



Select Committee on International Relations

Corrected oral evidence: Beyond Brexit: the UK and the Balkans

Wednesday 1 November 2017

10.30 am

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Members present: Lord Jopling (The Chairman); Lord Balfe; Baroness Coussins; Lord Grocott; Lord Hannay of Chiswick; Baroness Helic; Baroness Hilton of Eggardon; Lord Purvis of Tweed; Baroness Smith of Newnham; Lord Wood of Anfield.

Evidence Session No. 5

Heard in Public

Questions 50 - 67

Witnesses

I: Dr Jonathan Eyal, Associate Director, Strategic Research Partnerships and International Director, Royal United Services Institute; Sir Adam Thomson KCMG, Director, European Leadership Network; Mr Angus Lapsley, Director Defence, International Security and Southeast Europe, Foreign and Commonwealth Office.

II: Mr Jonathan Mitchell, Consultant, Fox Marble; Mr Michael English, London Southside Chamber of Commerce.

USE OF THE TRANSCRIPT

1. This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of witnesses

Dr Jonathan Eyal, Sir Adam Thomson and Mr Angus Lapsley.

Q50 The Chairman: Good morning. Can I say thank you to the three of you for coming to talk to us about defence matters this morning? You are most welcome. We appreciate you being here. I have some housekeeping notes to begin with. You will realise that this is a public session. It will go out with a video transmission on the parliamentary website. In a few days' time, you will be sent a transcript of the evidence. If there is anything that you think is wrong, we would be very grateful if you would let us know as quickly as possible. Let me start by asking about NATO. We know that NATO, in broad terms, supports membership of western Balkan countries. Apart from that, could you tell us about NATO's influence in the region already and give us an assessment of how effective it is? Who would like to begin?

Sir Adam Thomson: Until a year ago, I was the British ambassador at NATO, so I thought I might have a shot at that question. I guess the first point to make is that four western Balkan countries are members of NATO. In that sense, NATO is continuously present in the region, with Croatia, Slovenia, Albania and now Montenegro as NATO members. NATO is physically present in other parts of the region through KFOR, in Kosovo. It is not just the Membership Action Plans or the Partnership for Peace engagement that sees NATO present. There is also a continuing, if in my view not sufficient, political engagement. So for example the North Atlantic Council has just been to Pristina. The NATO Deputy Secretary-General attends various Balkans forums from time to time.

Dr Jonathan Eyal: I agree with everything that has been said. NATO is involved out of volition and also out of the developments that are taking place at the moment. The volition question is, of course, that countries in the Balkans are members of NATO already, so it is impossible for the alliance to claim that it does not have a stake there. The by-product of the developments in the region lock NATO in in two ways. First, it is impossible to conceive of a successful European Union engagement unless the pillar of NATO is at least made available to the countries in the region. That does not mean to say that every one of them would want to join. The more important thing is that it is in the south of Europe, in the southern flank of NATO, to use the old terminology of the Cold War, that we are being tested by the Russians. I hear a great deal being said about the Baltic states, which are very vulnerable, but the reality is that since 2008 all our confrontations with Russia have occurred in the southern flank of NATO around the Balkan regions. Examples are the Georgia war, the Russian military intervention in Ukraine, the Russian military intervention in Syria and the eastern Mediterranean, as well as the outrageous Russian behaviour in Montenegro last year when they attempted a coup, which is fairly well documented. In technical terms, if NATO does not do something or does not appear to be engaged there, it would effectively concede what Mr Putin wants, which is a division into

spheres of influence and an acceptance of a new border being traced in Europe.

The Chairman: We shall, of course, come on to talk about Russia in a subsequent question. Dr Lapsley, did you want to come in?

Mr Angus Lapsley: Just Angus Lapsley will do. I am not a doctor, I am afraid. Good morning, Chairman. I agree with everything the previous two speakers have said. It is worth remembering that KFOR is NATO's largest operation, and it does not act just as a responder for dealing with any instability that arises. It also has a more active role—for example, mentoring and supporting the Kosovo security force and making sure that that develops in the way that we would like it to.

Perhaps less well known is the fact that NATO also provides the headquarters for the European Union mission in Bosnia, which is commanded through a British general in his capacity as DSACEUR. It is plugged into what the European Union does militarily in Bosnia as well. NATO does quite practical reform work. It has offices in Serbia, Bosnia and Macedonia. It does quite a few practical things, such as assisting with the destruction of old munitions. Its role in supporting defence reform is particularly important. Perhaps we will come back to that in the context of enlargement.

I would agree with Sir Adam on the importance of NATO diplomacy in both directions. For example, President Vučić of Serbia is coming to address the NAC—the North Atlantic Council—in a few weeks' time. Again, we will probably come back to this later, but even if there is little prospect of Serbia joining NATO any time soon, improving that dialogue is quite important.

Lastly, there is a growing demand from allies and European member states to see NATO and the EU work together on strategic communications, which is basically about getting across to the people of the region what Euro-Atlantic integration means for them in the face of a fairly persistent push from Russia setting out a different future for the region. It is a mixture of practical help, a military role and diplomacy.

The Chairman: I just make a point to Dr Eyal that, further north, the Russians have been posturing on the borders of the Baltics and Poland, which has caused NATO to react. We will perhaps come to that later.

- Q51 **Baroness Smith of Newnham:** All the witnesses have talked a bit about the importance of NATO in the Balkans and then moved on to the relationship with the European Union. As the United Kingdom prepares to leave the European Union, there are suggestions that the UK wants to go global and play an important role in the world, but we have heard from witnesses both in this inquiry and in previous inquiries that there is a danger that the United Kingdom will be less influential once we have left the European Union. What role do you think we can have in the Balkans and, in particular, to what extent do you think the UK's membership of NATO is going to mean that we still have an influence?

Let me tag on an additional question. The Government's position paper on the future of security and defence relations with the European Union seemed to suggest that the Government want to stay as close as possible to EU foreign policy. Is that likely to be possible in the Balkans?

Mr Angus Lapsley: I will kick off on this one, not least as I was ambassador to the EU's Political and Security Committee until a few months ago. The fact that the UK will no longer be part of the European Union and therefore not part of the EU accession process, which is so important to the future of the Balkans, undoubtedly changes the way we will be perceived in the region and the role that we might play. Whether it makes us less important is up to us in terms of the kind of role we choose to play.

Going back to very shortly after the vote to leave the European Union, the Government have been looking at the question of what role we should play in the Balkans and have reached a very firm conclusion that it is in our national interests—in terms of protecting ourselves from harm that may come from the region, whether it is organised crime, drugs trafficking, arms trafficking or people trafficking, or whether it is our historic investment in the stability of the region going back to the 1990s—that we should carry on playing an active role.

The NATO aspect of that is important. Apart from anything else, it is a serious matter for us to commit ourselves to the collective defence of countries. That is not something that we should enter into lightly. It therefore means that we have a quite profound interest in their security and stability, and making sure that they are moving in the right direction. I think the NATO side of this does matter. Sir Adam and I were talking about this before we came in. For example, we have already boosted the resource in our mission to NATO in Brussels to make sure that the UK is well equipped to be a thought leader when it comes to evolving NATO policy, not just in the Balkans but in other parts of the wider European space as well.

Leaving the European Union means that if the UK is looking for something specific—some added value that we bring to international efforts on the Balkans—it probably moves us more into the security space, which also fits some of the resources, assets and expertise that we can bring to bear anyway, whether they are on the defence and military side of things or the criminal justice and law enforcement side of things. That is one of the reasons why we have decided that the western Balkans summit, which the UK will host in 2018 as part of the Berlin Process, will have quite a strong security focus to it. In all of this, we are signalling very closely that we want to carry on working with the European Union, both with the External Action Service and with the Commission. I was in Brussels on Friday talking about exactly these kinds of issues, and that is possible.

Dr Jonathan Eyal: I would like to add a few points. First, our reputation as a security provider remains undiminished. I have had plenty of evidence on the ground in the last few months. The interests of Ministers, as far as I can see from outside the Foreign Office, remains undiminished.

In fact, the Foreign Secretary has just attended a commemoration or celebration of the 180th anniversary of our diplomatic relations with Serbia. That is not something he needed to attend but he did make a point of doing so, as a message.

Whether we will be successful in maintaining our footprint depends largely on us. I do not think we are being underestimated by any in the region. I think we are being taken very seriously. Whatever level of membership or associate relationship the European Union provides between now and 2025, which will be the earliest a country could be considered for membership of the European Union under what Mr Juncker said, I do not see for a moment how the European Union could claim to be the chief provider of security in the region. In many respects, we hold all the cards. My doubt is whether Ministers will have, to use internet language, the necessary bandwidth to continue. They will have a lot on their plates when it comes to recasting Britain's international law, but there is nothing automatic about us being written out of the plot.

The Chairman: Sir Adam, do you want to come in?

Sir Adam Thomson: I have very little to add. It is worth underlining that, just as security is not the only area of British concern in the western Balkans, so NATO is not the only channel for British influence in the western Balkans. Angus Lapsley has referred to the Berlin Process. There is also the UK-Germany bilateral collaboration over Bosnia-Herzegovina, for example. There are many bilateral opportunities for the United Kingdom.

One small point—I do not know whether it is shared by the Foreign Office—is that in the region Brexit has been seen as a setback, partly because there is a fear that, with the United Kingdom gone, there will be one voice fewer in favour of EU accession for these countries. It is, perhaps, for the United Kingdom to consider as it moves out of the EU whether it can counter that impression.

Lord Grocott: I wanted to ask a question about NATO, and perhaps I can in a moment, but the discussion has moved on so much to the EU. I was very interested to hear two or maybe three of you saying that the influence we have post Brexit will depend on the decisions that we make in this country more than anything else. With your vast experience as far as EU enlargement is concerned, Mr Lapsley, I would like to ask you this question.

One of the anxieties that we encountered on the visit that the Committee made recently to the region was that they felt, as Sir Adam said, that somehow us not being a member of the EU would be disadvantageous to them in terms of EU application and the speed with which they might accede. Mr Lapsley, would it be thought within the EU that, somehow or other, Britain not being there would slow down the possibility of the western Balkan states that are not members of the EU joining the EU? Or is it a question that it is one voice among 28 and it is unlikely to make much difference?

Mr Angus Lapsley: It is not a straightforward question to answer. The first point is that us leaving the European Union is one of several big things that the European Union is now grappling with, along with the future of the eurozone, migration issues and now Spain as well. To take Dr Eyal's point, there is a bandwidth question for the European Union that probably does have some impact on enlargement. My interpretation of what President Juncker was trying to do a few weeks ago when he put enlargement back on the table quite vocally was to try to redress the sense that the European Union just would not have the time, political energy and will to do it. In that sense, what he said is very welcome.

Secondly, there probably are some countries in the European Union that have been supporters of enlargement but have been used to us making the case, who are now thinking about how they step up and become a little more vocal. That is one effect that we have already started to see.

The third question is one that will play out over a slightly longer time. One of the roles that the UK had traditionally taken on the enlargement process was to say, "Look, we are very much in favour of getting all the countries in the western Balkans into the European Union, and by that we mean all of them, but that means you have got to tackle the difficult political questions around the relationship between Serbia and Kosovo, the functionality of Bosnia as well as the name issue for Macedonia, all of which are a problem for the NATO enlargement process as well". Probably the toughest question is, who will step into the role of forcing the European Union to try to tackle those very knotty political questions? I think the answer is probably Germany. We work very closely with Germany already. I believe that what will not work is the European Union simply saying, "Look, we have a nice open door; that is fine, and as soon as these countries are ready they can join". We will have to be more active in trying to solve those deep political problems.

The Chairman: Lord Hannay, do you want to come in?

Lord Hannay of Chiswick: Please. First, I was slightly surprised at the characterisation of President Juncker's latest statement on enlargement as being welcome and an encouragement. It seems to me that telling these countries that they will not join by a date quite some way off in the future is not the best way to encourage them to go through the nitty-gritty task of making the changes they need to make if they are to fulfil the Copenhagen criteria.

The question I wanted to ask you was a quite different one. Do the three witnesses before us recognise that in this part of the world, which is not unique, manipulation and playing one off against the other is a national sport? If so, do you think that there is not a risk that, when we leave the European Union, vigorous attempts will be made by quite a lot of people in the region to play us off against the European Union on certain matters, one being tougher than the other on something or weaker than the other on something, and that sort of thing? If you think that is a risk, what do you think is the best way of preventing it?

Dr Jonathan Eyal: Lord Hannay, can I go, first, to your observation about Juncker? It is a classic case of a half-empty or a half-full glass. The perception in the region was that the European Union was not interested and that the process of enlargement had thereby stopped. While you are right that giving a tentative date, implying that nothing will happen in the term of the Commission coming up now but that it could happen in the middle of the next decade, may sound like a put-off, at the end of the day it is, paradoxically, a half-full glass in the sense that it reiterates the readiness of the Union to enlarge.

Some countries love to talk about enlargement but dread what needs to be done. There is the famous Article 35 in the accession negotiations of Serbia and the European Union, which demands a settlement of the Kosovo question. It is a classic case of "Please God, make me good but not yet". They know they have to deal with it, but they would quite like the idea that it is kicked into the long grass. What I am saying is that it is much more nuanced.

On the subject of them playing us off, I have absolutely no doubt that they will try to play off institutions. This is one of the big questions about Brexit. I dare say that countries such as China may try to play us off against the European Union in the future as well. It is one of those areas that would require resisting temptation by both Brussels and people in London. As far as the Balkans are concerned, the danger is less important because, to be brutally frank, these countries in most of the dossiers are demandeurs. Therefore, they do need the NATO input. Bosnia most certainly does; Macedonia most certainly does; and Kosovo most certainly does for the reasons that we have heard. They do need the European Union input for all the obvious reasons. The room for manoeuvre may be less. In diplomatic terms, they may play a few games, but in practical terms I doubt how much they could play it.

The Chairman: Does any other of our witnesses want to come in?

Mr Angus Lapsley: On the "playing us off against each other" question—I agree with what Dr Eyal said about President Juncker—we have had this problem a little already with occasional attempts to play off the US and the EU together, and we solve it most of the time through having informal networks of very close co-operation between the big four European countries and the Americans in what is called Quint format, with the EU involved as well and sometimes NATO. That is absolutely critical. It is that informal, small-group diplomacy that underpins what the NATO and EU structures are doing, which we absolutely have to preserve.

The Chairman: Let us go back to the issue of Russia.

Q52 **Baroness Coussins:** I want to come back to the question of Russia's role in the region. Dr Eyal, you have mentioned several examples of disruptive interventions, to put it mildly, in recent years. There are clearly unresolved tensions between Russia and NATO that remain. If other countries in the western Balkans achieve NATO membership—we

certainly heard on our visit to Kosovo and Macedonia that NATO membership is a much greater priority than EU membership in many people's eyes—what would you expect Russia's response to be to further expansion of NATO, if it is possible to expect any predictability?

Dr Jonathan Eyal: Let me say a few words. I am sure that Sir Adam has plenty to say. Russian policy in the region is to disrupt NATO and to divide Europe. That technique will continue and that is the bottom line. There has been some serious positioning of Russia in order to allow them to maintain their influence. They have established all kinds of funny organisations, particularly in Serbia—Obraz is one—and then disbanded them. There are a variety of them. The Russian Institute for Strategic Studies, which some would doubt is full of think tankers, has established a branch in Belgrade for this purpose. There is an Institute for Democracy—the old names are always the best—in Niš in Serbia that has been directly implicated in the attempted coup in Montenegro. There is a lot of discussion.

The Russian 2016 National Security Strategy talks about the Slav solidarity in terms that would have been very familiar to Tsar Nicholas II, circa 1890s. In that respect, it is there. How much they can actually do, I am not sure. If you look at it in terms of how they reacted to Montenegro, Montenegro is not very important to the Russians, but they played a very hard game, and they did so in order to make the point that they have succeeded in imposing a veto on how far NATO extends and what it does. Once they have done that, they would win an important victory, which is the division question—the spheres of influence question. I suspect that they will fight very hard on that one, although it is fair to say that when Croatia and Albania were admitted into NATO the Russian reaction was minimal, but that was then and this is now.

Sir Adam Thomson: Just to build on that, it may be helpful to say two things. One is that the Russian behaviour is genuinely felt. The Russians genuinely see it as unfair and inimical to their interests that NATO, in particular, and the EU, to a degree, should be extending their sphere of influence in the Balkans. Russian investment in Serbia, for example, is born of genuine feelings about Serb nationality, and ethnicity to a degree, as well as geostrategic interests. While it is, certainly from a NATO point of view, easy to see Russian activity as malign, it is real and driven by Russia's sense of its own interests, not just about doing down NATO for the fun of it.

The second point I would like to underline is that it is too easy to paint the dynamics in the western Balkans as a West/Russia competition. That is certainly one of the things that is going on, and it is now undoubtedly going on with much greater vigour than it was a few years ago, but there are so many other things at play. We will come on to talk about Turkey, and that will lead us on to the question of Saudi and Qatari influence in some countries, for example. There is the interplay of nationalities in the region. There are other threats to the stability and security of the region than those which we think Russia might provide, such as migration, returning foreign fighters, organised crime or whatever. It is worth

making this point because, if NATO Governments dwell too much on a NATO/Russia competition, they are unlikely to be doing any favours to stability in the region—or, indeed, even to NATO's interests, which I suggest need to be played in a more nuanced way than a straight black and white West/Russia competition.

Mr Angus Lapsley: Let me make three quick points. I agree with all of that. First, you can differentiate a little between how Russia sees each of the four countries left who have not joined NATO, with their political, emotional and economic links to Serbia being much the most important. They might not treat each country in the same way.

Secondly, it is very striking how much better Russia is at telling its story in the region than the EU, NATO or the western allies. When you ask Serbs in particular, "Who invests most in your country? Who provides the most security support to your country?", there is a strong tendency to say, "It is obviously Russia, is it not?", when in practice it is almost overwhelmingly the other way round. That is a challenge for both the EU and NATO.

Thirdly, to pick up on Adam's last point, we do need to talk to Russia about this region, we should engage with them and there are formats in which that happens. For example, Russia is still very much part of the Peace Implementation Council in Bosnia, following on from its Dayton commitments. We have to be clear with Russia that we recognise that they have legitimate political, human, cultural and economic interests in the region.

What is not, in a sense, tolerable for the West is that they regard countries in the region as client states or that they seek to deliberately weaken them in order that they are not functional and, therefore, that they are easier to penetrate in terms of corruption or whatever. We do not want weak states in the Balkans. We want strong states that can look after their own national interests.

Lord Grocott: It would be nice to have that point developed a little about working with the Russians or talking to the Russians. I cannot remember precisely what you said about the region. Again, picking up on Sir Adam's point about the West being a bit nuanced about Russia in terms of the western Balkans area, for most of my lifetime that whole area was a non-aligned area. I know that many somersaults have been performed in eastern Europe and south-eastern Europe in the last 20-odd years. My broader question about NATO is this. Is it a sensible question to ask what NATO's strategy is so far as the western Balkans is concerned? By that I mean is it—evangelical is the wrong word—one of actively wanting these countries to join NATO or is it one of it really is up to them, bearing in mind, of course, that a number of these countries do have a non-aligned background, particularly Serbia? We have to bear in mind that it is not that long ago that one of these countries was bombed by the West. That is my question. Is it up to them whether they wish actively to seek membership of NATO or is it something that NATO would actively seek to encourage them to do?

Dr Jonathan Eyal: NATO is not an amoeba. It does not need to grow in order to grow. The justification for NATO cannot be growing. That in itself is not a justification. There is no question of countries being forced to join the alliance. There is no doubt that, in the case of Serbia, there is very little support at the moment for joining the alliance. If that is the case, let it continue.

I, personally, have misgivings about Montenegro as well. The reality is that, in the case of Montenegro, only 46 out of 81 MPs in the national parliament have voted for NATO membership. It is a majority, but it is not the kind of majority that obtained in any other country that joined NATO, usually with enthusiastic support. It is a controversial institution, you are absolutely right. If it is a controversial institution, it should stay out of membership discussions. It is a fact that it is the only, to use the old cliché, exporter of security in the region. It does myriad things that nobody else can do. For instance, only last week NATO did an exercise in civil defence with the Serbian Government. Whatever you think of the Serbian Government, in terms of civil defence for emergency situations, this is clearly a good thing to do. In terms of defence reform, putting politicians firmly in charge of military establishments, separating security services from the military and creating a democratic functioning society, there is no other institution that has the capabilities of NATO.

I would take the black and white admonition in a different way. Perhaps the discussion is too black and white in terms of what NATO can do. NATO does not need to end up with membership and still be a useful functional institution in the Balkans. Otherwise, I accept all your points.

Sir Adam Thomson: To the extent that you can characterise NATO as having a single position when it is 29 different allies, what still drives the organisation is a concern for stability, security and, to a degree, prosperity in the western Balkans. It is not about getting more people into the organisation. But NATO, quite naturally, tends to think of itself as a rather good thing, and that, if you belong to it, that does make a real contribution to stability and security. The process of travelling towards NATO membership makes a real contribution to that stability and security. NATO is quite committed to what it already does in terms of engagement, as Dr Eyal has described it, in the Partnership for Peace programmes, which even Serbia joined as early as 2006, and in a Membership Action Plan for Bosnia-Herzegovina and Macedonia. But it is not driven by a concern simply to get these countries into the fold. It is a different objective.

Mr Angus Lapsley: I totally agree that it is up to the countries themselves whether they see NATO as their future. As Dr Eyal says, it is perfectly plausible that Serbia will not for a long time, or may never, see NATO as its future. Of course, western Europe has examples of countries that are members of the European Union but not of NATO but who make a broad contribution to stability. Sir Adam will remember that it is one of the truisms of life in Brussels these days that the Swedes are among the best NATO allies, for example, even though they are not part of NATO.

Secondly, getting into NATO is a lot less demanding, in some ways, than getting into the European Union. It does not have the same broad and deep *acquis* on economic, social, environmental and these kinds of policies. If you are trying to move your country towards the West, it may be an a waypoint that is quite important to you and which helps encourage reformers in your country to say, "We are getting somewhere, even if we are still quite a long way", as President Juncker said, "from joining the EU".

Dr Jonathan Eyal: I am prompted by Mr Lapsley's comment. There is considerable statistical evidence that I can provide to the Committee that membership of NATO for the countries of central Europe has encouraged and sustained membership in the European Union: namely, that investments increase considerably for countries joining NATO even before they join the European Union. In relation to countries such as Romania and Bulgaria, for instance, there is considerable evidence that investors are reassured by the completeness of the European membership package. It does not mean to say that this will be persuasive for Serbia, for instance, but it does mean to say that this is an element that needs to be brought into account.

The Chairman: Thank you. I am very conscious of time. We have a lot more questions and we have another raft of witnesses to come, so we are going to have to try to move a little quicker, if we can.

Q53 **Lord Balfe:** My question has, more or less, been asked. The only point I wish to add is: do you have any hierarchy of preference of the western Balkan nations that are not in NATO to join? We have pretty much put Serbia on one side. Do you have a hierarchy?

Sir Adam Thomson: Very quickly, it is the art of the possible. Macedonia, of those not already a member, is closest to membership, although receding, regrettably.

The Chairman: We are coming to Macedonia in a few moments. Let us move on.

Q54 **Lord Purvis of Tweed:** My question follows Dr Eyal's point. What impact has membership had on the existing members? It probably is too early to tell with Montenegro, but what is the impact of membership of NATO between those countries and their neighbours? Have you determined what an impact would be? Is there a wider impact of membership beyond a pure defence relationship with other NATO allies?

Dr Jonathan Eyal: That is a very big question, but let me highlight a few points. There is considerable evidence from other countries in central and eastern Europe that membership of NATO tends to attenuate rather than eliminate any tensions that exist between them. For instance, the latent tensions between Hungary, Slovakia and Romania would have become unmanageable had it not been for NATO membership. In many respects, it does not address the question but it suspends them on a political rather than any military level.

The same applies in the case of the countries in the Balkans. It does not eliminate problems. Croatia and Slovenia have notably continued problems over the border demarcation, but it elevates them to the political level, which is, very often, the only thing we can do and it is a very honourable achievement to reach. It also gives a certain level of parameters to a country that otherwise would be much more unstable, Albania being the classic one, and probably Montenegro as well. Either way, in the case of Montenegro, where you have a military of about 2,000 or 3,000 soldiers, the balance is overwhelmingly in favour of Montenegro joining the alliance. There is plenty of evidence that it tends to remove the military question from the equation, which in the case of the Balkan states is probably the biggest contribution.

Mr Angus Lapsley: It is worth remembering that NATO is a military alliance. We have seen Albania, in particular, become quite an active member of that alliance and a bilateral partner of growing importance. We are now conducting exercises with Albania in a way that would have been inconceivable just a couple of years ago. So that transformational effect can continue after you have got through the door.

Q55 **Baroness Helic:** You may have already answered this question but I have to ask it. There are countries in the region that still have, if not animosity, tension between them, and there are countries in the region that have internal tensions with them, particularly when it comes to a choice of whether or not to join NATO or pursue the possibility of joining NATO. A previous witness said that having these countries in the alliance might be described as “consumers of stability that are in the alliance rather than producers of stability”. Would you agree with that description or statement?

Sir Adam Thomson: If I might answer that, that is a reasonable point to make about NATO membership in general. You could point to Turkey, for example. It is in a very difficult environment. The way that that situation has tended to suck NATO in, even if it is only over shooting down Russian aircraft, is an example of how a member inside NATO can consume NATO security capacity. I see it less, personally, in the Balkans, partly for the reasons that the two other members of the panel have described about the way in which NATO membership takes the military out of the equation on the whole. Partly it is because, in the hypothetical event that other western Balkan nations joined the alliance, they would be in an environment that was not threatening to them and that did not provide borders that were likely to get NATO into trouble. On the contrary, having new members, even if they bring with them animosities with other members, tends to dampen down those animosities. Look at the long history of the relationship between Greece and Turkey.

Dr Jonathan Eyal: Let me add—I am always diffident in answering Lady Helic because she has a lot of personal experience of the region—that there is a tendency to become a consumer of security rather than a contributor after you join NATO. Sadly, historically, all the countries that desperately knocked on the door, the moment they entered NATO, slashed defence budgets. That is a fact. Everywhere, including Poland,

quite rightly, is very proud of its defence contribution. There is also a story of how NATO can reimpose a community spirit and can force them. There is the example of how we went out of the trough in defence expenditure in the new member states and back on to a level where they take responsibility. An example is of the Baltic states accepting that they have got to be involved in the security of south-eastern Europe. It was not easy to persuade them, but they have taken to it with some measure of alacrity. That indicates that probably the instrument—the danger exists exactly as Lady Helic says—of NATO membership is still the most adequate one to try to address the danger.

I do admit that the problem of Serbia will be exceedingly difficult. It is by far the biggest in the region. It feels that it is entitled to be treated as the biggest in the region and it has the most emotionally charged baggage with the alliance. So, accommodating Serbia would be a different proposition altogether. As far as the others are concerned, the balance of the ledger would be positive rather than negative.

- Q56 Lord Hannay of Chiswick:** In the framework of the response that you have already given of the countries that are not yet members of NATO, I want to turn to Macedonia, which is the most advanced and hopeful. Do you have any thoughts on ways in which Macedonian membership could now be advanced? Could it progress without the name issue being resolved? Are there any other obstacles to Macedonian membership? How could the UK contribute? Obviously, this comes up against the question of Greek objections to the name "Republic of Macedonia". We had a useful session with the new Macedonian Foreign Minister in which some hopes were expressed that a way would be found of solving the NATO problem well in advance of solving the EU problem.

Sir Adam Thomson: I cannot myself see a way forward without addressing the name problem. NATO's formal position is that an invitation to membership is on offer as soon as the name problem is resolved. It is absolutely accepted in the alliance that that is the obstacle. Maybe there are roles for the United Kingdom alongside the United States and the European Union in addressing this issue. The US and the EU were active at the end of last year in brokering political deals inside Macedonia, and I believe that the Americans have also engaged the Greeks on the name issue, but the name issue has to find some resolution. It is very difficult, in other words, to imagine a NATO summit statement saying that the name issue no longer matters, unless Greece transforms its position. Are there other obstacles? Yes, regrettably. The failure to bring Macedonia into NATO is one of the significant contributory factors to a backsliding on governance in Macedonia. That deterioration of governance is now definitely a factor in Macedonia's application for NATO membership. It will need to be addressed alongside the name issue, not as a formal matter but as a practical political one.

Lord Hannay of Chiswick: Were you talking about the previous Macedonian Government or the present one?

Sir Adam Thomson: Either. The difficulties and instabilities in Macedonian politics are a concern for a number of NATO allies. While we have said, quite rightly, that countries join NATO only if they want to—that is obvious—it is also the case that they do not get to join NATO unless the 29 existing members think that that is a good thing.

Mr Angus Lapsley: I hesitate to be a voice of optimism on a problem that has been with us for 20 years or so, but the change of government in Macedonia raises the prospect that they might be able to reach an agreement with Greece on the name issue, and the Greek Foreign Minister himself has recently said that there may be a window of opportunity. If there is anything that we, as the UK, can do to help realise that opportunity, we will seize it. I would not want to put any percentage chances on a breakthrough, but they do look marginally higher than they have for a while.

Lord Hannay of Chiswick: Do you think that next year's July summit—the Berlin Process—has any role to play in this matter?

Mr Angus Lapsley: We will help if an opportunity arises that looks as though it might be useful, but it is not an issue that the UK can pick up and run with. It would need to be something that the parties wanted us to help with. There are several events next year, including the Bulgarian summit on EU accession, our summit and a NATO summit where there might be useful moments to come together on this.

Q57 **Baroness Hilton of Eggardon:** You have largely answered the questions about Serbia and NATO, but do you think that their attitude to NATO is predominantly because of Russian influence or because of having been bombed by NATO, or is it a combination of the two?

Dr Jonathan Eyal: As always, we are trying to ascribe to a particular nation an attitude. It is a complicated matter. I definitely think that there are some Serbian politicians who have an emotional aversion to NATO because of what happened in 1999, but also what happened in 1995, namely, the Bosnia operation, and because some of them are close to the Russians, either in political terms or very often in financial terms. I also think, however, that the political elite in Belgrade—unfortunately, that includes even President Vučić—very often plays the Russian card against us and tries to persuade us that, unless we move very fast and we buy the bargain, there is another purchaser. There is an element of a bazaar there, which we should confront—and confront directly.

I do not buy the argument of an emotional attachment to Moscow. After all, as the Lord Chairman reminded us, this was a country whose military was preparing for a Soviet invasion until 25 years ago. So, the idea that they are having a love affair with Moscow is fanciful. Nevertheless, they are playing that card. It is true that it is difficult to go around Belgrade without seeing a crater here and a stump there of a building that was bombed in 1999. It is difficult for politicians to persuade the public. There is not a consensus in Belgrade about NATO and that is absolutely fine.

The real consensus should be about the level of co-operation that we can achieve between us.

The Chairman: Let us move on to talk about Turkey.

Q58 **Lord Wood of Anfield:** Turkey's official position on NATO expansion seems very positive in the region. It is in a complicated position by having a relationship with Russia that is different from other countries. Also, it has a strained relationship with the US and Germany at the moment. It also has relationships with other Middle Eastern countries. How clear and how unhelpful or helpful is Turkey's position on NATO enlargement in the region?

Mr Angus Lapsley: Turkey, as you have said already, is consistently supportive of NATO's presence, NATO's role and the prospect of enlargement in the region. It also plays quite a significant military role in KFOR and it is the second largest contributor to the European Union mission in Bosnia. It is there and it is contributing in a positive way. What is more difficult is when Turkey takes policy positions sometimes on Balkan issues that are deliberately designed to set itself apart from the West. It makes statements like "Kosovo is Turkey", which is designed to suggest that in some way the EU and NATO are treating both of them equally badly. That is not helpful. Turkey is, historically, an important player in the region. This is something that we talk to the Turks quite a lot about. Indeed, I will be doing exactly that in Ankara in 10 days' time.

Sir Adam Thomson: I agree with all of that. I do not have very much to add. I observe that, whatever Turkey's current relationship with Russia is, it has been up and down, and it is capable of both warmth and very considerable difference, currently. Surely, one of the drivers for Turkey about its engagement with and support for NATO membership has nothing to do with Russia and everything to do with Muslim identity.

The Chairman: Let us move on to our final question.

Q59 **Baroness Helic:** A big player in the region is the United States. Whatever people say, they have been present since 1995. I think that 30,000 US soldiers were part of the SFOR—the stabilisation force. The engagement continues through KFOR. We have been told that there is a lesser interest coming from Washington towards the region. If this is the case—although it is easy to argue against that, considering that they have had a major role to play in stabilising Macedonia and that they continue to be steadfast, and to have a very clear policy towards Bosnia—what do you think is the influence of the United States upon any kind of association or further membership of the regional countries in the alliance?

Sir Adam Thomson: I am less of an expert than the two other panellists here, but it is considerable. My impression is that US engagement diminished in the 2000s, in particular in the first Obama Administration. But we have seen substantial US re-engagement more recently, as you have set out. There is clear evidence that that really matters. You have pointed to the US role alongside the EU on stabilising Macedonian politics,

for example. In other words, it is not just through NATO that the US influence is expressed.

Dr Jonathan Eyal: It is no secret that Germany had big misgivings about Montenegro becoming a member of NATO. That is why the issue was postponed by at least a year when it was first discussed. The Americans have maintained their position and the Germans turned around on this issue. As far as evidence on the ground is concerned, the broad outlines of America's position have remained unchanged. One needs to bring into the equation also the growing military presence of the United States in Romania, for instance, near the Black Sea, and the particular attention that the Americans are paying to Turkey for all the reasons that we know of. For many practical reasons, the interests will not diminish. Of course, there is the broader question about the priorities of the Trump Administration, but that is a subject that is broader to all of Europe.

Mr Angus Lapsley: I would agree with all of that. It has been a while since this region was at the top of any President's in-tray. Vice President Pence has been engaged in the region during the past couple of months, much as his predecessor was. The new Assistant Secretary for Europe, Wess Mitchell, whom I saw in Washington last week, went straight to the region as one of his priorities.

To come back to something we were touching on earlier, when it comes to the really tough political questions, such as what is the nature of a future settlement between Serbia and Kosovo and how does Dayton Bosnia hold together, those are questions where the Americans still have a really important role and are still listened to, respected and looked to within the region, in particular in Kosovo but not just in Kosovo.

The Chairman: Thank you. Do any of my colleagues want to come back on anything? I see none. Thank you all very much indeed. You have enlightened us enormously. We very much appreciate it.

Examination of witnesses

Mr Jonathan Mitchell and Mr Michael English.

Q60 **The Chairman:** Mr Mitchell and Mr English, thank you very much for coming. We are looking forward to talking to you about trading with the western Balkans. To begin with some housekeeping points, you will realise that this is a public session although I see no members of the public here, but you are being televised. This meeting will go out on the parliamentary website as a video. We will take a verbatim transcript of what has been said. In the next few days we shall be sending you a transcript to check it for accuracy. If there are any corrections that are necessary, if you would be kind enough to do that as soon as possible, we would appreciate that.

Perhaps I can begin with a general question and ask you to talk to us about your experiences of trading with the western Balkans, and to what

extent there is a difference between the various countries of that region. It is a very general question, but I think it starts us off well.

Mr Jonathan Mitchell: As a precursor, my experience is investment rather than trade. The western Balkans is a tiny market for UK trade. If you are selling something unique such as a Land Rover, then, great, but if you are selling something that is manufactured in the UK that is not unique, UK manufacturers—exporters—struggle to compete on price. We have direct experience of that at Fox Marble with some cranes, where a UK manufacturer simply could not compete. But we do have pretty extensive experience of investment, and the western Balkans is a huge potential investment market for the UK, so it is very good for UK plc from that perspective. If you are content for me to talk about investment rather than the buying and selling aspect of trade, I will continue to talk about it.

The Chairman: Of course.

Mr Jonathan Mitchell: My main focus is Kosovo, but we also do business in and with Macedonia and in Albania. We can see, at the very top level, some pretty profound differences between those three countries. My experience does not extend further than those three countries in the western Balkans. I should say that right now. In Macedonia, there is a pretty labyrinthine bureaucracy, but it is a state. It runs as a state and things work. There is corruption but it is possible to get round it reasonably easily if you are trying to run a foreign business in the country. Once you know your way round the system, you can pretty much make it work for you. The same applies in Albania. Again, it is a state. The organs of state pretty much work. Again, there is corruption.

Get to Kosovo and the state of affairs is entirely different. Kosovo has quite an impressive statute book. It has commissions, committees and goodness knows what to try and make the place work. It is even capable of getting some pretty good business metrics out through the World Bank, as it did today, but actually trying to do business there is extremely difficult. It is who you know, not what you know. If you are a UK plc quoted on the London Stock Exchange Alternative Investment Market, as we are—we have to do everything according to the highest standards of western business legal compliance and governance—it is a very difficult place to work indeed. It is perfectly possible to do it—we do it, and business is going pretty well right now—but there are overheads that you have, principally in managing the compliance side of things.

The Chairman: Thank you. Mr English, do you want to come in?

Mr Michael English: Yes. I also come from a business development side, but again it is trade. I have been working in Macedonia for about 10 years now. I know the country well. I was the person who introduced Johnson Matthey, which is one of the big companies in the UK, to Macedonia, which is 10% of their GDP at the moment. I did not find any evidence of corruption there but I know it does go on. I arranged and

took a trade mission to Macedonia and Kosovo earlier this year, but the difference between Macedonia and Kosovo from a trade point of view is most interesting. I found Kosovo more vibrant. It was evident when we went there that they were keener than Macedonia to trade with us. Macedonia, through the years of the previous Government, has been sat on, effectively, but Kosovo, at the moment, is quite vibrant. My colleague has more experience there than I do, but I am quite impressed. Opportunities exist for UK companies. Likewise, there are opportunities for Kosovo companies in the UK. That is my very short answer.

The Chairman: Thank you. You both mentioned corruption. Let us start with that.

Q61 **Lord Purvis of Tweed:** Good morning. Following up on what you have said—although it is a shame to start with negatives, to some extent—on corruption, it is interesting to note that all the countries in the western Balkans during the past year have fallen dramatically in the Transparency International perceptions of corruption. They are all around either half or the lower half of countries in the world, whereas even last year and the year before they were much higher. How much is either the reality or the perception of corruption preventing UK businesses seeking trade in the area? Just to add, we have received evidence from the Department for International Trade, which says: “We can confirm that the DIT has not been approached to assist with work on corruption in the western Balkans and, in general, have not undertaken any specific work or research on the issue”. The second half of my question is, if it is a barrier, what do you think the DIT should be doing, if anything at all?

Mr Jonathan Mitchell: I am not sure that I would say it is a barrier to UK business in the Balkans. It is a drag on business. It is endemic. It is within the systems. It is much more apparent in the systems in Kosovo than it is in Albania or Macedonia, but it nevertheless exists in those states. It is worth saying that the western Balkans is probably the rumour centre of Europe. One hears about some really quite blatant forms of corruption. We, in Fox Marble, have some direct and written evidence, which we are working out what to do with at the moment, concerning the Kosovo Central Procurement Agency. If you know it exists and you have the appetite to manage it, if the investment and trade potential is such that you can build managing it into your business model in a compliant way, there is ample scope to work in the region, but you do have to build it in. You have to accept that it will be a drag and that you will have to work around it, with it and not succumb to it. There are many misapprehensions about what corruption is. Is it somebody saying, “I want 30% of your business,” and we have had that kind of conversation with vested interests? We no longer have it in Fox Marble, but we are expecting it again for our expansion plan. That kind of blatant corruption is not what we see day to day. We see it around trying to get services and finding that the methodology for getting services has somehow been tampered with. There is a vested interest sitting on some process slowing it down. It has taken us a very long time to establish the Fox Marble processing factory in Lipjan, central Kosovo, partly because processes are

slow and because probably some of that slowness is corruption. I could not prove its existence in a court of law but I am pretty sure it exists.

Mr Michael English: In talking about Macedonia, much of the recent foreign investment that has gone into Macedonia has gone into the free-zone areas. They are almost protected from corruption, although the security company you are being asked to employ is probably owned by the cousin of the prime minister or something. That was under the previous Government. Everybody is hopeful that things will change under the new Government. I know that Johnson Matthey has never been approached on that side.

Baroness Coussins: When we visited Kosovo and Macedonia, a number of witnesses mentioned e-procurement to us as a new mechanism that was being introduced to try to tackle corruption, although in Macedonia we spoke to many people who were very cynical about even that, and said that people had already worked out ways of getting around that and sustaining corrupt activity. Have you come across e-procurement, what do you think of it and does it have any mileage in tackling corruption as part of an anti-corruption package, which, of course, Kosovo and Macedonia will have to pursue if they want to join the EU?

Mr Michael English: I have not come across it, but I know that the EBRD last week introduced it under its procurement processes. I try to work closely with the EBRD on other projects, so it will be interesting to see if the companies will adopt that approach. On e-procurement, I have not been involved with that.

Mr Jonathan Mitchell: I am aware of it from my days as a former British government official. It would be extremely useful, but it is probably one of a package of things that would be useful. The issue is the absence of transparency around such things as state procurement systems and pressures that can be brought to bear on an otherwise quite well-designed system by vested interests, and how you deal with that. That is the problem in Kosovo. We have evidence of that in our particular issue with the Kosovo Central Procurement Agency. We are still working out with the British ambassador and, very soon, with the German ambassador, how to get maximum mileage out of it.

Q62 **Baroness Smith of Newnham:** In moving from corruption to other issues that may be a problem for the United Kingdom and its potential for trading and investment in the Balkans, let me deal with the suggestion that the public sector is rather bloated and that there is a large grey economy that is preventing the private sector from flourishing in the western Balkans, which might raise some questions about whether this is a region that we want to be thinking of investing in. Is this something you have experienced? Is it changing and can anything be done about it?

Mr Michael English: Again, Macedonia and Kosovo, I believe, are the same, and to a certain extent Croatia as well. I know there is hope in Macedonia that, with the new Government, things will change. If you reduce the number of government employees and so on, where do they

go? What business can they go to? Can they set up on their own? There is very little money there. The average salaries are between €300 and €400 a month. Where do these people go? How are they supported? If you look at the education system, people are coming out of university, yet there are no jobs for them and all they want to do is to get into Europe. So, you reduce this bloated bureaucracy, but then how do you fill the void?

Baroness Smith of Newnham: So you just increase unemployment.

Mr Michael English: Exactly. We are hoping that in Macedonia, with the new Government, things will change. It will take time. Let me put it that way.

Mr Jonathan Mitchell: I completely agree with Michael. Bloating in the public sector is a symptom of limited economic development and limited alternative opportunities. We see it in two areas, one of which is minor but it is a factor, nevertheless, in Kosovo, and one of them is rather more significant, again, primarily in Kosovo; so please forgive me for keeping coming back to that particular point. The minor area is that it creates an artificial upward pressure on salaries, which are quite low. One of the things that makes the region very competitive for investment is low salaries. It means that production costs can be kept well and truly in check. If you are coming in with British investment, that is quite a significant issue. There is this upward pressure. It is not something that has affected us as a business, but we are conscious of it and we can feel it. Sometimes it has an impact in that, if you are going for a particular member of staff, they get sucked away by the public sector to go off to be an adviser and do precisely nothing.

The other area that is much more difficult is that the bloating of the public sector in Kosovo is a way that the vested interests ensure that they can continue to operate. You bring in your friends and relatives and put them into key jobs. We are seeing it happening right now. How do you stop it? As internationals, I am not sure that we can. It is about the appetite of local leaders to do that, and if they are the ones who are putting people in key positions it is a bit of an issue. I would not go so far as to say that it is massively holding us back, though, but it is something you know is there and you work around it. It is all to do with the basic corruption issue, the rule of law and country risk that you have to manage.

The Chairman: Following on, Lady Helic, would you like to come in?

Q63 **Baroness Helic:** Thank you. You have described the way that corruption works in terms of family, friends and patronage being brought in to sustain the individual in their political or other positions. What steps do you believe the UK and other countries should be taking to try to help to tackle this level of corruption?

Let me give you one example, if I may. A few years ago, the then Foreign Secretary, William Hague, suggested to the Bosnian Government that

they sign up to the open government transparency project, which really opened up exactly the issues that you have been referring to, such as the procurement process, employment and so on. Has anything been done so far, which you have seen, that has been successful in improving the situation? Have there been any attempts? Is there anything that you would take out of your book and say, "If these three things were to be done in a sustained and focused manner, we would see a positive change"?

Mr Jonathan Mitchell: If the open government initiative were introduced in Kosovo and if the Government of Kosovo signed up to it, it would have a very profound impact. It would be completely countercultural. It really would bring about a deep and powerful systemic change, but the big "if" is if they signed up to it, because a lot of people would see that as a direct threat. Therefore, they would be unwilling to. As with Macedonia, Kosovo also has a new Government and there is quite a lot of optimism around it. We, as a company, find the new Government much easier to deal with than the old Government. There is a possibility for change, but to some degree the old guard has changed. It is, literally, just a changing of the old guard. It is not changing it for something else.

I have a particularly strong view on what should happen in this area, what would make a big difference. I have seen, taken part in and been part of capacity building. There is an enormous amount of capacity building that goes on and has gone on for the last 20 years in Kosovo, a bit less in Macedonia and Albania, but there is capacity building going on right across the region. I am quite certain there will be in Bosnia as well. It is something that Governments find relatively easy to do and something that foreign Governments find extremely difficult to judge in terms of its impact. I think that British policy has put far too much emphasis on capacity building as a way of dealing with just about everything, but corruption is one of those issues. The time is absolutely ripe for a very significant policy change that rebalances things. I am not going to suggest for a nanosecond that we do less capacity building, but we need to balance it. There is a weariness, certainly in Kosovo, with all the international capacity building. It is not just HMG but the Americans, Germans and just about anybody who cares about the region. There is a tremendous weariness at being preached to. They will take advice if sage advice is offered.

What has been missing, and what drove me nuts, when I was sitting in Kosovo back in 2006 and 2007 wondering what the hell was going to happen after we had delivered independence to this fledgling state, is, where was the economy? That is what has been missing. Western Governments, HMG included, have consistently failed to address the economic growth that is needed in the region. Western Governments are not particularly well geared up to addressing that. They are much better geared up for capacity building. The one thing that HMG should do now and categorically have to do after Brexit—and Brexit becomes a tremendous opportunity for this, astonishingly—is to do much more to promote investment in the region. It does that by dealing in a much more

aggressive and determined way with country risk in advocating British businesses in a way that it is not used to doing. The level of advocacy would vary across the region depending on the nature of the problems. In Macedonia, it is easier to do business without it. In Albania, it is easier to do business without it but you probably need some. In Kosovo you categorically need it, and it immediately ties into geostrategic interests. It is not just about making money for UK plc, although it would make that much easier.

Lord Hannay of Chiswick: You say that Brexit provides a great opportunity for this. Is there anything that has stopped the British Government in the past 10 years from doing it because we were in the European Union, or are you simply saying that, because there is a shift in Britain's position, opportunistically this should be the opportunity to change our approach to the balance between capacity building and investment encouragement?

Mr Jonathan Mitchell: It is both. There has been a tendency to push difficult issues over to the EU. I saw when I was in Kosovo DfID close down and UK financial aid was entirely sent through the European Union. That is aid and a different issue, but nevertheless the European Union has been a very convenient vehicle in a part of the world where I sense that Britain is slightly embarrassed that it is so involved. I am guessing here but I imagine that Brexit will force HMG to approach things differently. Therefore, it becomes an opportunity.

Lord Hannay of Chiswick: What you are saying, if I understand you correctly, is that it was not because of anything that the European Union did but it was a conscious decision by the British Government to de-prioritise the western Balkans and to use the European Union as a vehicle for masking that.

Mr Jonathan Mitchell: I do not know that there was a conscious decision to de-prioritise and use the European Union for that. That is my perception, but I would not go so far as to say that I know that to be the case.

Q64 **Baroness Coussins:** I would like to come back to the point you were making just now about government support for businesses looking to expand and ask you, how effective or relevant are the services that the UK Government provide to businesses that are looking to expand exports or move into new markets in relation to this particular region? I am aware, for example, that under the old UKTI there used to be a service that provided one-to-one support for businesses looking to move into new markets that they had their eye on to give them advice on language and culture. I imagine that might be a significant element in relation to this region. Under the new system, that one-to-one advice has been done away with and now there are regional contracts with the new DIT. I would like to know from you how that is working and whether the right sort of advice and encouragement is built into the new structures. Also, I would like to know if that ties in with what all the embassies in the countries in the region are able to do.

Mr Jonathan Mitchell: I do not know what the situation is in Macedonia. As far as I am concerned, the DIT is completely non-existent. If you look at the description of what the DIT does, it is trade. It does mention the word "investment" but it is inward investment. It is not investment into the region. The fact that the DIT has failed to produce anybody to sit here on an expert panel speaks volumes. I would not know where to start talking to anybody in the DIT, and I would not even know whether they were going to be interested if I did. Maybe part of a policy shift would be getting the DIT to do something useful in the region.

The Foreign Office has tried to pick up the pieces, to some degree. We get a heck of a lot of support from the Foreign Office in Kosovo. We do not need it in Macedonia and we do not need it in Albania, or we have not needed it, but we do need it in Kosovo. We need the Foreign Office to ensure that the legal playing field is level to help us manage country risk. I do not know what Ruairi O'Connell of the Foreign Office would think if he was here and listening to this. I suspect that he feels constrained by the fact that UK government policy is not more overtly pushing investment. We are like a sideshow. A letter of welcome went from our Prime Minister to the Kosovo Prime Minister at the beginning of October that talked about capacity building but did not mention investment. I exploded on the phone to Ruairi O'Connell, our ambassador in Kosovo. He is in quite a difficult position, with policy the way that it is at the moment. We need him to do more. HMG needs him to do more. We need to see investment support levelling the playing field and tackling corruption. We need to see that much more overtly. That would be my bid. I could not fault the embassy for their willingness to be helpful, but they are very constrained as to what they can do. I cannot speak for the embassies in Tirana or Skopje.

Mr Michael English: I have had a lot of experience with the embassies and I found them extremely helpful but not necessarily on the trade side. When you spoke about a change of policy in the DIT and they went out to tender, it was American companies that got the tender in Europe, whereas in my view it should have been COBCOE, which is the Council of British Chambers of Commerce in Europe. There are about 28 British chambers around Europe. They are the people who are on the ground and who know of opportunities in the countries, and we should use those more.

For the DIT here, for investment into the UK, I found it really excellent. I have had a recent experience with an IT company from Macedonia that wants to invest in the UK and buy a company in the UK. It has been very helpful on that. I am working with a furniture company in Kosovo. It has been helpful, but also the IOD's business centre has been extremely helpful in identifying opportunities there. The people in the embassy looked after our trade mission and they did a superb job in that, but when you follow up on it you get referred to somebody else. Their offices are in Sofia but you cannot talk to them. The Government need to support the British chambers in those countries.

The Chairman: Mr Mitchell, you have said some very stern things about the Department for International Trade. The Committee has just received a document circulated from the department with regard to its work in the western Balkans. I would like to give you this document. The Committee would like to have your comments on it as soon as you can provide them. You are going to get them now: a quick delivery. I suggest you do not look at it now but take it away and let us have your comments, which will be appreciated. Lady Helic wanted to come in on that last question.

Baroness Helic: I have a quick question. It has been fascinating seeing the investment for non-traditional countries in terms of engagement in the region, such as the UAE in Serbia, Qatar, China and so on. What is it that they are mostly attracted to? Is it the fact, if I may say so, that they probably take less care about, and pay less attention to, the stringent rules in terms of transparency that we would want to pursue?

Mr Jonathan Mitchell: I can talk about it a little but not the examples that you have given. I can talk a little about Turkish investment in the Balkans. That is partly a re-establishment of the Ottoman empire, but it is quite clear that they do not apply the same standards of business governance that we do. Many people in Kosovo feel that quite acutely. Again, I am talking for Kosovo rather than for the wider region. Kosovo is a state that wants to look west. If you are looking to make a fast buck, it is a lot easier to look east. The same is true to some degree in Macedonia. There is something about the Balkans that is very attractive. It is ex-Ottoman empire. There are people in those countries who think in a more Levantine way and may be more natural partners for people whose standards of governance are not as high as our own. There are things in those countries that are very attractive for investment. The things that attract us for investment, which are, primarily, geology and agriculture, are going to be attractive to anybody.

Q65 **Lord Grocott:** You have touched on this broad question that I am about to ask in a number of your previous replies. It is, basically, about the scope or possibility for Britain increasing trade with the western Balkans in the future. Despite your very good endeavours, overall, we start from a pretty low base. We hope, I suppose, that the only way is up. Could you speculate, and inevitably you are speculating in a context of the UK leaving the European Union, on how you see trade developing?

Mr Michael English: You are right. It can only go one way. When you talk trade, it comes into a lot of areas such as financial services, IT and education, but particularly education because the Erasmus programme, which supports students coming to the UK, will go after Brexit. What is going to replace that? That is my understanding. There are a lot of opportunities on education. My colleague is in mining, and opportunities exist there. The Balkan countries produce a lot of organic food that could be developed. Let us work on tourism. I come back to education with summer schools, language schools, everybody who wants to speak English, so that is where the promotion should go.

Lord Grocott: The scope of our inquiry is Beyond Brexit: The UK and The

Balkans.

Mr Michael English: That answers that question.

The Chairman: Lord Hannay, I know, wanted to come in on Brexit a little later. As we have broached the subject, Lord Hannay, would you like to come in now and then we will come back to Lady Hilton in a few moments?

Q66 **Lord Hannay of Chiswick:** Talking now about trade policy rather than trade itself, the relationship, if I understand it rightly, with all the countries in the western Balkans is that, with the present 28-member EU, they have a deep free-trade relationship that benefits, potentially, the UK along with the other 27 member states. Similarly, I think it is correct to say that on the day we leave, which could be 29 March 2019, those benefits to the UK will cease because they are commitments by the countries of the western Balkans to the EU, of which we will no longer be a member. Do you think it matters whether we do something about that to ensure that there is some kind of maintenance of that relationship after we leave? If so, do you think that the idea of generating full free trade between the countries of the western Balkans is something that Britain post Brexit ought to be encouraging?

Mr Jonathan Mitchell: We probably do need to try to ensure that we have those benefits that the EU has and that the countries in the region enjoy with the European Union after Brexit. I would worry about it slightly because it just feels like the kind of issue that could suck in an enormous amount of official time and effort, which I would prefer to see devoted to encouraging investment and to the active advocacy of investment. That is a UK government capacity issue as much as anything else. It would be quite important.

On the second point of free trade between the countries of the region, speaking for Fox Marble, that would be tremendously useful. If we were advocating that, it would put Britain in a position of quite clear leadership in terms of geopolitics. One of the things we should be doing is to try to show real leadership in that part of the world. I believe that, if we do show leadership and we become known for showing leadership, the benefits to the UK economy as well as to the stability of the region will follow.

Lord Hannay of Chiswick: On your point about ensuring that we do not lose out as a result of Brexit and the trade relationships being broken off, that, presumably, has some cost to us if we simply allow that to happen. Since you were rather critical of the Department for International Trade, might not their numerous civil servants be quite usefully employed in ensuring that the current arrangements could be applied to the UK after Brexit, too?

Mr Jonathan Mitchell: That sounds like a splendid idea.

Mr Michael English: I think most people would.

Mr Jonathan Mitchell: I do not know how they are currently deployed. I know very little about them. It would be jolly good. The immediate benefits to the UK economy are probably not going to be enormous. As markets, these countries, even collectively, never mind singly, are tiny. That is what sits behind my comment that it is the type of issue that could suck in a huge amount of HMG time and effort that could be spent doing better things elsewhere. It would mean quite a lot, potentially, to the countries of the region. They are all pretty sensitive to their trade relationships—on paper, at least. Going back to Kosovo, it gives them legitimacy and they rather like that. We should certainly try to devote some effort to it, but I would not want to see it having a negative impact on advocacy for investment.

Mr Michael English: I fully agree with that.

The Chairman: We come to our final question, which is one of the key questions of the morning.

Q67 **Baroness Hilton of Eggardon:** Our experience of trading with that part of the world has been pretty minimal, whereas Germany manages to export and import \$5,000 million-worth of trade. We seem to import a bit but we export nothing, according to this particular table I have in front of me. Should we be learning something from Germany and Italy about how they manage to be much more successful in the region?

Mr Michael English: Absolutely.

Mr Jonathan Mitchell: Absolutely. I was in Germany three weeks ago, talking to like-minded Germans, not only looking to learn from them but to work with them. I would want that very much to continue post Brexit.

Italy and Germany are two very good examples. Italy sees the Balkans as its back yard, to some degree, in a way that we do not—certainly, Albania and then, by extension, the Albanian lands, which takes in Montenegro, Serbia, Kosovo, Macedonia and down to Greece. It is close. It is an hour's hop from Verona and an hour's hop from Rome. In Kosovo, we see active business advocacy by the Italian ambassador in a way that we do not see from the British ambassador. That is not a criticism of the British ambassador. It is a criticism of policy. With the Germans, again, it is very much their strategic back yard. The Austrians also feel it is their strategic back yard. They are much more aggressive and interested in identifying business opportunities than the UK, although it is interesting that, with the Germans, we have all identified pretty much the same business opportunities and we are now working together to try to realise some of those opportunities.

The Germans have a much closer interest. It is a geostrategic interest. They have 350,000 to 400,000 Kosovars living in Germany. Goodness knows what the number is if you add in Albanians, Macedonians and Serbs. They have a real vested interest in trying to get trade sorted out, the economy going and stability in that part of the world. They are really

interested in stability in a way that we are but probably not as much as they are.

Mr Michael English: Exactly. I made a note, "Germany", on my pad. I was at the German chamber of commerce in Kosovo last week and it was absolutely incredible. It is really active. It is looking at outsourcing. It is bringing companies to Kosovo to look at the market. It was an eye-opener for me. The same was the position in Macedonia.

Baroness Hilton of Eggardon: Is it the German Government who are pushing that or the business world?

Mr Michael English: The German Government.

Mr Jonathan Mitchell: There is quite a big thrust from the business world as well.

Mr Michael English: You are right about the foreign diaspora in those countries. It is very high.

The Chairman: Let me follow that up because you began by telling us that there are massive opportunities. You went on to address the corruption problem and you said it is an irritation but not necessarily a drag. I think I have explained the way you put it. If this is the case, why is it that our trade with the western Balkans is so small? Is it because we just cannot be bothered? Why does the UK do so badly there?

Mr Jonathan Mitchell: It is because the UK does not see the opportunities, but UK businesses and the City of London worry a heck of a lot about country risk. Corruption is a drag on business. You can work around it in a compliant way but it is a huge drag on business. If you are looking to invest, the principle of intervening opportunities applies. You would probably rather invest in Croatia than in Kosovo or, maybe, in Bosnia. I do not know what the corruption levels in Bosnia are like. It is almost "anywhere other than Kosovo". It is Macedonia definitely rather than Kosovo. There is no question that it would be Albania rather than Kosovo. Kosovo competes incredibly badly in perception terms. The region as a whole competes pretty badly with most other places, certainly in Europe. The reason why there is not more British business is because British business feels that "there be dragons" and also it is a pretty small market. If you are looking to sell something, the market is tiny.

Mr Michael English: Also, there is the visa regime. It is very difficult to get a visa. The length and cost of the process that you have to go through make it very difficult. If you want to sell something, invariably, the buyer will want to come to the UK, and it is very difficult to get a visa.

The Chairman: Thank you. Do any of my colleagues want to come in finally?

Lord Hannay of Chiswick: Mr English, you put a lot of emphasis on education. Does it not seem, therefore, that we ought to be more

proactive in trying to construct helpful links in education with the western Balkans, because that, surely, is an area where we are market leaders?

Mr Michael English: Yes. Exactly.

Lord Hannay of Chiswick: We are purveying something known as the English language, which the other countries with whom we would be competing are not, or not to the same extent. Are higher education and other education services something that a post-Brexit British Government ought to be looking at?

Mr Michael English: Certainly, 100%. I can give you an example on this. About five years ago I did a study in Macedonia—it was a kind of gap analysis—between university and business. I was seeing whether, when they came out of university, they were prepared for business. I did a lot of work on that. Two years ago, I had an idea about looking at setting up a centre of engineering excellence in Macedonia. I approached Warwick University, and they were extremely interested in doing this. We signed an MoU in September of last year with Warwick and the Ministry of Education and Science in Macedonia. It was signed by Lord Bhattacharyya, who is one of your colleagues. Then we got Brexit. We were looking to the EU for funding. There was a call last year for a centre of excellence over a three-year period. It is about €4 million, but we could not go for it because it would have gone beyond the period. The Government have changed again, so we hope we will get it back on the agenda. It is a great opportunity. It is one example of developing education in that country. I am also talking to people about setting up an academy for cybersecurity. I have a number of companies in the UK that would be interested in joining that, with a key university in Macedonia. The Government, I believe, are behind that as well. So, yes, opportunities exist there, as well as getting students into the UK and language schools.

Lord Hannay of Chiswick: Then you come up against the visa problem.

Mr Michael English: Yes, exactly, and the cost.

The Chairman: Thank you. We are most grateful. You have enlightened us enormously.

FOX
MARBLE



The Rt Hon. the Lord Jopling DL,
House of Lords,
London,
SW1A 0PW.

2 November 2017

Dear Lord Jopling,

Thank you for sight of the DIT paper. You asked me to comment. I found it thought-provoking.

As a taxpayer, I applaud the DIT's systematic approach to the deployment of its limited resources. As a representative of a group of people and companies that see, day to day, the considerable UK investment potential in a part of the Balkans where the DIT does little, I believe that the time may be right for it to reassess its approach to the region. The DIT's highlighting of the Western Balkan Summit in July is helpful.

The notion of the Balkan Marshall Plan that emerged from the Balkan Summit in Trieste this year came up in the discussions I held with German counterparts to which I referred in my evidence. We all agreed it was positive. However, we also noted that not only were investors deriving little directly from the Berlin Process but western governments appeared to be placing insufficient emphasis on the role that western commercial investment could play in bringing stability, prosperity and eventual EU accession to the Balkans. We agreed to work on ways to overcome the disconnect.

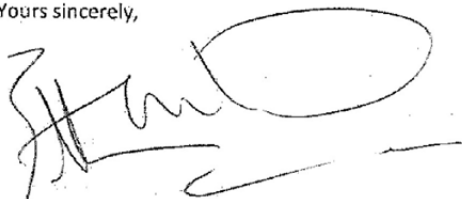
It did not occur to me at the time that the next Western Balkan Summit might be a mechanism for this but, given the remit of the Berlin Process, the DIT paper makes me think that it might be something to at least consider. If, as hosts, HMG can set the agenda, a theme examining country risk and how to mitigate it, investment incentivisation and the role of investment in promoting growth might prove to be an excellent way not only to further the cause of UK overseas investment but for the UK to show a level of European leadership which few will expect as we head towards Brexit.



I and my colleagues would be very happy to support the DIT in a reassessment of the SW Balkans and, should the idea of using the summit as I suggest take hold, to help develop the thinking. If you could identify a suitable point of contact in the Department, I would welcome the opportunity to meet them in order to discuss this. Perhaps the FCO might also engage?

I am, My Lord, very much at your disposal should you wish to discuss this or any other matters arising.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jonathan Mitchell', with a large, stylized loop at the end.

Jonathan Mitchell

[Redacted signature block]