that could have been taken in response to that specific issue.

**Q104 Chair:** Such as?

**Alex Nice:** The expulsion, for example, of some diplomats.

**Mr Hendrick:** I thought that some diplomats were expelled.

**Q105 Chair:** The Intelligence Service co-operation had already ended as a result of the Litvinenko affair in 2007. So you would send the ambassador packing?

**Mr Hendrick:** 2006, I think.

**Alex Nice:** My perception was that the gravity of the conclusion and the response did not correspond.

**Mr Hendrick:** I was in the Foreign Office as PPS to the Foreign Secretary at the time, and there wasn't European solidarity on the issue, so you could not have gone for sanctions. All you could have was the diplomatic response that we gave.

**Chair:** Mark, we will leave that for our conclusions. I would like to say thank you very much to our first panel of witnesses. In response to written or oral requests for more written evidence—I do mean this—we are in the market for that on this very difficult subject of how to improve our relationship with Russia, if that is appropriate.

#### Examination of witness

Witness: Vladimir Ashurkov, Executive Director, the Anti-Corruption Foundation

**Chair:** Please identify yourself for the record.

**Vladimir Ashurkov:** My name is Vladimir Ashurkov. I am a Russian civil and political activist, currently living in London owing to political persecution on the part of the Russian authorities.

Q106 **Chair:** We have about half an hour for public evidence from you, Mr Ashurkov. May I start by asking what you think the outcome of the September Duma elections will be?

**Vladimir Ashurkov:** In the past 10 years, Russian authorities have been suppressing political freedoms, and that comes from several fronts—legislative, and pressure on independent politicians and civil activists. That has led to the situation where the political field is quite bulldozed. The independent parties that have the right to participate in the elections—it was made more difficult, during this electoral term, for parties to participate in elections—are unlikely to be able to get the number of votes, over the threshold of 5%, that would secure them a place in the Duma. In most likelihood, it will be the four parliamentary parties that are currently present in the Parliament, with United Russia, the party of power, having the majority.

Q107 **Chair:** Alongside the elections, do you think there is a possibility of large-scale unrest, as there was in 2011-12?

**Vladimir Ashurkov:** Definitely, these elections will be a point of pressure and a point of tension for the authorities, because we have the background of the deteriorating economic situation. We have living standards of people deteriorating, so one can expect a lot of protest voting, and we have seen the ratings of the United Russia party go down quite substantially over the last month. Whether this will translate into mass protests, as happened in December 2011, it is really difficult to predict. There are factors that would point to the unlikelihood of this scenario. A lot of laws that regulate mass protest have been made stricter. People are afraid because a number of activists who participated in mass protests have been persecuted. Some of them are still serving jail sentences for the mass protest that happened in May 2012, so the overall

sense of intimidation from the Government to the people who are likely to participate in protests has increased.

**Q108 Mr Holloway:** Do you think the single-mandate constituencies will make a difference to the character of the Duma?

**Vladimir Ashurkov:** Russian electoral legislation has changed continuously over the last 20 years. Every election, parliamentary or presidential, has been done with changed legislation. In these elections, the single-mandate constituencies were re-introduced, and half of Duma deputies will be elected through single-mandate districts. Often, the authorities use single-mandate elections to put forward candidates that represent the system—the administrative resource—but that are distanced from United Russia, which has quite a negative rating. That can happen, for sure, during these elections.

There are a number of independent, democratically minded candidates who are running—or intend to run, because registration should start maybe in a few weeks. It is difficult to predict the chances of their success, but if they can be elected, there will be just a few democratic candidates in the new Duma.

**Q109 Mr Holloway:** How popular are the non-communist opposition parties outside big cities?

**Vladimir Ashurkov:** In many cities, the elections do not fall along party lines. In many regions, there are strong leaders who are quite popular, and those are likely to present, in some regions, significant opposition to the candidates of the party of power. They will not necessarily be from the Communist party. Indeed, the Communist party is the second most popular party in Russia, but there are other parties that have quite strong candidates, such as A Just Russia, the liberal democratic party.

**Q110 Mr Holloway:** What are those liberal parties doing to increase their popularity?

**Vladimir Ashurkov:** One of the important developments over the past year was an attempt to create a democratic coalition around a party called PARNAS. One of the leaders of PARNAS was Boris Nemtsov, who was killed a year and a half ago. For some time, there was hope that several political parties, including the Progress party, the leader of which is Alexei Navalny, and PARNAS, the leader of which is Mikhail Kasyanov, would create a coalition. Such a coalition would give them the chance to overcome this 5% threshold. That did not happen. Personal rivalries prevailed, and currently the Progress party, headed by Alexei Navalny—the most popular party, even though it is not registered—will not participate in these elections. So the state of the opposition is quite fragmented.

**Q111 Mr Hendrick:** My colleague Ann Clwyd mentioned earlier that she went to see the first Duma elections, and she said that she thought they were pretty fair, and international observers though they were pretty fair. I actually went to the 2012 elections as an observer, and I think they were anything but fair. The OSCE delegation that I was with tried to produce reports; they fed them into a computer and the security services fed a virus into the computer, so a lot of the observations were destroyed.

Leaving aside the unfairness that I think is there with the Duma elections, let us say a liberal party, or a coalition of liberal parties, as you mentioned, could get above the 5%. What practically do you think is stopping it? On our delegation visit a few weeks back, I thought Mr Yavlinsky from the Yabloko party was very enlightening, and very progressive in terms of his views. You mentioned PARNAS, and obviously Nemtsov has gone, but hopefully PARNAS is still around, and if Navalny's party could legitimise themselves to the point where they could get registered, what do you think is stopping a coalition of liberals coming together to get themselves above that 5%?

**Vladimir Ashurkov:** First of all, everyone who participates in Russian politics understands that the results of elections—especially this election; there is about three months left until it happens—will be to a large extent determined by the Russian authorities. There are several factors that lead to that. The most obvious is the vote-rigging, of which we were witnesses in the Duma election of 2011. That permeates all electoral institutions in Russia. Even in the primaries of United Russia, which were conducted about a month ago, there were wide reports of violations, vote-rigging and so on.

When we talk about liberal parties—let's take Yabloko. It has been around for over 20 years. It has an accepted role within the party structure of Russia. It receives Government funding, because it was able to secure about 3% of votes at the last parliamentary elections, and its leadership, which has not changed for the same 20 years, is very careful in extending this position, with Government funding and a place on the ballot—something that is denied, for instance, to the Progress party, which is more popular. That is why they are quite reluctant to create an electoral bloc or put on their ballot candidates from other parties that are also democratically minded.

This is an example of this bulldozed political system, which does not allow free registration of parties and does not allow independent candidates to run. For instance, probably the most popular opposition politician who has emerged in Russia over the past few years is Alexei Navalny. The pinnacle of his career so far has been getting 28% in 2013 in the mayoral elections of Moscow. He is banned from being a candidate because he was convicted in a politically motivated criminal case that is widely seen as rigged—as falsified. By using different methods, the authorities are able to limit the number of eligible candidates and eligible forces, such as parties, participating in the electoral process.

Q112 **Mr Hendrick:** So you are saying it is not practical for those reasons?

**Vladimir Ashurkov:** With the current leadership of Russia, it is quite difficult.

Q113 **Mr Hendrick:** Could Navalny's party do it without him at the helm?

**Vladimir Ashurkov:** It is ironic that the Progress party, which was created just three years ago, is not registered, even though it fulfilled all the cumbersome requirements of the Russian Ministry of Justice. The party has branches in over 50 regions, we have more than 500 people on our party list, and the party has submitted documents for its registration three times to the Ministry of Justice. We are sure that there are no technical reasons to deny it, but at the same time we are denied it. In contrast with the Yabloko party, which has existed for 20 years and has participated in elections, in the

polls the Progress party is above all other parties that are not present in the Parliament—without Government funding and without registration. This gives you an idea of the methods that the authorities use to ensure the parties that can make a difference do not make it to the ballot.

- Q114 **Chair:** It does seem remarkable that you have got this shattering of the liberal centre. Russia does not strike one, overall, as a place where the liberals are going to storm to victory and a majority in an election. The need to coalesce in order to produce a liberal-centre politics would, you would have thought, be blindingly obvious to all the leaders of these parties, yet they have all chosen to push off in their own different directions and not coalesce. Can you explain that?

*Vladimir Ashurkov:* I think the main explanation is that they believe that in the current power structure, even if they create an electoral bloc, it will be crushed by the authorities. So what is their motivation to do it?

- Q115 **Chair:** Well, they won't know that until they do it. If you have Progress, Yabloko, Mr Khodorkovsky's backing and all these forces in the centre of Russian politics, you have to be pretty dim not to work out that they need to pitch their tents together.

*Vladimir Ashurkov:* It's true, and such attempts have been made, including the democratic coalitions with PARNAS and the Progress party, which I talked about. But there was the personal agenda in this case of the leader of the PARNAS party, Mr Kasyanov, who did not want to submit to being one of the candidates in the primaries, which would select the top candidates who would go on the ballot. He wanted to secure the top space for himself, and that created tensions with the support base of the Progress party and of the PARNAS party. Eventually Alexei Navalny and his Progress party had to pull out of the coalition.

- Q116 **Mike Gapes:** May I take you to what might happen at the next presidential election in 2018? Would there be any significant economic or political reforms after that, given that Vladimir Putin is constitutionally limited to doing two terms—well, each time, two terms? Is there any thought as to how things might then develop?

*Vladimir Ashurkov:* The general perception of President Putin is that he is a brilliant tactician, rather than a strategist. People say that he has always a folder for a variety of scenarios, and when he thinks that the time has come, he just pulls out a folder that gives him a scenario of how to play the situation. This was the case when the Crimea annexation happened. He probably has these folders for economic reforms, too. His appointment of Alexei Kudrin as a top economic adviser—it is an unofficial title; he doesn't have any Government post—signals that he wants to have that option, and Mr Kudrin is tasked with creating a sort of blueprint for reforms. How likely it is that this blueprint will be implemented is quite unclear, given that the current system is based on corruption.

When I talk about corruption, it is a mixture of economic and political corruption. For instance, central Government turn a blind eye to the regional governor diverting money that was earmarked for road improvement to the pockets of his crony, and in return, on voting day, he uses all his considerable resources to ensure that victory goes to the candidate of the party of power.

Q117 **Mike Gapes:** Given that system, is there any indication yet as to who might be a potential successor as President to Vladimir Putin?

*Vladimir Ashurkov:* There are a number of people from his inner circle who could be considered possible successors. In the run-up to the elections in 2008, there were also a lot of rumours about who could be such a successor, and it was decided that it would be Dmitry Medvedev, who served one presidential term only quite shortly before the elections—a few months before them. It is likely that this situation will repeat itself with a possible new successor for Putin.

One thing that can be said for sure is that when Mr Putin is replaced by somebody, inevitably there will be a start of changes. Inevitably it will lead to some sort of process of political liberalisation, because Mr Putin has been the architect of this system of corruption, and he has unrivalled authority. He has this close circle of cronies, and he has practically unlimited financial power. Any new person would not have this much clout or this much authority, and he would need to account for the interests of various constituencies.

There are many constituencies that are quite powerful in Russia: the bureaucracy; the security apparatus; and the business elite, who have seen the valuation of their companies decimated due to economic mismanagement and the international assertiveness of Russia, and they would like to get back access to international capital markets. In any case, this new person will have to be more inclusive, which will lead to political liberalisation.

Q118 **Mike Gapes:** So are you saying that Putin won't necessarily select his preferred personal successor, and that it will be more mediating the interests of the people around him, so that he chooses the one who will be more acceptable from within that group.

*Vladimir Ashurkov:* That also. These interests have to be accounted for in the selection process, but also after such a person is elected or legitimised by elections. In order to survive and govern the country, he will have to account for many more interests than Mr Putin has to right now.

Q119 **Mike Gapes:** And he would of course also want to protect his own position after anyone else came through, as Yeltsin did when he put Putin in.

*Vladimir Ashurkov:* Yeltsin basically resigned from his post, so he did not do what Putin did: employ this loophole in the Russian constitution to be able to come back after one term of a different President. It is unclear what the new person will do. Since he will have to be more inclusive, I think it will be more difficult for him to repeat Putin's trick.

Q120 **Chair:** How effective have EU sanctions been in changing the behaviour of the Russian Government?

*Vladimir Ashurkov:* Well, they haven't been effective in changing—

Q121 **Chair:** So not at all?

*Vladimir Ashurkov:* No.

Q122 **Chair:** How would you make them more effective?

*Vladimir Ashurkov:* The sanctions consist of three parts. One is personal sanctions against about 200 individuals. I think those personal sanctions can be extended, because there are many more people who are directly responsible for the annexation of Crimea, which was this brutal redrawing of European borders—the first one on such a scale after the Second World War. On the meddling in Eastern Ukraine, the death toll is being counted, but it is around 10,000 people now. So personal sanctions can be extended, and I think they have been quite effective because, for Russian kleptocrats, it is very important that the money and the wealth that they obtain in Russia can be legitimised in the West for property purchases, business interests and so on.

Another aspect of sanctions has been financial restrictions on attracting finances in a number of Russian state-owned companies. They have not been quite effective against these companies because they can obtain financing within Russia from the Central Bank and other financing sources. So I am a little bit conflicted. As a Russian citizen, I would have to be against any sanctions, because any sanctions against Russia lead to some deterioration of life for Russian people. But these sanctions have been quite mild, in that it is self-inflicted damage that Russian authorities have imposed on their population by introducing so-called counter-sanctions, which limit the import of foodstuffs from the European Union and the US into Russia. That has led to deterioration of food quality and food inflation, and this has had a much more negative effect than the western sanctions.

Q123 **Stephen Gethins:** In terms of corruption in the UK, do you think that Russian business people or public officials are using the UK to conduct corrupt business practices? If so, how?

*Vladimir Ashurkov:* London is an international financial centre, probably the most important in the world, especially for Russia. Most Russian money that comes to the UK is a product of legitimate business, but obviously some portion of money that comes to the UK is the proceeds of corruption and crime. Within our own organisation, which is called the Anti-corruption Foundation, we have been bringing cases of Russian-related corruption with a possible nexus in the UK to the attention of the UK authorities for a number of years. We have submitted a number of cases to the Serious Fraud Office and financial regulators, and unfortunately our words have been falling on deaf ears. Hopefully, this will change now because, over the last two years, more and more people have realised that the system of corruption in Russia is not just enriching bankers, lawyers and real-estate agents in countries such as the UK. It is a menace to European security, because it is this system of corruption that enabled Russia to annex Crimea and to meddle in Ukraine. One of the aspects that directly affects European security is of course the downing of the Malaysian plane, which, I think it is more or less confirmed, was done by Russia-backed separatists in Donbass region.

Q124 **Stephen Gethins:** I want to talk to you in a moment about the connections with the

UK authorities, because that is quite interesting, what you just said there; but also, how do you connect what is happening in London, in terms of corrupt practices in London, with the annexation of Crimea? I wonder if you can just expand on that comment.

**Vladimir Ashurkov:** I gave an example of how economic and political corruption works in Russia—the fact that Mr Putin is able to make decisions which are unchecked by a democratically elected Parliament; the fact that he controls vast financial resources, he and his cronies, which can be used to finance, for example, separatists in eastern Ukraine. The connection is as follows, that he can do that because there is no political freedom; there is no political freedom because he built this system of corruption; and this system of corruption, naturally, is exported into the UK.

There are three avenues—three issues that I can name in that respect. One is Russian companies which are used to using corruption in their business in Russia are exporting these practices to the UK. So for UK banks it would be more difficult to compete on the international financial markets when there are Russian banks—for example, VTB, the second largest Russian bank. I can talk, if you are interested, a little bit more on the example of VTB and corruption there. So one is disruption of international competition.

The second is security. Corruption permeates security services in Russia, and one can only imagine—it is easy to predict that dangerous materials and dangerous information can fall into the wrong hands, especially in these times of tensions in the world. It is quite dangerous. The third thing is that the unchecked flow of corrupt money into the west and the UK brings with it the corrupt practices with which this money was earned in Russia and other countries. For instance, political meddling: there was a widely publicised example of financing by a Russian bank of Marine Le Pen's National Front party in France. It was a loan of, I believe, about €20 million—as if that is the right way to finance a political party, through loans.

So we hope that the British Government will take a more principled stance against corruption. I think it is in Britain's interests. We have seen over the last months some steps in that direction, especially in the aftermath of the anti-corruption summit which happened in London in May. We have seen measures that proposed increasing transparency in the property market; making the register of foreign beneficiaries of properties in the UK available to the public; and also efforts to increase the transparency of offshore jurisdictions which have some connections with Britain, like the BVI, the Bahamas, the Caymans, etc. So we would hope that by helping Britain get rid of corrupt money, or at least stem the flow, that would have a positive effect on international security.

**Q125 Stephen Gethins:** So you are seeing some progress from the UK authorities, from what you were referring to earlier on, when you were saying that it had fallen on deaf ears.

**Vladimir Ashurkov:** At least rhetorically, yes. There is another issue that have been tasked with fighting corruption, such as the Serious Fraud Office under the Bribery Act, are quite understaffed and under-resourced, so it is difficult for them to take on

big cases. At the same time, the US agencies such as the Department of Justice, which is enforcing the Foreign Corrupt Practices Act similar—similar legislation in the US—was able to turn the prosecutions of corrupt companies into a money-making machine by agreeing to punitive settlements, so this can be self-financed for UK agencies.

Q126 **Stephen Gethins:** How well do you think the UK policy-makers who are making these policies understand the internal politics of Russia?

**Vladimir Ashurkov:** It is difficult for me to say. Probably not that much. Russia is a significant player, but it is not critical to UK interests. The trade is not that high. I do not think one needs to understand the internal politics of Russia to make co-ordinated efforts in fighting corruption.

**Chair:** Mr Ashurkov, thank you very much indeed. We have run out of time. We are extremely grateful for your evidence.