

HOUSE OF LORDS

European Union Committee

6th Report of Session 2014–15

The EU and Russia: before and beyond the crisis in Ukraine

Ordered to be printed 10 February 2015 and published 20 February 2015

Published by the Authority of the House of Lords

London : The Stationery Office Limited
£price

HL Paper 115

The European Union Committee

The Committee considers matters relating to the European Union.

The Committee scrutinises EU documents in advance of decisions being taken on them in Brussels, in order to influence the Government's position and to hold it to account. The Committee 'holds under scrutiny' any documents about which it has concerns, entering into correspondence with the relevant Minister until satisfied. Letters must be answered within two weeks. Under the 'scrutiny reserve resolution', the Government may not agree in the EU Council of Ministers to any proposal still held under scrutiny. The Government must give reasons for any breach of the scrutiny reserve.

The Committee also conducts inquiries and makes reports. The Government is required to respond in writing to a report's recommendations within two months of publication. If the Committee wishes, the report is debated in the House of Lords, during which a Minister responds to the points made by the Committee and the speakers during the debate. Reports are also usually sent to the European Commission, for it to consider and respond to any relevant points and recommendations.

The Committee has six Sub-Committees:

Economic and Financial Affairs
Internal Market, Infrastructure and Employment
External Affairs
Agriculture, Fisheries, Environment and Energy
Justice, Institutions and Consumer Protection
Home Affairs, Health and Education

Membership

The Members of the European Union Committee are:

<u>Lord Boswell of Aynho (Chairman)</u>	<u>The Earl of Caithness</u>	<u>Lord Cameron of Dillington</u>
<u>Baroness Eccles of Moulton</u>	<u>Lord Foulkes of Cumnock</u>	<u>Lord Harrison</u>
<u>Baroness Henig</u>	<u>Baroness Hooper</u>	<u>Lord Kerr of Kinlochard</u>
<u>Lord MacLennan of Rogart</u>	<u>Baroness O'Cathain</u>	<u>Baroness Parminter</u>
<u>Baroness Prashar</u>	<u>Baroness Quin</u>	<u>The Earl of Sandwich</u>
<u>Baroness Scott of Needham Market</u>	<u>Lord Tomlinson</u>	<u>Lord Tugendhat</u>
<u>Lord Wilson of Tillyorn</u>		

The Members of the Sub-Committee on External Affairs, which conducted this inquiry, are:

<u>Baroness Billingham</u>	<u>Baroness Bonham-Carter of Yarnbury</u>	<u>Baroness Coussins</u>
<u>Lord Foulkes of Cumnock</u>	<u>Baroness Henig</u>	<u>Lord Iopling</u>
<u>Lord Lamont of Lerwick</u>	<u>Lord MacLennan of Rogart</u>	<u>Lord Radice</u>
<u>The Earl of Sandwich</u>	<u>Lord Trimble</u>	<u>Lord Tugendhat (Chairman)</u>
<u>Baroness Young of Hornsey</u>		

Further information

Publications, press notices, details of membership, forthcoming meetings and other information is available at: <http://www.parliament.uk/hleuc>

General information about the House of Lords and its Committees is available at:

<http://www.parliament.uk/business/lords>

Sub-Committee staff

The current staff of the Sub-Committee are Sarah Jones (Clerk) and Roshani Palamakumbura (Policy Analyst).

Contact details

Contact details for individual Sub-Committees are given on the website. General correspondence should be addressed to the Clerk of the European Union Committee, Committee Office, House of Lords, London, SW1A 0PW. Telephone 020 7219 5791. Email euclords@parliament.uk

Twitter

You can follow the Committee on Twitter: [@LordsEUCom](https://twitter.com/LordsEUCom)

CONTENTS

	<i>Page</i>
Summary	6
Chapter 1: Introduction	9
Purpose and scope of this inquiry	9
Structure of the report	11
Chapter 2: EU and Russia interdependencies	12
Economic and trade relationship	12
EU28 trade with Russia	12
Figure 1: EU28 trade with Russia	12
United Kingdom	12
Germany	13
Figure 2: German trade with Russia	14
Energy relationship	14
Figure 3: Europe's dependence on Russian gas	15
Institutional relations between the EU and Russia since 1994	15
Box 1: EU-Russia institutional structures	15
Chapter 3: The state of the EU-Russia relationship	17
Russia	18
Diverging politics—decline of the rule of law	18
Diverging ideologies—distancing from Europe	19
Divergent geopolitical interpretations—betrayal by the West?	20
Public perceptions in Russia	21
Conclusion	22
European Union	22
Conclusions	23
Member States: loss of analytical capacity	24
UK diplomacy	25
Russian understanding of the EU	26
Conclusions and recommendations	26
Neglect of the relationship	26
Conclusion	27
Current relationship: divided Member States	28
United Kingdom: response to the crisis	28
Conclusions	29
Germany	30
Building Member State unity	31
Leadership of the European Council	31
Conclusions and recommendations	32
Chapter 4: The shared neighbourhood	34
The EU's role in the shared neighbourhood	34
Box 2: EU policy instruments in the shared neighbourhood	34
Russia's role in the shared neighbourhood	35
Military security	35
Conclusion	38
Internal preoccupations of regime consolidation	39

Conclusion and recommendation	40
Rights of ethnic Russians and Russian-speakers	40
Conclusion	43
Eurasian Union	43
Box 3: Eurasian Union	43
Conclusions and recommendation	47
Reviewing the EU's instruments in the shared neighbourhood	47
The EU's strategic interests in the shared neighbourhood	47
Restructuring the EaP	49
Conclusions and recommendations	52
Chapter 5: The crisis in Ukraine and the EU's response	53
The crisis in Ukraine and Crimea	53
Phase I: Early discussions on the Association Agreement	53
EU response	55
Phase II: President Yanukovich suspends signature of the Association Agreement—Maidan Square protests	55
Phase III: The flight of Yanukovich	57
Phase IV: Annexation of Crimea	58
Phase V: Rebellion in eastern Ukraine and downing of MH17	60
Phase VI: Minsk Protocol	61
Recurring themes	62
Lack of political oversight	63
Conclusions	63
The pivotal and exceptional nature of Ukraine	64
Conclusion	67
The EU's response to the crisis	67
Member State unity	67
EU sanctions policy	68
Conclusions	73
EU support for Ukraine	74
Political support for Ukraine	74
Conclusions	75
Economic support for Ukraine	76
Conclusions and recommendations	78
Chapter 6: Basis of a future relationship	79
The way forward	79
Continuing engagement	80
Conclusions and recommendations	80
Enforcing rules and values	81
Enforcing international trade rules	81
Conclusions	82
Enforcing anti-corruption and anti-money laundering legislation	82
Conclusions and recommendations	84
Upholding human rights	85
Conclusions and recommendations	87
Building a relationship beyond the Russian government	87
European Endowment for Democracy	88
Co-operation further afield	88
A relationship in the long term	89

Lisbon to Vladivostok—common economic space	89
European security architecture	90
Co-operation in the fields of culture, education and science	91
Conclusions and recommendations	92
Summary of Conclusions and Recommendations	94
Appendix 1: List of Members and Declarations of Interest	102
Appendix 2: List of Witnesses	105
Appendix 3: Call for Evidence	110
Appendix 4: Evidence taken during visit to Brussels	113
Appendix 5: Evidence taken during visit to Berlin	118
Appendix 6: Glossary of Terms and Abbreviations	123

Evidence is published online at <http://www.parliament.uk/eu-russia> and available for inspection at the Parliamentary Archives (020 7219 3074)

Q in footnotes refers to a question in oral evidence

SUMMARY

The continuing crisis in Ukraine means that the EU's relationship with Russia has reached a critical juncture, and that the EU and its Member States need fundamentally to reassess it.

In this report, we consider the factors that have contributed to the decline in the EU-Russia relationship, attempt to draw lessons for the future, and consider how the EU and its Member States should respond to a changed geopolitical landscape. We ask how the EU and Member States should engage with Russia in the future, based on a sober assessment of the Russia that exists today. The majority of our evidence was received between July and December 2014, and we wrote this report in January and February 2015. Our purpose has not been to analyse events in Ukraine as they unfold but rather to consider the causes of the conflict and the implications that go beyond the immediate crisis.

Our analysis suggests that Russia has been gradually turning away from Europe. Internal political changes within Russia have contributed to a divergent political and economic outlook between the EU and Russia. In turn, the EU has failed to build an institutional framework that could have underpinned a more robust relationship and Member States have not provided the necessary political oversight to the Commission's trade negotiations. Disagreement over the 'shared neighbourhood' has given way to outright confrontation and competition for political control, and the creation of the Eurasian Union, a new political and economic entity, could have significant consequences.

We also observe that there has been a strong element of "sleep-walking" into the current crisis, with Member States being taken by surprise by events in Ukraine. Over the last decade, the EU has been slow to reappraise its policies in response to significant changes in Russia. A loss of collective analytical capacity has weakened Member States' ability to read the political shifts in Russia and to offer an authoritative response. This lack of understanding and capacity was clearly evident during the Ukraine crisis, but even before that the EU had not taken into account the exceptional nature of Ukraine and its unique position in the shared neighbourhood.

In the short term, it is likely that the EU's engagement with Russia will focus on the situation in Ukraine and Crimea. We welcome Member States uniting around an ambitious package of sanctions and hope that this continues. However, a strong sanctions policy requires a well-defined exit strategy that is clearly communicated. Therefore, if there is genuine progress on the Minsk Protocol, Member States should be prepared to ratchet down these sanctions. On the other hand, if there is a further deterioration in eastern Ukraine, the EU should move to target individuals close to the regime and broaden sanctions into the Russian financial sector. The dismemberment of a sovereign independent state is not acceptable.

In the shared neighbourhood, the EU and Member States face a strategic question of whether Europe can be secure and prosperous if Russia continues to be governed as it is today. Whatever the present Russian government's real intentions may be, Russia's internal governance and its resulting threat perceptions create geopolitical competition in the neighbourhood. The EU's capacity to influence the internal politics of Russia is limited, and Member States have not demonstrated an appetite to make the attempt. Therefore, if influencing Russia's future governance

is not on the agenda, Member States instead need to devise a robust and proactive policy to manage competition with Russia in the shared neighbourhood.

In the long term, the EU, Member States and Russia must learn to live with each other as neighbours, as important players in the United Nations, and as regional powers. Dialogue between the EU and Russia has to be maintained, particularly on the many issues of shared strategic interest, such as a common economic space and a new European security architecture. The EU should also develop a coherent policy approach towards the Eurasian Union in order to explore the extent to which Russia is willing to enter into a more co-operative relationship. Even while relations with the Russian government are strained, links with the Russian people should be maintained through continuing co-operation in the fields of culture, education and science. While maintaining its guard and refusing to give way on points of principle, the EU should make clear its desire to prevent the present crisis from deteriorating into something resembling the Cold War, and invite Russia to respond.

The EU and Russia: before and beyond the crisis in Ukraine

CHAPTER 1: INTRODUCTION

Purpose and scope of this inquiry

1. Since late 2013, the EU's relationship with Russia has reached a critical juncture. The EU-Russia relationship is of vital economic, energy and cultural importance for Member States, and the security of Europe as a whole depends upon harmonious relations. Yet the relationship is now more fractious than at any time since the end of the Cold War. The Committee's previous report on the EU and Russia, published in 2008, noted that relations had been going through a difficult phase. At the time, we concluded that the change of presidency in Russia would provide an opportunity to take stock and to consider whether the deterioration could and should be reversed.¹ Unfortunately the deterioration has continued, while the crisis in Ukraine—and the accompanying disruption of economic, political and security relations between Russia and the EU—means that an urgent reassessment is now needed.
2. Russian actions in Ukraine need to be understood within both the particular historical context of Ukraine and a broader Russian pattern of behaviour in the neighbourhood. The situation now is very different from 1991, when the Soviet Union peacefully disintegrated into 15 countries. It was apparent even then that Ukraine, in particular, and the Baltic states to some extent, held a special place in the hearts and minds of the Russian people. The Russian democrats that emerged made great efforts to keep Ukraine as close as possible.² Russian actions in Ukraine today occur in the context of its continued involvement in a number of territorial and ethnic disputes throughout the post-Soviet space which threaten the sovereignty of these states. While the conflicts in Abkhazia and South Ossetia (Georgia), Transnistria (Moldova) and Nagorno-Karabakh (Azerbaijan and Armenia) are still unresolved—and with Crimea and Donbas now added to the list—the potential for further conflict remains high.
3. While the current Russian government has adopted a more adversarial policy, it is too easy to assume that recent events have solely been due to one government's approach, or that the current impasse in relations is a short-term problem. Multiple witnesses have pointed out to us that Russia's policies are based on long-standing threat perceptions, historical grievances and issues surrounding Russia's identity. Such perceptions are shared by many of the Russian people and parts of the Russian elite as well. It is important that these perceptions should be better understood in the West, although that does not mean accepting the premises on which they are based.

¹ European Union Committee, *The European Union and Russia* (14th Report, Session 2007–08, HL Paper 98)

² Serghii Plokhy, *The Last Empire* (Oneworld Publications, 2014), Chapter 9

4. The EU, especially those Member States who play a pivotal role in relations with Russia, need to find a way either to build co-operative security, with Russian support, or else to secure themselves and the region in the context of a more adversarial relationship. The consequences of a further deterioration of relations could include the spread of instability in the neighbourhood, greater disruption of trade and a weakening of economic ties, and a breakdown in co-ordination over other global and regional issues, including Syria, Iran, North Korea and Afghanistan.
5. It was not possible for us to consider, let alone do full justice to, the full range of issues affecting EU-Russia relations. We have therefore addressed only those issues which have arisen as a result of the current crisis. We have noted the energy and economic interdependencies but have not focused on them in detail.³ It is self-evident that the EU can only act where it has the competence to do so. While the EU does have a Common Foreign and Security Policy, which includes the framing of a common defence policy, the responsibility for national security and territorial defence remains with the Member States. The North Atlantic Treaty Organization (NATO), the cornerstone of defence for its EU Members, is outside the scope of this report.
6. However, there are steps that the EU can take to strengthen its internal resilience and make its strategic intent more acutely felt in Russia. We have focused on the crisis in Ukraine but also looked well beyond it, seeking to address the question of how the EU should shape its policies with regard to Russia in order to break what appears to be a recurring cycle of conflict and growing frustration, and to set relations on a mutually beneficial and stable footing. Our purpose has not been to analyse events in Ukraine as they unfold but rather to consider the causes of the conflict and to learn lessons, even as events are still ongoing.
7. At the outset the Chairman of the Sub-Committee on External Affairs, which conducted the inquiry, informally met the Ambassador of the Russian Federation to the UK, His Excellency Dr Alexander Yakovenko, in order to explain its scope and purpose. We are grateful to the Ambassador for subsequently providing written evidence to the Committee. In June 2014, the Sub-Committee held two scoping seminars with Sir Rodric Braithwaite GCMG, former British Ambassador to the Soviet Union and Russia, Sir Andrew Wood GCMG, former British Ambassador to Russia and Associate Fellow of the Russia and Eurasia Programme, Chatham House, Professor Roy Allison, Professor of Russian and Eurasian International Relations, School of Interdisciplinary Area Studies, University of Oxford, Dr Simon Pirani, Senior Research Fellow, Oxford Institute for Energy Studies, University of Oxford, Mr John Lough, Associate Fellow, Russia and Eurasia Programme, Chatham House, and Mr Peter Tabak, Senior Economist, European Bank for Reconstruction and Development (EBRD). In July 2014, the Sub-Committee also received an informal briefing from Foreign and

³ We have previously reported on steps that the EU could take to meet its carbon reduction targets while maintaining security of energy supply and affordability to domestic and industrial consumers. European Union Committee, *No Country is an Energy Island: Securing Investment for the EU's Future* (14th Report, Session 2012–13, HL Paper 161).

Commonwealth Office (FCO) officials. We would like to thank all those who provided their guidance and thoughts at these informal meetings.

8. In inviting witnesses to give oral evidence, we have tried to ensure that we heard from a number of Russians, with a wide range of views, as well as from other nationalities. We note that the remit of our Committee is to scrutinise the work of the EU and its institutions, and to hold the UK Government to account for its role in developing EU policy. Therefore, while we have commented on the actions of the Russian government, our primary role has been to scrutinise the effectiveness of the EU's policies towards Russia and to make recommendations to the UK Government and EU institutions.
9. In this report, we use the shorthand "Russia", "Moscow", and on occasion "Kremlin", to denote the official policy of the Russian state, though we recognise that there is a plurality of views even among the Russian elites. We have retained the distinction between the Russian state and the Russian people whose views and interests do not necessarily coincide.
10. A full list of witnesses who provided evidence, including their affiliations, is printed in Appendix 2.

Structure of the report

11. In Chapter 2 we outline the main interdependencies between the EU and Russia and briefly examine the institutional agreements which form the basis of the EU's relationship with Russia. In Chapter 3, we then summarise relations between the EU and Russia over the last 20 years, the evolution of the relationship, and the role of the Member States today.
12. In Chapter 4 we consider the shared neighbourhood, the geopolitical and economic competition between the EU and Russia in the neighbourhood, and the implications of the formation of the Eurasian Economic Union. We then, in Chapter 5, turn to Ukraine, and consider witnesses' views on how the vulnerabilities and fragility of the EU-Russia partnership have been exposed during the crisis there. Finally, in Chapter 6, we consider how the relationship with Russia should be constructed, setting out the steps that could be taken in the short term, and the factors that could form the basis of a mutually beneficial long-term relationship.
13. The inquiry that led to this report was carried out by the Sub-Committee on External Affairs, whose Members are listed in Appendix 1. We received written evidence and heard oral evidence from a wide range of witnesses, whose names are listed in Appendix 2. The Sub-Committee's Call for Evidence, which was launched at the beginning of the inquiry, is reprinted in Appendix 3. We would like to thank all our witnesses, along with those who facilitated our visits to Brussels and Berlin. Notes of these visits are printed in Appendices 4 and 5. Finally, we express our gratitude to Dr Samuel Greene, our Specialist Adviser for the inquiry.
14. **We make this report to the House for debate.**

CHAPTER 2: EU AND RUSSIA INTERDEPENDENCIES

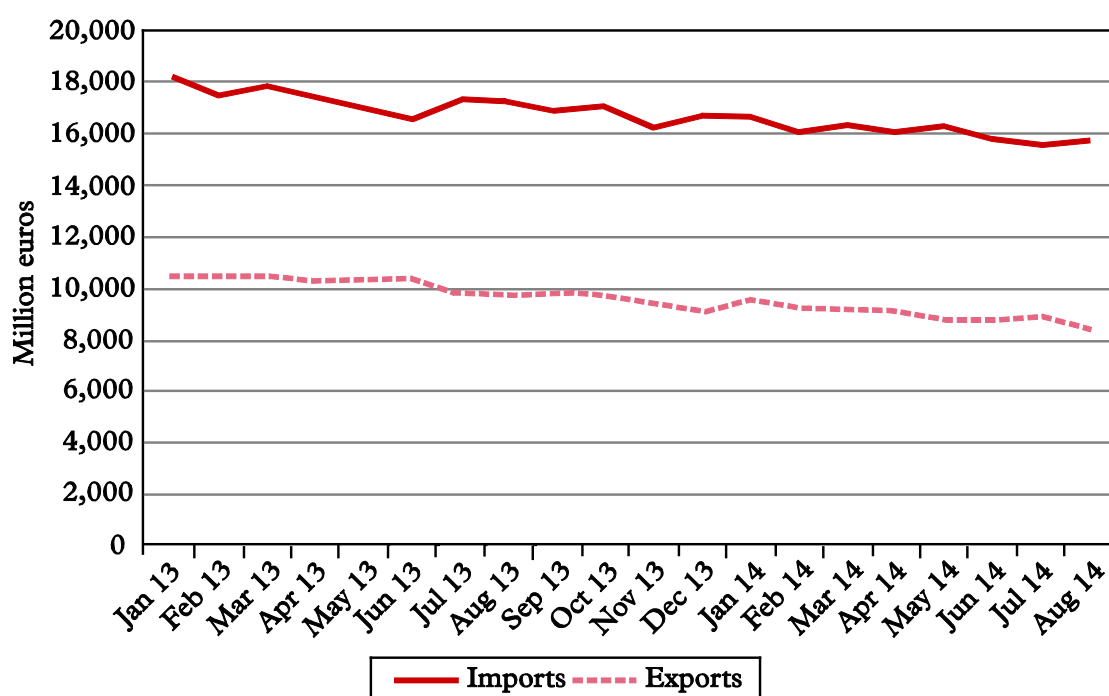
Economic and trade relationship

15. EU Member States and Russia are heavily economically interdependent. The extent of this interdependence is set out briefly below, with a particular focus on the UK and Germany.

EU28 trade with Russia

16. According to data from the Russian Federal Statistics Service, in 2013 EU Member States accounted for 57% of Russian exports and 46.5% of Russian imports, making the Union by far Russia's most significant trading partner.⁴ In turn, Russia is the EU's third largest trading partner, accounting for 9.5% of EU trade.⁵ A number of Europe's largest economies continue to have significant bilateral trade with Russia, with the Netherlands (\$52.1 billion), Germany (\$46.7 billion), and Italy (\$34.3 billion) reporting the largest trade volumes in the first half of 2014.⁶ Since December 2013, the EU's imports from Russia have fallen by 6.8% while exports have fallen by 9%.⁷

Figure 1: EU28 trade with Russia



Source: Written evidence from Open Europe ([RUS0013](#)), citing Eurostat

United Kingdom

17. According to data from the Russian Federal Statistics Services, in 2013 the UK accounted for 4% (\$16.4 billion) of Russian exports and 3% (\$8.1

⁴ Written evidence from Open Europe ([RUS0013](#))

⁵ European Commission DG Trade statistics: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113440.pdf [accessed 2 February 2015]

⁶ Written evidence from the CBI ([RUS0010](#)), citing Rosstat statistical release, 20 October 2014

⁷ Written evidence from Open Europe ([RUS0013](#))

billion) of its imports.⁸ Motor vehicles, electrical machinery, nuclear technology, pharmaceuticals, aircraft and tractor spare parts were the main UK exports to Russia.⁹ Over 600 British companies have a physical presence in Russia and, in 2013, approximately 5,800 UK traders exported goods to Russia.¹⁰

18. Links in the financial sector and Russian investment in the UK are lower than might be expected. Data from the UK Pink Book—the annual publication by the Office for National Statistics that details the UK’s balance of payments—shows that in absolute terms the stock of Russian investment in the UK sounds quite large at £30 billion. However, in 2012, this amounted to only 0.53% of total international investment in the UK from Europe (including Russia). In turn, the stock of UK investment in Russia totals £48 billion, which is 0.9% of total UK investment elsewhere in Europe (including Russia). In 2013, the Russian market accounted for 1% of the total UK exports of financial services, other business services and insurance.¹¹ At the end of September 2014, there were 34 Russian incorporated firms listed on the London Stock Exchange out of a total of 2,467—1.4% of the total number of firms and 5.8% of the total market capitalisation.¹²
19. The exposure of UK banks to Russia is fairly low at \$14.2 billion, below that of France (\$47.7 billion), Italy (\$27.7 billion) and Germany (\$17.7 billion), all of which have much smaller banking sectors. There was also a marked decrease in the exposure of European banks to Russia between the third quarter of 2013 and the second quarter of 2014, driven by the uncertainty in Ukraine and the impact of economic sanctions.¹³

Germany

20. Germany is one of Russia’s most important bilateral trading partners. Trade between Germany and Russia in 2013 was close to €77 billion. Russia primarily supplies petroleum and natural gas to Germany. Germany, on the other hand, exports mechanical engineering products, medicines, trains and automobiles to Russia. More than 6,000 German companies are registered in Russia and, together, they have invested €20 billion in Russia in recent years.¹⁴ German trade with Russia declined significantly between August 2013 and August 2014—exports have fallen by 26% and imports by 19% with the decrease mostly over the winter period.¹⁵

⁸ Written evidence from Open Europe ([RUS0013](#)), citing the Russian Federal Statistics Service

⁹ Written evidence from the CBI ([RUS0010](#))

¹⁰ Written evidence from the CBI ([RUS0010](#)), citing BIS statistics, 2013

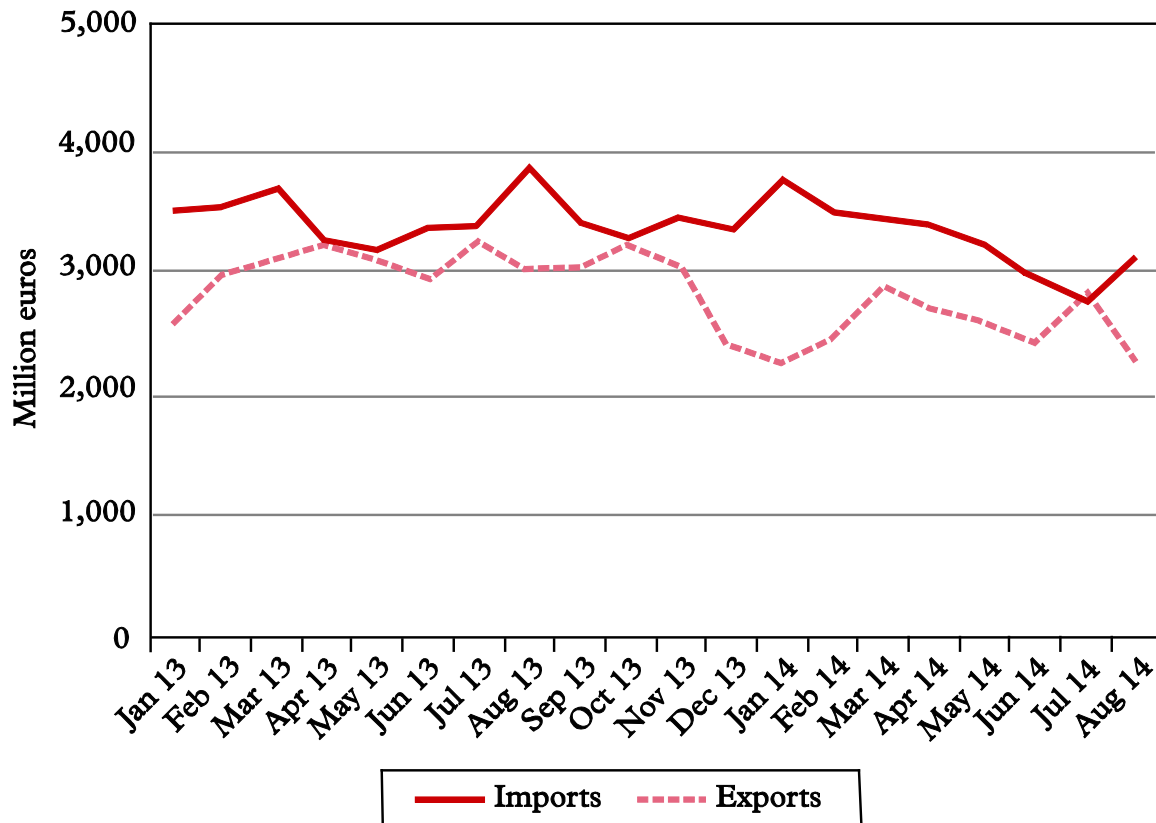
¹¹ Written evidence from Open Europe ([RUS0013](#))

¹² Written evidence from Open Europe ([RUS0013](#)), citing London Stock Exchange: Statistics, Companies and Issuers, List of all companies on the LSE at the end of each month

¹³ Written evidence from Open Europe ([RUS0013](#))

¹⁴ ‘Economic War with Russia: A High Price for German Business,’ *Der Spiegel* (17 March 2014): <http://www.spiegel.de/international/europe/germany-to-play-central-but-expensive-role-in-sanctions-against-russia-a-959019.html> [accessed 2 February 2015]

¹⁵ Written evidence from Open Europe ([RUS0013](#))

Figure 2: German trade with Russia

Source: Statistisches Bundesamt, data code 51000-0004: available at <https://www-genesis.destatis.de/genesis/online> [accessed 15 January 2015]

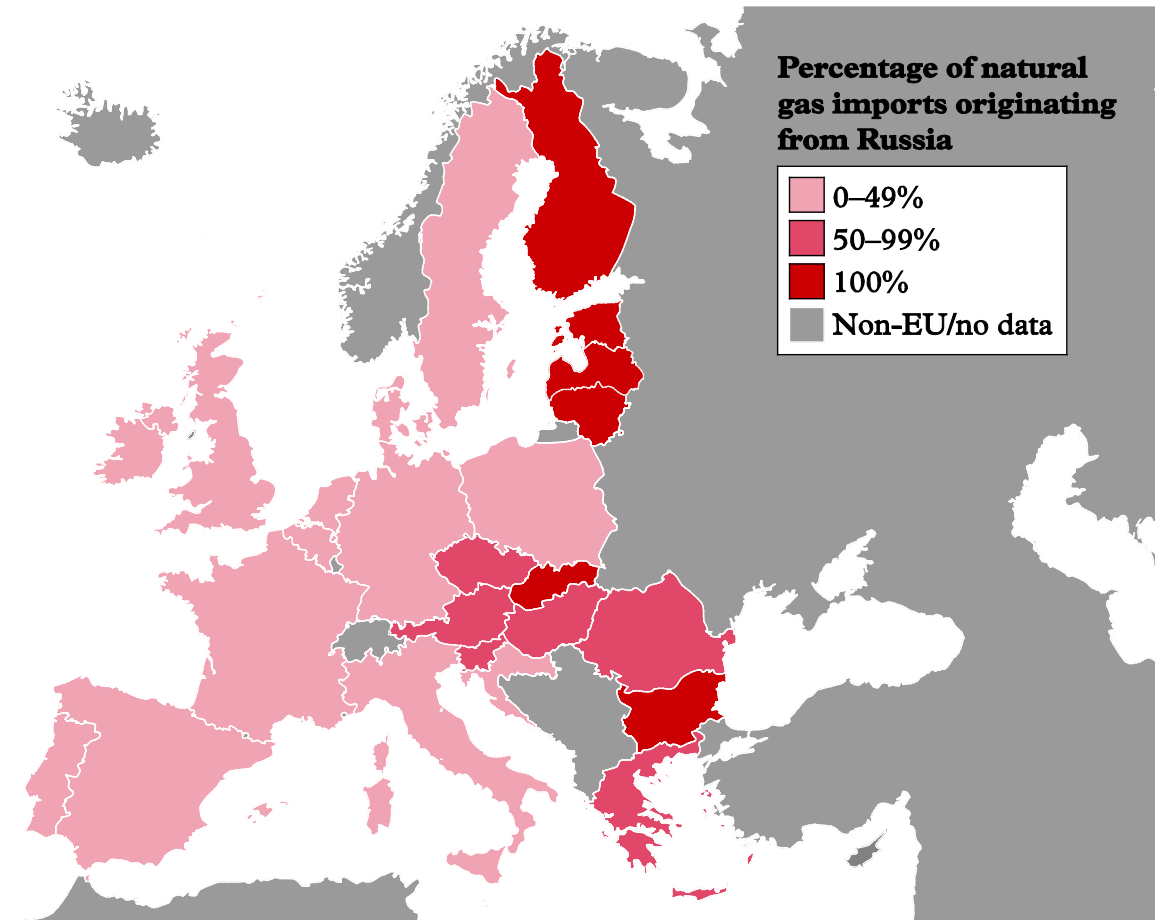
Energy relationship

21. The EU's dependence on Russia for energy is well documented. In terms of gas, in 2013 energy supplies from Russia accounted for 39% of EU natural gas imports or 27% of EU gas consumption. Russia exported 71% of its gas to Europe, with the largest volumes to Germany and Italy.¹⁶ Six Member States (Bulgaria, Estonia, Finland, Slovakia, Latvia and Lithuania) depend on Russia as a single external supplier for their entire gas imports.¹⁷ As for oil, the EU imports more than €300 billion of crude oil and oil products, of which one third is from Russia.¹⁸ The figure below outlines the dependencies of different EU Member States on Russia for their energy supplies.

¹⁶ Communication from the Commission to the European Parliament and the Council—European Energy Security Strategy, [COM\(2014\) 330](#) [accessed 2 February 2015]

¹⁷ Arthur Neslen, 'Europe's dependency on Russian gas may be cut amid energy efficiency focus', *The Guardian* (9 September 2014): <http://www.theguardian.com/world/2014/sep/09/europe-dependency-russian-gas-energy-efficiency-eu> [accessed 2 February 2015]

¹⁸ Communication from the Commission to the European Parliament and the Council – European Energy Security Strategy, [COM\(2014\) 330](#) [accessed 2 February 2015]

Figure 3: Europe's dependence on Russian gas¹⁹

Institutional relations between the EU and Russia since 1994

22. The Partnership and Cooperation Agreement (PCA), agreed with Russia in 1994, has formed the basis of relations between the EU and Russia over the last 20 years. Annual summits since 1994 have sought to reinforce co-operation and to update the Agreement, but negotiations on a new EU-Russia Agreement are now suspended. Box 1 provides a summary of the institutional structures which have governed the EU's relationship with Russia since 1994.

Box 1: EU-Russia institutional structures

The EU's PCA with Russia, agreed in 1994, has been the framework regulating political and economic relations between the EU and Russia for the last 20 years. PCAs aim to provide a suitable framework for political dialogue, support the efforts made by the partner countries to strengthen their democracies and develop their economies, accompany their transition to a market economy and encourage trade and investment. The partnerships also aim to provide a basis for co-operation in the legislative, economic, social, financial, scientific, civil,

¹⁹ Eurostat, 'Supply, transformation, consumption—gas—annual data' (nrg_103a) and 'Imports (by country of origin)—gas—annual data' (nrg_124a), available at <http://ec.europa.eu/eurostat/data> [accessed 2 February 2015]

technological and cultural fields. The PCA with Russia provides for the creation of the necessary conditions for the future establishment of a free trade area.²⁰

In the period 1994–2006 an EU-Russia Cooperation Programme was funded through TACIS (a programme of technical assistance to the Commonwealth of Independent States). Russia has been the biggest beneficiary of support to the countries in the post-Soviet region receiving about half of all funding. Since 1991, when the Programme was launched, €2.7 billion has been granted to Russia and has been used in 1,500 projects in 58 regions.²¹

At the St Petersburg Summit in May 2003, the EU and Russia agreed to reinforce their co-operation by creating four ‘common spaces’:

- The Common Economic Space, covering economic issues and the environment;
- The Common Space of Freedom, Security and Justice;
- The Common Space of External Security, including crisis management and non-proliferation; and
- The Common Space of Research and Education, including cultural aspects.²²

Negotiations on a new EU-Russia Agreement were launched at the 2008 Khanty-Mansiysk summit, with the objective to:

- provide a more comprehensive framework for EU-Russia relations, reflecting the growth in co-operation since the early 1990s;
- include substantive, legally binding commitments in all areas of the partnership, including political dialogue, freedom, security and justice, economic co-operation, research, education and culture, trade, investment and energy.²³

At the 2010 Rostov Summit, the EU and Russia also launched the Partnership for Modernisation, which was conceived as a focal point for mutual co-operation and to reinforce dialogue started under the common spaces. The Partnership for Modernisation deals with all aspects of modernisation—economic, technical (including standards and regulations), rule of law and functioning of the judiciary.²⁴

Following a statement on 6 March 2014 by the EU Heads of State or Government, negotiations on a new EU-Russia Agreement were suspended. Meetings at the highest political level (summits) have also been suspended. The last meeting took place on 28 January 2014 in Brussels.²⁵

²⁰ Council and Commission Decision on the conclusion of the Agreement on Partnership and Cooperation between the European Communities and their Member States of the one part, and Russia, of the other part COM(94) 257, 15 June 1994: <http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1421756702017&uri=CELEX:51994PC0257> [accessed 2 February 2015]

²¹ European External Action Service, ‘EU-Russia Cooperation Programme’: http://eeas.europa.eu/delegations/russia/eu_russia/tech_financial_cooperation/index_en.htm [accessed 2 February 2015]

²² European External Action Service, ‘EU-Russia Common Spaces’: http://eeas.europa.eu/russia/common_spaces/index_en.htm [accessed 2 February 2015]

²³ Written evidence from the European Commission and the European External Action Service (RUS009)

²⁴ *Ibid.*

²⁵ *Ibid.*

CHAPTER 3: THE STATE OF THE EU-RUSSIA RELATIONSHIP

23. The early promise of warmer EU-Russia relations, which was evident after Russia's emergence from the Soviet Union, has disappeared. This has happened despite the deep economic relations and energy dependence between EU Member States and Russia.
24. His Excellency Vladimir Chizhov, Permanent Representative of the Russian Federation to the European Union, saw the crisis in Ukraine not as the cause of the decline in relations but rather as exposing existing problems.²⁶ Dr Lilia Shevtsova, Senior Associate, Russian Domestic Politics and Political Institutions Program, Moscow Centre, Carnegie Endowment for International Peace, noted that the "warm season" in relations, around 2001 and 2002, had declined to the point where, by the end of 2013, both sides felt "mutual frustration, disappointment and even disgust regarding each other."²⁷ His Excellency Dr Alexander Yakovenko, Ambassador of the Russian Federation to the UK, informed us that "Russia-EU co-operation was grinding to a halt even before the current crisis in Ukraine", and highlighted the lack of progress on the energy dialogue and the new EU-Russia Agreement.²⁸
25. The early post-Cold War years were marked by significant political, economic and social change within Russia itself, as the country instituted a multi-party electoral system, privatised and liberalised its economy, and began to recover from Soviet-era economic stagnation. Throughout this initial period, the EU played an important role—underpinned by the Partnership and Cooperation Agreement (PCA) and other agreements—in supporting institutional and market reform, infrastructural investment, civil society development and other aspects of Russia's transformation. More than ever before, Russian and European individuals, businesses, goods and culture travelled in both directions.
26. Simultaneously, the EU—alongside other regional institutions, including NATO—developed closer relationships with other states emerging from the Soviet Union and the Eastern Bloc, several of which took the decision to become NATO and EU members. Thus, as Russia was changing internally and regaining its economic footing, the geopolitical context around it was also changing.
27. According to Mr Ian Bond CVO, Director of Foreign Policy, Centre for European Reform, what began in 1994 with the EU-Russia PCA "at a high point, a moment of great optimism when things seemed to be moving forward and reform was progressing very rapidly", had by the announcement of the 2010 Partnership for Modernisation descended into "full self-deception mode" on the part of the EU.²⁹ This, he and other witnesses argued, resulted from a long process marked by divergent political and economic agendas, and incompatible interpretations of geopolitical realities.

²⁶ Appendix 4: Evidence taken during visit to Brussels

²⁷ [QQ 3, 1](#)

²⁸ Written evidence ([RUS0019](#))

²⁹ [Q 15](#)

28. This chapter sets out possible causes for the decline of relations between the EU and Russia, particularly evident in the last decade, and assesses the role of the Member States in driving EU policy on Russia.

Russia

Diverging politics—decline of the rule of law

29. Witnesses identified internal changes within Russia as a critical factor which had driven the recent decline in the relationship. Mr Bond told us that “the majority of the decline ... reflects developments within Russia itself.” He identified rising levels of corruption and the “general decline in Russia’s progress towards standards of the rule of law” in particular.³⁰
30. Mr Mikhail Kasyanov, former Prime Minister of Russia (2000–2004) and co-leader of the Republican Party of People’s Freedom (PARNAS party), put to us that the decline in relations between Russia, the EU and the West was a result of changes in both “internal policy and external policy” of the current Russian government. By 2008, he explained, Russian politics had become characterised by “managed democracy and capitalism for friends, redistribution of property in a very intensive manner and human rights violations.”³¹
31. Witnesses drew attention to three consequences of these political changes within Russia.
32. First, a divergence of values between the EU and Russia. Mr Alexander Kliment, Director, Emerging Markets Strategy, Eurasia Group, saw on both sides a “failed expectation of convergent values.”³² Mr Bond added that the problems had arisen because the EU and Russia were working to fundamentally different goals. Mr Bond highlighted the fact that by 2010 the EU was talking about a partnership “based on democracy and the rule of law with a country that very clearly had neither.”³³ Sir Andrew Wood GCMG, former British Ambassador to Russia and Associate Fellow of the Russia and Eurasia Programme, Chatham House, said that without shared values, the words “strategic partnership” were “pretty words but they lack concrete meaning.”³⁴
33. A second consequence was a ratcheting up of the Russian security architecture. Mr John Lough, Associate Fellow, Russia and Eurasia Programme, Chatham House, informed us that Russia had seen the “security apparatus return in a very significant way”, which had “managed to impose on society a certain view of the outside world.”³⁵ Sir Tony Brenton KCMG, former British Ambassador to Russia and Fellow of Wolfson College, Cambridge, told us of the reliance on “securocrats” as advisers to President Putin, who were “intensely focused on Russian security to the exclusion,

³⁰ [Q 10](#)

³¹ [Q 220](#)

³² [Q 20](#)

³³ [Q 15](#)

³⁴ [Q 200](#)

³⁵ [Q 34](#)

probably to the disadvantage in the long term, of developing relations in other ways with the West.”³⁶

34. Third, changes in the way in which Russia’s economy was now managed had made economic co-operation with the EU more problematic. Professor Richard Whitman, University of Kent, informed us that Russia’s model of capitalism had evolved in a way which was “not fully compatible with the EU member states’ market economies or with the single market”.³⁷ High levels of corruption were highlighted as a particular issue.³⁸ Sir Tony Brenton KCMG pointed out that corruption was “central to the system”: the system worked so that “you get impunity in exchange for loyalty, and you use your impunity to extract rent from whoever you have control over, so the whole system is sucking funds out of Russian society.”³⁹ Sir Andrew Wood viewed Russia’s refusal to tackle “the difficulties of economic and political reform”, as well as “domestic repression” and a “statist manipulation of the economy”, as lying at the “root of the quarrel with Ukraine.”⁴⁰

Diverging ideologies—distancing from Europe

35. As Russia has distanced itself from Europe, its government has built up its own opposing ideology, based on Russian nationalism (with ethnic Russians providing the foundation) and conservative values. The Russian Orthodox Church has also come increasingly to the fore as the symbol and bastion of these values.⁴¹ ‘Eurasianism’, an ideology of anti-Western mobilisation and communitarianism, has returned as a plank of a new nationalist foreign policy. This reflects a long-standing debate within Russian society, with one school of thought seeing Russia as an integral part of Europe and another substantial body of opinion seeing Europe as ‘the other’, and Russia as a rival or alternative pole of civilisation.
36. Mr Kliment told us that today, in contrast to the emulation of European norms and values seen during the 1990s, Russia considered itself “independent of European tutelage”. It saw itself increasingly as “something apart from Europe, not only in economic and geopolitical interests but cultural interests.” The recurring rhetoric that had been present historically in Russian political thinking, of Russia as a “morally exceptional civilisation beset on all sides by decadent enemies”, had returned to the political discourse.⁴² Dr Shevtsova also described the current political discourse as “we are not Europe. We do not want to be in Europe.”⁴³ Mr Fyodor Lukyanov, Chairman of the Council on Foreign and Defence Policy and Editor in Chief of *Russia in Global Affairs*, recognised that Russia was “stressing the difference” between the West and Russia, but “it does not necessarily mean hostility”; it meant rather that the Russian state had no

³⁶ [Q 48](#)

³⁷ Written evidence ([RUS0008](#))

³⁸ [Q 98](#), [Q 10](#)

³⁹ [Q 49](#)

⁴⁰ [Q 200](#)

⁴¹ Mark Galeotti and Andrew Bowen, ‘Putin’s Empire of the Mind’, *Foreign Policy* (21 April 2014): <http://foreignpolicy.com/2014/04/21/putins-empire-of-the-mind> [accessed 2 February 2015]

⁴² [Q 23](#)

⁴³ [Q 3](#)

intention to endeavour to “get acceptance on the western side.” He judged that the previous relationship with the EU was no longer possible.⁴⁴

37. Our witnesses drew attention to the strategic motives of these messages. Mr Kliment suggested that Russia saw a “connection” between “European liberal values and the attempts to overthrow regimes that are friendly to Russia.”⁴⁵ For Dr Shevtsova, the current political discourse was a “doctrine of survival” that allowed the justification of the current government’s policies and created an opposing policy, whereby Russia would be “containing demoralised Euro-Atlantic nations whenever and wherever it can, inside Russia and outside Russia.”⁴⁶

*Divergent geopolitical interpretations—betrayal by the West?*⁴⁷

38. According to our witnesses, the above narrative survives in Russia on the fertile ground of a sense of disappointment and disillusionment, even betrayal, by ‘the West’.⁴⁸ Mr Lough noted that there had been a reactivation of the “sense of grievance about the way the Cold War ended and what happened to Russia: the trauma that Russia lived through with the amputation of some of the former Soviet republics.”⁴⁹
39. Mr Lukyanov explained that since the time of President Gorbachev, Russians had viewed the West, especially the US, as “using Russian weakness to achieve their goals”, believing that “even if they promise something they never stick to promises.” According to Mr Lukyanov, Russians harboured a “deep disappointment in their basic ability to achieve something through negotiations.”⁵⁰ Dr Tom Casier, Jean Monnet Chair and Senior Lecturer in International Relations at the University of Kent, put to us that the “feeling of humiliation in Russia is enormous.” While it was possible to “discuss whether it is rational or not ... it is definitely present.”⁵¹ The Rt Hon David Lidington MP, Minister for Europe, observed that President Putin was a “Russian nationalist who wants to restore the greatness of Russia after what he sees as humiliation under some of his predecessors”.⁵²
40. This sense of humiliation continues today. Mr Martin Hoffman, Executive Director of the German-Russian Forum, explained that Russia attached importance to political signs and gestures which indicated respect for Russia. He cited the Winter Olympic Games held in Sochi in 2014, to which Russian leaders had attached a great deal of importance. Russia felt that the Games had faced unfair ridicule by western media and had been snubbed by certain western leaders.⁵³

⁴⁴ [Q 171](#)

⁴⁵ [Q 23](#)

⁴⁶ [Q 3](#)

⁴⁷ Threat perceptions of NATO are discussed in Chapter 4 and the particular context of Ukraine and Crimea in Chapter 5.

⁴⁸ This term is usually used to include the EU and US, and sometimes Canada and Australia as well.

⁴⁹ [Q 48](#)

⁵⁰ [Q 172](#)

⁵¹ [Q 114](#)

⁵² [Q 263](#)

⁵³ Appendix 5: Evidence taken during visit to Berlin

Public perceptions in Russia

41. We asked witnesses whether the Russian public shared these views of disappointment and disillusionment with the West.
42. Mr Denis Volkov, Head of Development Department at the Levada Centre, explained that public perceptions in Russia had to be understood as being managed and constructed by the Russian government. He pointed out that successive Russian governments had exploited “the situation if not of conflict then of controversy between Russia and the West”, and that it had been part of official policy to “exploit the idea of Russia as a kind of besieged castle”.⁵⁴ Mr Vladimir Kara-Murza, Co-ordinator, Open Russia, said that it was not meaningful to talk about opinion polls, given that “every single nationwide television channel, for more than 10 years, has been monopolised by the regime in power.”⁵⁵
43. Mr Volkov acknowledged that there was “some concern about the polling data”, and that “about 25% of the people who we survey think that there can be repercussions when people are answering questions.” However, the Levada Centre’s approach was always to ask the questions first and only ask for personal data at the end. He added that “people are free to give or refuse to give” that information but that the “absolute majority” agreed to disclose that information. Further, he was confident that the volume of data available allowed the Levada Centre to understand “not the exact truth”, but the “broader picture” of what was going on.⁵⁶
44. It was clear that feelings of nostalgia for the greatness of the Soviet Union were shared by the wider Russian public. Mr Volkov said that the majority of Russian people agreed with President Putin when he said that the collapse of the Soviet Union was one of the major catastrophes of the twentieth century. He added that President Putin was not only leading public opinion but to some extent following it by “trying to be more engaged with what the public think and trying to be the representative of common people.” Mr Volkov assessed the polling data to mean that the nostalgia for the Soviet Union was “symbolic”. It was not about trying to re-establish the Soviet Union itself, but about trying to re-establish the “greatness, of which there is a lack.”⁵⁷ We note that the Russian public experience is, of course, particularly affected by the economic hardship that followed the fall of the Soviet Union.
45. During the crisis in Ukraine, public approval of President Putin increased to one of its highest points in recent years. Dr Shevtsova pointed out that President Putin enjoyed “83% to 85% approval ratings”.⁵⁸ Speaking in July 2014, Mr Kliment noted that the President’s approval ratings were “enviable even when they were at 61%, which was not long ago”, but added that the approval ratings had “shot up significantly”; this was “almost entirely to do with Russia’s foreign policy”.⁵⁹

⁵⁴ [Q 193](#)

⁵⁵ [Q 97](#)

⁵⁶ [Q 191](#)

⁵⁷ [Q 197](#)

⁵⁸ [Q 3](#)

⁵⁹ [Q 27](#)

46. Sir Tony Brenton said that the President had delivered a “feeling of national pride and self-confidence”, which the Russians felt was “part of their birthright.” He added that “Putin is the President the Russians like.”⁶⁰ On the other hand, Mr Kliment noted that this popularity could be a “liability.” He told us that the high approval ratings were based on “unrealistic expectations” of what could “be achieved by this new, more expansive, revanchist foreign policy.”⁶¹
47. Turning to perceptions of the EU, once again there were similarities between the official Russian view and that of Russian public opinion. Mr Volkov noted that for Russians there was little distinction between Europe and the EU—“the average Russian does not go much into what the European Union is; it is more about a general understanding of Europe”. Towards the EU there had been a “rather general, positive view”, but the attitudes had changed during crises like the war with Georgia and the Crimean annexation, when western leaders criticised Russian politics.⁶² Mr Volkov added that only about “a quarter of the population consider themselves Europeans and feel European” and that at the moment, only approximately 15% considered that they had “strong connections to European culture.”⁶³
48. Witnesses drew our attention to a duality of perceptions within the Russian elite. Mr Kliment argued that while in the abstract Russians may feel “increasingly encircled by the decadent West”, at the same time wealthy Russians “view Europe as a place where they like to spend money, park their capital and take their vacations.”⁶⁴ Mr Volkov agreed that the West set an aspirational standard of “very wealthy countries with high standards of living and a goal for Russia in raising standards of living”.⁶⁵

Conclusion

49. **Russia is increasingly defining itself as separate from, and as a rival to, the EU. Its Eurasian identity has come to the fore and Russia perceives the EU as a geopolitical and ideological competitor. The model of European ‘tutelage’ of Russia is no longer possible.**

European Union

50. A criticism of the EU, put to us by witnesses, was that as Russia had changed, Member States had been slow to adapt and reappraise their policies and the Commission had continued its programmes of co-operation with diminishing results. As the economic relationship had flourished, the political partnership, with its normative agenda to promote good governance, the rule of law and economic liberalisation, had been less successful. A real strategic partnership had not been built.
51. The Russian perception was that the EU had sought to impose its own normative agenda on Russia and was unwilling to compromise.

⁶⁰ [Q 48](#)

⁶¹ [Q 27](#)

⁶² [Q 193](#)

⁶³ [Q 194](#)

⁶⁴ [Q 26](#)

⁶⁵ [Q 194](#)

Ambassador Chizhov told us that negotiations on the new EU-Russia Agreement (launched in 2008) had stalled because the EU insisted on further trade liberalisation, which Russia could not offer, having just adapted its economy in preparation for joining the World Trade Organization (WTO).⁶⁶ Mr Lukyanov said that the only basis for EU negotiations was if the counterpart took “the normative base of the European Union as the base for the mutual relationship”, which President Putin “never could accept.”⁶⁷ Mr Dmitry Polyanskiy, Deputy Director, First Department of CIS Countries, Russian Foreign Ministry, described the EU’s approach as “take it or leave it’: if you want it, you accept it; if you do not like it, well, that is your problem.”⁶⁸ Ambassador Yakovenko said this was a result of the EU viewing Russia as an aspiring member country, “prepared to sacrifice its interests and sovereign rights for the sake of future membership.” Such a model could not work for Russia.⁶⁹

52. Sir Tony Brenton described the EU’s approach as “slightly Utopian.” The Common Spaces document agreed in 2003 “was full of wishy-washy good intentions but there was nothing substantive there.”⁷⁰ Mr Václav Klaus, former President of the Czech Republic, was also unsurprised that the previous strategic frameworks for EU-Russian relations “did not materialise”, having always considered them to be “empty phrases without real substance.”⁷¹ Dr Casier agreed that what had been lacking was “a strategic vision for relations with Russia as well as for the European Neighbourhood Policy and the Eastern Partnership.”⁷²
53. Mr Pierre Vimont, Executive Secretary, European External Action Service, contested that view. The EU approach was not “so wishy-washy”: the EU had engaged on the Partnership for Modernisation with a “clear understanding of what our interests were, and the common interests with Russia”. The EU had managed to “get some tangible and significant results”, including a threefold increase in trade in ten years, and progress on shared interests such as the Tempus, Erasmus Mundus and research programmes.⁷³

Conclusions

54. **The EU’s relationship with Russia has for too long been based on the optimistic premise that Russia has been on a trajectory towards becoming a democratic ‘European’ country. This has not been the case. Member States have been slow to reappraise the relationship and to adapt to the realities of the Russia we have today. They have**

⁶⁶ Appendix 4: Evidence taken during visit to Brussels

⁶⁷ [Q 171](#)

⁶⁸ [Q 244](#)

⁶⁹ Written evidence ([RUS0019](#))

⁷⁰ [Q 30](#)

⁷¹ [Q 216](#)

⁷² [Q 110](#)

⁷³ [Q 155](#). Tempus is the European Union’s programme which supports the modernisation of higher education in the Partner Countries of Eastern Europe, Central Asia, the Western Balkans and the Mediterranean region, mainly through university co-operation projects. The Erasmus Mundus programme aims to enhance the quality of higher education and promote dialogue and understanding between people and cultures through mobility and academic cooperation: <http://eacea.ec.europa.eu/tempus> and http://eacea.ec.europa.eu/erasmus_mundus [accessed 2 February 2015]

allowed the Commission’s programmes to roll over with inadequate political oversight.

55. **The present institutional structures have not deepened understanding, given each side confidence in the other, or provided for the resolution of emergent conflicts.**

Member States: loss of analytical capacity

56. Witnesses told us that Member States had lost analytical capacity on Russia. This, we judge, contributed to a concomitant decline in their ability to maintain oversight of the direction of the EU-Russia relationship and, in particular, to monitor the political implications of the Commission’s trade and technical programmes.
57. Mr Klaus recalled that there had been a historic asymmetry, whereby former communist countries “knew the West much more than you knew the East”, and that this asymmetry remained.⁷⁴ His Excellency Dr Revaz Gachechiladze, Georgian Ambassador to the UK, also noted that there was “not a good understanding of Russia in the West”.⁷⁵ Turning to recent events, Mr Lukyanov recalled that on the day of the Crimean referendum, when the question had already been announced, he continued to receive disbelieving calls from European diplomats saying: “It cannot happen. It is just a bluff.” He warned us that with “this level of analysis, I am afraid that more surprises are to come, and not only from Russia.”⁷⁶ Dr Casier agreed that there was a “huge need for more knowledge about the local situation both in Russia and in the Eastern Partnership countries.” This was where “we have to build much stronger analytical capacity.”⁷⁷ Dr Casier pointed out that President Yanukovich’s decision not to sign the Association Agreement (AA) “had been the subject of speculation in the Ukrainian press long before he announced his decision, but took the EU by total surprise.”⁷⁸
58. Mr Josef Janning, Senior Policy Fellow at the European Council on Foreign Relations, noted that while there remained experienced diplomats in national capitals, there had been a shrinking of the “strategic space” within ministries of foreign affairs, in which to “go through the options and do analysis”.⁷⁹
59. The Rt Hon David Lidington MP agreed that there was a gap in knowledge and analysis, and judged this to be a function of time and of “various assumptions” made about Russia during the Gorbachev and Yeltsin years. These meant that, by the beginning of 2014, “there were very few officials in any government department or agency, here or elsewhere, who had personal professional experience of working with the old Soviet Union before it

⁷⁴ [Q 213](#)

⁷⁵ [Q 182](#)

⁷⁶ [Q 178](#)

⁷⁷ [Q 112](#). The Eastern Partnership governs the EU’s relationship with the post-Soviet states of Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. It is discussed in more detail in Chapter 4.

⁷⁸ Written evidence ([RUS0006](#))

⁷⁹ [Q 113](#)

collapsed.”⁸⁰ During our informal discussions we were told that a similar situation prevailed in other Member States as well.

60. Speaking about the European External Action Service (EEAS), Mr Vimont defended European diplomacy. He was “rather impressed by the level of expertise we found at the European level compared to the expertise I could find in the French Foreign Office.”⁸¹ Mr Dmitry Polyanskiy was also impressed by the EU’s linguistic ability. In his experience he had come across “certain persons speaking Russian at the same level as we do, so it is more or less their native tongue.” He assessed EU analytical capacity differently: the 2004 EU enlargement to eastern Europe and the Baltic states had brought into the EU voices which were more critical towards Russia, which had become more prominent within the EU. In his view, this had contributed to the “fact that the analysis of situations in Russia during recent years has changed a lot from what it was five, six or seven years ago.”⁸²
61. Mr Lough viewed it as part of a broader loss of “our capacity to deal with Russia.” He said that an important part of the issue was that EU Member States had lost an understanding of the “historical factors that have shaped Russia’s existence, the idiosyncrasies of the Soviet Union, and the legacy of that Soviet experience.” Without that experience it was “difficult for policy-makers to make sense quickly of what Russia is doing in Ukraine, what its logic is and where this might lead.” This was, he said, a “huge deficiency right across our systems.”⁸³ Dr Shevtsova pointed out that diplomacy, however brilliant, could not act when the EU had “no strategy or coherent vision”, leaving diplomats “to fight for an understanding on how to proceed.” She judged that diplomats were doing what they could “within the circumstances of European paralysis.”⁸⁴

UK diplomacy

62. Sir Tony Brenton believed that UK diplomacy was “pretty good”, but that it had “suffered because of a loss of language skills, particularly in the Foreign Office.” This had had a direct effect on the capacity of the FCO to respond to recent events. There was “quite lot of complaint in Whitehall after the annexation of Crimea that the Foreign Office had not been able to give the sort of advice that was needed at the time.”⁸⁵
63. Mr Rory Stewart MP has also written about the shrinking of the strategic space and the loss of deep political and cultural knowledge in the FCO. In 2014 he wrote:

“People have not been encouraged to devote their intellect and experience to asking hard questions about strategy. We have not learned the lessons of our recent failures. Foreign Office reforms in 2000 reduced the emphasis on historical, linguistic and cultural expertise, and instead rewarded generic ‘management skills.’ Instead, many of our

⁸⁰ [Q 253](#)

⁸¹ [Q 157](#)

⁸² [Q 247](#)

⁸³ [Q 51](#)

⁸⁴ [Q 7](#)

⁸⁵ [QQ 31–32](#)

officials in all departments remain distracted by hundreds of emails and tied to their desks, unable to spend significant time, deeply focused on the politics of other cultures.”⁸⁶

64. Mr Neil Crompton, Deputy Political Director at the FCO, told us in September 2014 that in response to the crisis the FCO directorate with responsibility for dealing with the crisis had been strengthened with a “25% uplift in staff—an additional 13 staff—to deal with Ukraine and Russia”. This was a response to the immediate demands of the crisis as well as recognition of the fact that Russia was “a challenge we will be dealing with for many years to come.”⁸⁷ In December, the Minister told us that other Government departments had also “increased their staff resource for dealing with Russia and Ukraine.”⁸⁸

Russian understanding of the EU

65. Mr Lukyanov told us that within Russia understanding of the EU and its internal processes was “very poor” and, as the old generation had retired, the new generation was not ready to replace them, which was “a big problem.” Russia was now trying to rebuild that capacity and he hoped that the expertise would improve as the emphasis on European studies grew.⁸⁹

Conclusions and recommendations

66. **There has been a decline in Member States’ analytical capacity on Russia. This has weakened their ability to read the political shifts and to offer an authoritative response. Member States need to rebuild their former skills.**
67. **While there has been an increase in staff at the FCO to deal with Ukraine and Russia, we have not seen evidence that this uplift is part of a long-term rebuilding of deep knowledge of the political and local context in Russia and the region. We recommend that the FCO should review how its diplomats and other officials can regain this expertise.**
68. **There is also a reduced emphasis on the importance and role of analytical expertise in the FCO. The FCO should review how such skills could be renewed and how analysis can feed into decision-making processes.**

Neglect of the relationship

69. Professor Sergei Guriev, Professor of Economics, Sciences Po, said that the relationship between the EU and Russia had suffered from political neglect on both sides, particularly in the last decade. On the EU side, by around 2010, “European foreign-policymakers apparently were busy with other things, which is understandable.” This resonated badly in Russia: for a former great power it was “not the hostilities that insult the Russian

⁸⁶ Rory Stewart OBE MP, ‘Thoughts and Analysis on Putin’ (27 May 2014): <http://www.rorystewart.co.uk/thoughts-analysis-putin> [accessed 2 February 2015]

⁸⁷ [Q 64](#)

⁸⁸ [Q 253](#)

⁸⁹ [Q 180](#)

Government but the neglect.” However, he qualified this by saying that while there “was an unfortunate lack of energy in engaging Russia”, the offers for partnership were on the table and it was “Russia’s choice not to take them.” The extent to which Russia was prepared to co-operate with the EU was also “not clear”, as Russia grappled with a “major existential crisis ... seeing the empire falling apart.”⁹⁰

70. On the other hand, Ambassador Chizhov said that initiatives proposed by the Russians had not met with reciprocal interest from the EU. He offered us the examples of visa liberalisation, and a framework for a new European security architecture, neither of which had been taken forward. In 2010 the Russians had supported the Meseberg initiative—a German proposal for a mechanism for security co-operation between the EU and Russia to resolve the frozen conflict in Transnistria—but this had lacked the support of other Member States and had fallen by the wayside.⁹¹ Ambassador Yakovenko told us that the main body of Russia-EU co-operation at the ministerial level, the Permanent Partnership Council, had not met since late 2011, due to the “High Representative’s unreadiness to discuss Russia-EU relations in a systemic way.”⁹²
71. In Mr Lukyanov’s view, the current approach whereby the Commission led on many aspects of the EU-Russia relationship was unsatisfactory because the relationship required “political will and very hard work.”⁹³ Ambassador Yakovenko too expressed dissatisfaction with the division of competences between the Commission and Member States which “complicate co-operation with any third country, and Russia is no exception.” He said that these internal procedures had sometimes been “used as a pretext for demanding unilateral concessions or delaying work on crucial agreements”.⁹⁴ Mr Lukyanov told us that Russia preferred bilateral relations because the EU was a “very difficult animal” and because President Putin remained “ready to strike deals ... but in the normal way in which, for example, big powers come together and decide something.”⁹⁵

Conclusion

72. **The current division of competences within the EU, whereby both the Commission and Member States have responsibility for different aspects of the EU-Russia relationship, complicates co-operation with Russia. Russia finds the institutional complexities of the EU difficult to navigate and would prefer to deal with Member States on a bilateral basis. The Commission rightly has some areas of exclusive competence, in trade in particular, but it must be clearly mandated by Member States who should take ownership of the policy and signal it to Russia.**

⁹⁰ [Q 79](#)

⁹¹ Appendix 4: Evidence taken during visit to Brussels

⁹² Written evidence ([RUS0019](#))

⁹³ [Q 179](#)

⁹⁴ Written evidence ([RUS0019](#))

⁹⁵ [Q 179](#)

Current relationship: divided Member States

73. Member States are the critical factor driving forward relations with Russia. Mr Hugo Shorter, Head of EU Directorate (External) at the FCO, told us that “Member States’ positions and the action of Member States such as the UK will remain determinant in establishing the EU’s position as time goes on”.⁹⁶ However, we were told that Member States remained divided on Russia and that those divisions had weakened the EU’s capacity to deliver a meaningful and strategic partnership.
74. Dr Casier said that Russia had “always been one of the most divisive issues”, with Member States holding “different visions of their relations with Russia and pursuing their own business interests.”⁹⁷ Associate Professor Tomila Lankina, London School of Economics and Political Science, said that over the last decade Russia had “exploited Member States’ vulnerabilities stemming from Europe’s dependency on Russia’s oil and particularly gas exports.”⁹⁸ Dr Shevtsova suggested that Russia had “proved tremendously successful and very able and deft in dividing Europe”.⁹⁹ The Minister viewed these divisions as having “contributed to our strategic European approach to Russia not being as strong as I would like it to be.”¹⁰⁰
75. Witnesses drew out the distinctions between Member States. At one end of the spectrum, Sir Tony Brenton pointed out that “Germany and Italy have huge economic stakes in a good relationship with Russia”, while at the other end “Estonia and Poland are deeply suspicious of a resurgent Russia”.¹⁰¹ In Dr Shevtsova’s view, Russia had pursued bilateral relations with different ‘tiers’ of EU Member States. Tier one included Germany, France and the United Kingdom, while tier two comprised the Mediterranean countries. The third tier was made up of “Trojan horses”—weaker states that could “easily be subjugated and harassed.”¹⁰² We assess the roles of the United Kingdom and Germany in more detail below.

United Kingdom: response to the crisis

76. The UK is a signatory to the Budapest Memorandum on Security Assurances (1994). In exchange for Ukraine’s accession to the Treaty on the Non-Proliferation of Nuclear Weapons, the UK, alongside the US and Russian Federation, confirmed their commitment to “respect the independence and sovereignty and the existing borders of Ukraine.”¹⁰³
77. Some witnesses criticised the UK’s initially hesitant approach towards the current crisis. In July 2014, Mr Bond told us that the UK had not “been as

⁹⁶ [Q 63](#)

⁹⁷ [Q 112](#)

⁹⁸ Written evidence ([RUS0001](#))

⁹⁹ [Q 1](#)

¹⁰⁰ [Q 258](#)

¹⁰¹ [Q 30](#)

¹⁰² [Q 7](#)

¹⁰³ Memorandum on Security Assurances in Connection with Ukraine’s Accession to the Treaty on the Non-Proliferation of Nuclear Weapons, 19 December 1994, (UN Document A/49/765): available via <http://documents.un.org/simple.asp> [accessed 29 January 2015]. In Chapter 5, we discuss the Budapest Memorandum on Security Assurances further.

active or as visible on this as I would have expected and as we might have been a few years ago.”¹⁰⁴ The UK had “traditionally been one of the influential” EU players, and he would have liked to “see British Ministers stepping up their activity in this area.”¹⁰⁵

78. As the crisis unfolded in Ukraine, the UK began to take on a more active role at the international level. Mr Crompton told us that the UK “made much of the intellectual case for the sort of sanctions we believe will have an impact on Russia” in the EU and the Group of Seven, and that the UK had undertaken a “lot of the diplomatic lobbying” at the EU level. Within the United Nations, the UK was “instrumental in securing the General Assembly resolution on Crimea.” The UK was also “active in the wake of MH17 in condemning the shooting down of the plane.”¹⁰⁶
79. The challenge, as Sir Tony Brenton explained, was that UK-Russian bilateral relations had been “dogged by a succession of problems” that had placed the UK at a distance. Furthermore, the positions taken by the UK were “seen in Moscow as being in the shadow of the United States, and therefore if they want to hear the hard western line they will go to Washington rather than come to London.” Nevertheless, Sir Tony judged the UK to have been “as effective as we can be against a background of difficult core factors in the relationship.”¹⁰⁷
80. Turning to the UK’s future approach, the Minister told us that Russia could not be considered “a potential strategic partner to the EU”, while Russian actions suggested that Russia saw the EU “as a strategic adversary rather than as a potential partner.”¹⁰⁸ Mr Crompton confirmed that in the “last period we have largely regarded President Putin as a partner and someone the EU could work with in many different ways. I think that the notion of him as a partner has been challenged.”¹⁰⁹
81. In response to the crisis, the Minister for Europe informed us that regular dialogues between UK and Russian defence and foreign ministers had been postponed, as had the Lord Mayor’s visit to Moscow and the intergovernmental steering committee trade talks, and that a VIP visit to the Sochi Paralympics had been cancelled. Contacts by the Prime Minister and Foreign Secretary had focused on Ukraine.¹¹⁰

Conclusions

82. **As one of the four signatories of the Budapest Memorandum (1994), which pledged to respect Ukraine’s territorial integrity, the UK had a particular responsibility when the crisis erupted. The Government has not been as active or as visible on this issue as it could have been.**

¹⁰⁴ [Q 11](#)

¹⁰⁵ [Q 15](#)

¹⁰⁶ [Q 61](#)

¹⁰⁷ [Q 31](#)

¹⁰⁸ [Q 253](#)

¹⁰⁹ [Q 53](#)

¹¹⁰ [Q 258](#)

83. **We welcome the Government’s realistic appraisal of relations with Russia and recognition of the strategic challenge posed by the Russian regime. However, the Government has not developed a strategic response for the long-term and should now do so.**

Germany

84. Many witnesses considered that Germany was the key Member State. Mr Kliment said that the absolutely crucial dialogue was between Berlin and Moscow. This was partly because the US and Russia were “just not talking very much at all right now”, but also because the framing of Europe’s response was “very much to do with the Germany-Russia relationship.”¹¹¹ Mr Bond agreed that strong economic ties and a strong political relationship had meant that Germany always had “a great deal of weight” with Russia.¹¹² The UK, Mr Crompton informed us, “strongly” supported the fact that international diplomacy had “been largely led by Chancellor Merkel.”¹¹³
85. During our discussions in Berlin, four themes struck us as being particularly pertinent. First, there was a particular historical connection and many personal ties between Germany and Russia. Chancellor Merkel herself had grown up in East Germany and spoke Russian fluently. Therefore, Russian actions had been perceived with a particular sense of disappointment. Second, Germany had been the Member State driving and maintaining a united EU position on a strong sanctions policy. Third, Russian actions were perceived in Germany as a direct threat to the security of Europe. Finally, there was a growing sense of frustration in Germany that Russia was not responding to Germany’s offer of dialogue, and Germany remained ready to ratchet up sanctions in the absence of progress on the Minsk Protocol.¹¹⁴
86. Dr Hans-Dieter Lucas, Political Director at the Federal Foreign Office of the Federal Republic of Germany, informed us that both Chancellor Merkel and the Federal Foreign Office were working along a dual-track policy, which involved enforcing economic and financial sanctions, while also continuing to communicate with Russia. Dr Christoph Heusgen, Foreign Policy and Security Adviser to Chancellor Merkel, Federal Chancellery, noted that the Chancellor had spent many hours speaking to President Putin about the current crisis and the implementation of the Minsk Protocol. The Chancellor had been clear that the offer to President Putin of dialogue was open.¹¹⁵
87. Despite this, the amount of contact between the German and Russian governments had been reduced. Dr Lucas informed us that in the past there had been joint meetings of the German and Russian cabinets, but that these had been suspended. Apart from the Chancellor and Foreign Minister, most other ministerial meetings had also been cancelled, though meetings regarding sports and culture had continued.¹¹⁶

¹¹¹ [Q 28](#)

¹¹² [Q 11](#)

¹¹³ [Q 61](#)

¹¹⁴ The Minsk Protocol is explained in more detail in Chapter 5.

¹¹⁵ Appendix 5: Evidence taken during visit to Berlin

¹¹⁶ *Ibid.*

88. There appeared to be a political debate taking place within the German establishment about the form that German policy towards Russia should take in the future, with divisions across the political spectrum. Mr Hoffman told us that there was significant pressure on Chancellor Merkel to be outspoken and to take a tough line towards Russia.¹¹⁷ In Mr Janning's view, Chancellor Merkel's line was beginning to be contested within her own party, with some calling for "a more principled approach to Russia". There were some dissenting voices within the Social Democratic Party and "a lot among the Greens, who are very hard-line on Russia". In his view, Chancellor Merkel therefore had to be "fairly outspoken domestically".¹¹⁸

Building Member State unity

89. Going forward, our witnesses told us that Member States must unite on Russia. Mr Kara-Murza said it was "crucial that the European community, the European Union, speaks as much as possible with one voice".¹¹⁹
90. In fact, witnesses identified a process of reassessment in national capitals, with Member States agreeing that Russian actions required a strategic response. In the FCO's view, while getting initial agreement on sanctions was difficult, it had "actually become easier over the past couple of months." Recent events had changed perceptions of Russia within European governments and there was a recognition that there was "a strategic challenge to Europe through President Putin's behaviour," which required "a strategic response."¹²⁰ Dr Casier saw that the EU was now in a "rather unique situation where there is a momentum on which there is a broad consensus."¹²¹
91. However, Dr Casier also pointed out that the unity was fragile, and that there was "increasing pressure from certain Member States to return to business as usual".¹²² Mr Bond suggested that in response to the current crisis Italy had taken "a rather soft position towards Russia", and that that had "been true of Greece and Cyprus as well."¹²³ We would view with concern any further softening by these or other governments.

Leadership of the European Council

92. Witnesses suggested that the European Council should take the lead in offering political oversight and co-ordinating a more united position on Russia, with the President of the European Council taking a leading role.
93. Mr Janning noted that, in recent years, key decision-making and core agenda-setting had increasingly moved to the European Council: "So I see more clearly now than before that the European Council will be the institution in the lead". Dr Casier also expected "the President of the European Council to play an important role, especially given his past and the

¹¹⁷ *Ibid.*

¹¹⁸ [Q 118](#)

¹¹⁹ [Q 106](#)

¹²⁰ [Q 60](#) (Neil Crompton)

¹²¹ [Q 112](#)

¹²² *Ibid.*

¹²³ [Q 11](#)

way in which the role has been developed by his predecessor”.¹²⁴ The Minister for Europe confirmed that in future “Heads of Government in the European Council will want to be very hands-on in making sure that they are happy with what comes up from the Brussels machine.”¹²⁵

94. This position seems to be supported in Germany. According to Dr Lucas, the German government was convinced that Germany’s position towards Russia could only be effective if supported by a broader EU consensus.¹²⁶ Mr Janning agreed that it was important for leadership signals “to come through the European Council.” If Germany were to continue to be only leader that “would immediately generate mistrust from other Member States and would thus limit the effectiveness of German leadership.”¹²⁷
95. In Chapter 6, we examine the factors that could form the basis of a new strategic policy towards Russia, but as a first step we welcome Mr Bond’s suggestion that the EU should “start with a common analysis”, and from there “start to draw some conclusions about policy.”¹²⁸

Conclusions and recommendations

96. **Recent events in Ukraine have triggered a fundamental reassessment of EU-Russia relations among Member States, who have shown a surprising and welcome unity in condemning Russian actions and demanding a response. We hope that this unity continues. However, there seems to be less consensus on a constructive way forward, and a resulting danger that current unity could dissolve.**
97. **Europe is at the centre of the crisis in Ukraine and relations with Russia. The handling of future relations is a key test for European diplomacy and foreign policy, yet hitherto divisions between Member States have been the most important factor hampering development of a strategic EU policy on Russia. In the long term, only a dual approach, with Member States acting together as well as using their bilateral connections in the service of EU policy, will be effective. The first step must be to maintain solidarity on current policy and to continue to seek a common approach in the response to the crisis. There is a real danger that once the crisis ebbs away Member States will continue to prioritise their economic relations above their shared strategic interests.**
98. **We see merit in proposals that the President of the European Council, carrying the authority of the Member States, should take the lead in shaping the EU’s policy towards Russia. We recommend that the UK Government should strongly support such a move and bring forward a proposal at the EU level to bolster the role of the President of the European Council on Russia.**

¹²⁴ [Q 110](#)

¹²⁵ [Q 258](#)

¹²⁶ Appendix 5: Evidence taken during visit to Berlin

¹²⁷ [Q 119](#)

¹²⁸ [Q 9](#)

99. **The very fact of the European Council exercising its decision-making processes and strategic thinking on Russia will, by demonstrating the engagement of Member States, send an important message to the Russian government. To maintain political oversight, we recommend that the UK Government should ensure that a discussion on Russia is regularly placed on the agenda of the European Council.**
100. **The starting point for reviewing the EU's policy towards Russia should be a common analysis, with a view to identifying shared strategic interests and vulnerabilities. The analysis would form the basis of a strategic framework on Russia. We recommend that the UK Government should ask the European Council to commission this analysis from the European External Action Service.**

CHAPTER 4: THE SHARED NEIGHBOURHOOD

101. In this chapter we turn to the growing competition between the EU and Russia in the shared neighbourhood—that is to say, the countries which were once part of the former Soviet Union and which now participate in the EU’s eastern neighbourhood policy instruments: Ukraine, Belarus, Moldova, Azerbaijan, Georgia and Armenia. We also reference Kazakhstan as a member of the Eurasian Union.

The EU’s role in the shared neighbourhood

102. The EU, through its various eastern neighbourhood policy instruments, plays an active role in the shared neighbourhood. These instruments are outlined in Box 2.

Box 2: EU policy instruments in the shared neighbourhood

Launched in 2004, the objective of the European Neighbourhood Policy (ENP) is to “achieve the closest possible political association and the greatest possible degree of economic integration.” The ENP is proposed to 16 of the EU’s closest neighbours—Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, Palestine, Syria, Tunisia and Ukraine. Partner countries agree with the EU an Action Plan aimed at fostering domestic reforms in the political, economic and administrative realms and receive in exchange:

- Financial support: grants worth €12 billion were given to ENP-related projects from 2007 to 2013;
- Economic integration and access to EU markets: in 2011 trade between the EU and its ENP partners totalled €230 billion;
- Visa facilitation: in 2012, 3.2 million Schengen visas were issued to citizens, and in particular to students from ENP countries; and
- Technical and policy support.

The Eastern Partnership (EaP), launched in 2009, is the eastern dimension of the ENP. It is directed at the six post-soviet countries of Eastern Europe and the Caucasus—Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. The Commission states that the Partnership promotes democracy and good governance; strengthens energy security; promotes sector reform and environment protection; encourages people-to-people contacts; supports economic and social development and provides additional funding for projects to reduce social inequality and increase stability.

Association Agreements (AAs) govern the political association between the EU and EaP countries. AAs set out the core reforms and areas for enhanced co-operation between the EU and the partner country. AAs include a Deep and Comprehensive Free Trade Area (DCFTA) which goes further than a classic free trade agreement, opening up markets but also addressing competitiveness issues and the steps needed to meet EU standards and trade on EU markets.

Ukraine, Georgia and Moldova signed AAs, including DCFTAs, with the EU on 27 June 2014. The respective parliaments of Georgia and Moldova and the European Parliament ratified these agreements in the course of the summer 2014. They provisionally entered into force on 1 September. The AA with Ukraine was

simultaneously ratified by the Verkhovna Rada and the European Parliament on 16 September 2014. However, the implementation of the DCFTA has been delayed until 1 January 2016.

Source: The European Commission websites: http://eeas.europa.eu/eastern/index_en.htm and http://eeas.europa.eu/enp/index_en.htm [accessed on 2 February 2015]

Russia's role in the shared neighbourhood

103. Russia also lays claim to a role in the shared neighbourhood, drawing on its historical links with former Tsarist and Soviet Union countries, close cultural and economic ties, and security interests.
104. Russian concerns in the shared neighbourhood centre on four themes:
- military security;
 - internal preoccupations of regime consolidation;
 - protection of the Russian language and ethnic Russians; and
 - the Eurasian Union.

Military security

105. In Moscow's assessment, NATO remains the pre-eminent security threat to Russia. The Kosovo war in 1999, where NATO acted against Russia's wishes, was one of a "sequence of things" which had upset Russia.¹²⁹ A particular dispute over NATO's eastern expansion has further distorted relations between the West and Russia.¹³⁰
106. In the months that followed the fall of the Berlin Wall (1990), the United States of America, Soviet Union and West Germany engaged in talks on the withdrawal of Soviet troops and the reunification of Germany. What was discussed then about NATO has become the subject of dispute among analysts and diplomats (even among those present at the time).
107. On one side, it is asserted that the western powers pledged that NATO would extend no further east. This promise was broken by three rounds of further enlargement, adding 12 eastern European countries to the Alliance. Sir Rodric Braithwaite GCMG, former British Ambassador to the Soviet Union and Russia, informed us that assurances were given in 1990 by the US (James Baker, US Secretary of State) and Germany (Helmut Kohl, German Chancellor), and in 1991 on behalf of the UK (by the then Prime Minister, John Major, and the British Foreign Secretary, Douglas Hurd) and France (by French President Francois Mitterrand). Sir Rodric Braithwaite said that this "factual record has not been successfully challenged in the West."¹³¹ Former US Defence Secretary Robert McNamara has also averred that the

¹²⁹ Q 48 (Sir Tony Brenton)

¹³⁰ Mary Elise Sarotte, 'A Broken Promise? What the West Really Told Moscow About NATO Expansion', *Foreign Affairs*, (September/October 2014): <http://www.foreignaffairs.com/articles/141845/mary-elise-sarotte/a-broken-promise> and Steven Pifer, 'Did NATO Promise Not to Enlarge? Gorbachev says "No"', *The Brookings Institution*, (6 November 2014): <http://www.brookings.edu/blogs/up-front/posts/2014/11/06-nato-no-promise-enlarge-gorbachev-pifer> [accessed 2 February 2015]

¹³¹ Written evidence (RUS0021)

US “pledged never to expand NATO eastward if Moscow would agree to the unification of Germany.”¹³²

108. On the other hand, these assertions have been challenged on three main grounds. Some US policy makers, also present at the time, such as George H.W. Bush, Brent Scowcroft and James Baker, firmly deny that the topic of NATO membership extending to the Warsaw Pact countries even arose, much less that the US made any such assurance in negotiations on German reunification.¹³³ The Minister for Europe quoted an interview with former Soviet President Mikhail Gorbachev where he said that the “topic of ‘NATO expansion’ was not discussed at all, and it wasn’t brought up in those years.”¹³⁴ A second reason put forward is that events overtook an already ambiguous assurance. The unprecedented speed of German reunification and the wider political context (the break-up of the Soviet Union and fall of communist governments all over eastern Europe) rendered any earlier assurance redundant.¹³⁵ Finally, it is argued that western promises were made orally, nothing was codified and it would have been impossible for western governments to bind future sovereign states. Sir Andrew Wood GCMG, former British Ambassador to Russia and Associate Fellow of the Russia and Eurasia Programme, Chatham House, said that such a promise “was never asked for and never put down in writing. In any case, even if it had been—which it was not—it would be invalid; you cannot bind the future.”¹³⁶ The Minister for Europe said that “NATO has carried out enlargement in a transparent way communicating with Russia through such fora as the Permanent Joint Council” and furthermore, “sovereign states have the right to decide their own security policy and that no one country should have a veto over those choices.”¹³⁷
109. While the facts of that expansion may be disputed, what is clear is that the ‘broken promise’ of enlargement has long featured as a key element of Russian policy-makers’ deepening cynicism over NATO and western good faith. Sir Rodric Braithwaite found it “unsurprising that the Russians took seriously repeated high-level oral assurances they were given by Western officials who, they naturally assumed, were speaking responsibly”, and noted that the Russians therefore “felt that they had been badly misled” by NATO enlargement.¹³⁸ The Russian President returned to this topic in his 18 March Speech to the Federation Council:

“they (Western leaders) have lied to us many times, made decisions behind our backs, placed before us an accomplished fact. This happened with NATO’s expansion to the East, as well as the deployment of military infrastructure at our borders.”¹³⁹

¹³² Quoted in Mark Kramer, “The Myth of a No-NATO-Enlargement Pledge to Russia”, *Center for Strategic and International Studies*, (1 April 2009): <http://csis.org/publication/twq-myth-no-nato-enlargement-pledge-russia-spring-2009> [accessed 2 February 2015]

¹³³ *Ibid*

¹³⁴ Written evidence ([RUS0020](#))

¹³⁵ Written evidence ([RUS0021](#)) and [Q 203](#)

¹³⁶ [Q 203](#)

¹³⁷ Written evidence ([RUS0020](#))

¹³⁸ Written evidence ([RUS0021](#))

¹³⁹ Vladimir Putin, speech to State Duma deputies and Federation Council members (18 March 2014): <http://eng.kremlin.ru/news/6889> [accessed 2 February 2015]

110. Mr Alexander Kliment, Director, Emerging Markets Strategy, Eurasia Group, said that Russia's "tremendous objection" to NATO expansion had been underestimated by the West.¹⁴⁰ Dr Alexander Libman, Associate of Eastern Europe and Eurasia Division, Stiftung Wissenschaft und Politik, explained that it was important to "take into account the irrational fear of NATO many Russians have. Even liberal-minded people in Russia often honestly state that for them expansion of the NATO towards the east is a point of concern."¹⁴¹ Mr Denis Volkov, Head of Development Department, Levada Center, confirmed that for the Russian public, "NATO was always considered a threat" and that an "underlying distrust of the United States and NATO" remained.¹⁴²
111. Mr Mikhail Kasyanov, former Prime Minister of Russia and co-leader of the Republican Party of People's Freedom (PARNAS party), and Mr Vladimir Kara-Murza, Co-ordinator, Open Russia, presented an alternative Russian view. Mr Kasyanov pointed out that NATO was only dangerous when "those values that were supposed to unite us disappear". For his part, he perceived no threat. He said that NATO was "absolutely a friendly organisation, contrary to what Mr Putin is doing now."¹⁴³ Mr Kara-Murza also did "not see the expansion of NATO as any kind of threat to Russia." On the contrary, NATO had been a security provider for Russia and "the most stable, secure and peaceful borders" that Russia had were the borders with NATO.¹⁴⁴
112. The Minister for Europe, while agreeing that a feeling of insecurity existed in Russia, questioned the extent to which that feeling was "justified objectively", and what could legitimately be done to address it.¹⁴⁵ For Sir Andrew Wood, while NATO expansion was the "central grievance that the Russians themselves proclaim", the fact was that "Russia has not been threatened directly by NATO at all." Countries had joined because they "wished for stability and because they wished to reinsure themselves to some degree against possible Russian pressure."¹⁴⁶
113. Turning to the specific case of Ukraine, Mr Fyodor Lukyanov, Chairman, Council on Foreign and Defense Policy, and Editor in Chief of Russia in Global Affairs, said that the "security concerns connected to possible rapprochement between Ukraine and NATO" were the key element driving President Putin's actions there.¹⁴⁷ Dr Marat Terterov, Executive Director and Co-Founder of the Brussels Energy Club, explained the Russian perception that if there were a pro-West and pro-American government in Ukraine, there would be a "genuine risk that Sevastopol could host NATO vessels."¹⁴⁸ Ms Sabine Lösing MEP said that "we are witnessing an intense power political struggle in which it was the West that initiated the contest

¹⁴⁰ [Q 24](#)

¹⁴¹ Written evidence ([RUS0015](#))

¹⁴² [Q 193](#)

¹⁴³ [Q 224](#)

¹⁴⁴ [Q 105](#)

¹⁴⁵ [Q 259](#)

¹⁴⁶ [Q 203](#)

¹⁴⁷ [Q 173](#)

¹⁴⁸ [Q 115](#)

with its expansionist policies and where Russia now also increasingly reverts to hard power politics.”¹⁴⁹

114. In Ms Lösing’s view, a lasting solution for Ukraine would only be achieved “if the West categorically supports a future neutrality of the country—that implies no NATO membership, but also no association agreement with the EU”.¹⁵⁰ During a recent interview, Henry Kissinger, former US Secretary of State, said that the best outcome would be for Ukraine to become “a bridge between east and west” rather than a western “outpost”.¹⁵¹

EU conflated with NATO

115. While Russian policy makers and the Russian people distinguish to some extent between the ‘West’ and the EU, the EU’s eastern enlargement has increasingly become conflated in the minds of the Russian government with NATO expansion. Mr Kliment said that Russia viewed the closer alignment of Ukraine with European economic and political structures “ultimately as a stalking horse for Ukraine’s eventual NATO membership.”¹⁵² The Russian perception, Mr Lukyanov told us, was that EU membership would “almost inevitably lead, in the short-term or long-term perspective, to NATO membership, which is perceived in Russia as an absolutely unacceptable threat to national security.”¹⁵³ Speaking in September 2014, Mr Neil Crompton, Deputy Political Director, FCO, said that the events of the past few months had shown that Russia regarded the extension of EU influence “as a very serious threat to its own sphere of influence.”¹⁵⁴ However, Mr Ian Bond CVO, Director of Foreign Policy, Centre for European Reform, reminded us that it was not a necessary connection, and that “Finland, Sweden, Austria and Ireland” had all managed to exist within the EU without joining NATO.¹⁵⁵

Conclusion

116. **While we are clear that NATO is a defensive alliance, for the Russians NATO is seen as a hostile military threat, and successive rounds of NATO’s eastern enlargement have, as the Russians see it, brought it threateningly close to the Russian border. EU enlargement, as it has become conflated with NATO enlargement, has also taken on the aspect of a security threat. These views are sincerely and widely held in Russia, and need to be factored into Member States’ strategic analyses of Russian actions and policies.**

¹⁴⁹ Written evidence ([RUS0004](#))

¹⁵⁰ *Ibid.*

¹⁵¹ Bronwen Maddox, ‘New world disorder: An interview with Henry Kissinger’, *Prospect*, (18 September 2014): <http://www.prospectmagazine.co.uk/features/new-world-disorder-an-interview-with-henry-kissinger> [accessed 2 February 2015]

¹⁵² [Q 21](#)

¹⁵³ [Q 173](#)

¹⁵⁴ [Q 53](#)

¹⁵⁵ [Q 13](#)

Internal preoccupations of regime consolidation

117. The Russian government's preoccupation with ensuring its own stability is key to understanding its actions in the neighbourhood. Professor Sergei Guriev, Professor of Economics, Sciences Po, Paris, explained:
- “This social compact is gone. The Russian economy is at best stagnating. To offer a new source of legitimacy, the regime needs non-economic solutions. Bringing new countries into the sphere of interest, showing that Russia is an important country, showing there are greater things than GDP per capita or economic growth or mortgages (are) tools for the regime to gain legitimacy and popularity and survive.”¹⁵⁶
118. Mr Kasyanov said that President Putin's main motivation was to “keep his power internally in the country”,¹⁵⁷ while Dr Lilia Shevtsova, Senior Associate, Moscow Center, Carnegie Endowment for International Peace, emphasised that “foreign policy is the servant, instrument and means of a domestic agenda.” That agenda was to “survive through to 2018 ... and indefinitely, and keep stability and status in Russia.”¹⁵⁸ The consequence, according to Mr Kasyanov, was that Russia needed “to find an external enemy and to impose a mobilisation spirit on the society.” In particular he thought that President Putin needed “short wars and victories.”¹⁵⁹
119. The EU's model of good governance and promotion of democracy was seen as a riposte to the political model adopted by the current Russian government. Two aspects of the events in Ukraine were thus keenly threatening: the manner of the fall of President Yanukovich, and the longer-term threat of Ukraine choosing the EU. The precedent of an elected leader overthrown by what His Excellency Dr Alexander Yakovenko, Ambassador of the Russian Federation to the UK, described as a “coup”, was, according to Mr Kara-Murza, “too close to home”—an “authoritarian corrupt leader fleeing his country in a helicopter, amid mass popular protests in the capital”.¹⁶⁰ President Putin accordingly “decided that he had to do everything to prevent a Maidan in Moscow.”¹⁶¹
120. Dr Shevtsova and Mr Kasyanov highlighted the Russian fear of a domino-like effect, whereby neighbouring countries might be drawn towards the EU. Dr Shevtsova explained that Russia did not want neighbouring countries to become “a kind of icon and point of attraction, the embodiment of economic success and of a rule-of-law state.”¹⁶² Mr Kasyanov emphasised that it would be “absolutely unacceptable to have democratic success for a country like Ukraine.” Such a transformation for Ukraine “would work to the destruction of Mr Putin's vision, and a different Slavic, or Russian, world”.¹⁶³

¹⁵⁶ [Q 80](#)

¹⁵⁷ [Q 237](#)

¹⁵⁸ [Q 6](#)

¹⁵⁹ [Q 227](#)

¹⁶⁰ Written evidence ([RUS0019](#)), [Q 104](#)

¹⁶¹ [Q 104](#)

¹⁶² [Q 3](#)

¹⁶³ [Q 228](#)

Heightened risk of conflict

121. Professor Guriev found it hard to judge whether President Putin had been opportunistic or imperialistic in his actions in Ukraine, whether he was using foreign policy to ensure the legitimacy and survival of the regime, or was driven to restore a Greater Russia. However, both theories delivered “the same empirical predictions.”¹⁶⁴ Mr Kliment warned us that the popularity and support for the Russian regime depended on a “combative and pugnacious foreign policy”, creating a “significantly heightened risk of conflict between the EU and Russia—not open conflict but indirect conflict of the kind that we are seeing in Ukraine.”¹⁶⁵
122. His Excellency Dr Revaz Gachechiladze, Georgian Ambassador to the UK, believed that President Putin was trying to restore the former Soviet Union. He told us that it was axiomatic “that Russia was always expanding territorially.”¹⁶⁶ His Excellency Andrii Kuzmenko, Ukrainian Acting Ambassador to the UK, also viewed Russia’s aim as to “reincarnate the Russian empire at least as (far as) the border of the former Soviet Union.”¹⁶⁷
123. Other witnesses felt that the likelihood of further military action was limited. Georgia and Moldova did not hold the same economic or strategic importance as Ukraine, while the Baltic states were protected by the Article 5 guarantee of their NATO membership.¹⁶⁸ Mr Kara-Murza echoed the view of other witnesses, that he did not foresee a direct military intervention in the Baltic states, “as they are NATO members”. However, while stopping short of an Article 5 threat, “non-direct” steps had been taken to destabilise the Baltic states.¹⁶⁹ The Minister for Europe pointed to more concrete actions: an “Estonian official kidnapped from Estonian territory by Russian forces and still held in Moscow without any evidence brought against him; a Lithuanian fishing boat seized on the high seas, towed to Murmansk, and still held”.¹⁷⁰

Conclusion and recommendation

124. **The responsibility for European defence remains with Member States and NATO. Hostile actions of any kind by the Russian government towards the Baltic states must be met by Member States and NATO with a strong response.**

Rights of ethnic Russians and Russian-speakers

125. The treatment of Russian-speakers was a key theme in Russia’s discourse regarding its actions in Crimea and eastern Ukraine. His Excellency Vladimir Chizhov, Permanent Representative of the Russian Federation to the EU, said that the local population in Crimea were very concerned by the anti-Russian sentiment evident in declarations to ban the Russian language

¹⁶⁴ [Q 80](#)

¹⁶⁵ [Q 27](#)

¹⁶⁶ [Q 182](#)

¹⁶⁷ [Q 67](#)

¹⁶⁸ [Q 27](#) (Alexander Kliment), [Q 36](#) (John Lough), [Q 219](#) (Vaclav Klaus), [QQ 36, 38](#) (Sir Tony Brenton)

¹⁶⁹ [Q 104](#)

¹⁷⁰ [Q 257](#)

(subsequently not implemented, but discussed further in Chapter 5). In the circumstances, the Ambassador said, President Putin was compelled to act, because if he had turned a blind eye he would never have been forgiven by the ethnic Russians in Crimea.¹⁷¹

126. Other witnesses viewed the concern for ethnic Russians as merely a pretext. Mr Lukyanov said that President Putin might have thought that to explain his actions in Crimea “he needed a bigger narrative, and then this ‘Russian world’ came in.”¹⁷² Mr Kara-Murza dismissed the “so-called threats” to Russian-speaking people in Crimea as “nonsense”. He said that the “so-called concern about ‘compatriots’” was merely a tool which the Putin regime used against governments it deemed unfriendly, including the Baltic states.¹⁷³ The Minister for Europe also viewed the doctrine as “calculated to sow fear in the three Baltic republics in particular.”¹⁷⁴

127. The status of ethnic Russians in the Baltic states has been a recurring motif in President Putin’s statements in recent years. In 2012 he wrote:

“We cannot tolerate the shameful status of ‘non-citizen.’ How can we accept that, due to their status as non-citizens, one in six Latvian residents and one in 13 Estonian residents are denied their fundamental political, electoral and socioeconomic rights and the ability to freely use Russian?”¹⁷⁵

128. In Estonia and Latvia, Russian does not have the status of an official language, and in both these countries citizenship rights, in particular the right to vote in national elections, are dependent on a language test in the official language.¹⁷⁶ Therefore, ethnic Russians who were not born in these countries, primarily an older generation who settled in the Baltic regions after World War II, with limited language ability in the official language, are denied citizenship and are unable to participate in the political process.¹⁷⁷ In contrast, Lithuania granted citizenship to all its residents at the time of independence. Mr Kara-Murza explained the nuances within the countries and their respective electoral rules: “non-citizens in Estonia can vote in local elections. In Latvia, they cannot ... In Lithuania, everyone was granted automatic citizenship; it is not an issue there.”¹⁷⁸

129. All three Baltic countries are state parties to the Council of Europe’s Framework Convention for the Protection of National Minorities (adopted in 1994). The Framework sets out a number of principles according to which signatory States are to protect the rights of minorities. Article 4.2 makes it

¹⁷¹ Appendix 4: Evidence taken during visit to Brussels

¹⁷² [Q 177](#)

¹⁷³ [Q 101](#)

¹⁷⁴ [Q 259](#)

¹⁷⁵ ‘Russia and the changing world’, *Ria Novosti* (27 February 2012): <http://valdaiclub.com/politics/39300.html> [accessed 2 February 2015]

¹⁷⁶ Gabrielle Hogan-Brun, Uldis Ozolins, Meilute Ramoniene and Mart Rannut, ‘Language Politics and Practices in the Baltic States’, *Current Issues in Language Planning*, vol. 8, no. 4, (2007): <http://www.tandfonline.com/doi/pdf/10.2167/cilp124.0> [accessed 2 February 2015]

¹⁷⁷ Human Rights without Frontiers, ‘Citizenship and Language Rights of Russian-speaking Minorities’ (29 September 2014): <http://www.osce.org/odihr/124483?download=true> [accessed 2 February 2015]

¹⁷⁸ [Q 101](#)

clear that a state's obligations may also require affirmative action on the part of the government. The parties undertake:

“to adopt, where necessary, adequate measures in order to promote, in all areas of economic, social, political and cultural life, full and effective equality between persons belonging to a national minority and those belonging to the majority. In this respect, they shall take due account of the specific conditions of the persons belonging to national minorities.”¹⁷⁹

130. Sir Tony Brenton KCMG, former British Ambassador to Russia and Fellow of Wolfson College, Cambridge, believed that Russians were “angry” about this issue.¹⁸⁰ During his time in Moscow, Russians had regularly complained to him “about EU double standards, particularly with regard to the Russian minorities in Latvia and Estonia”, where they were “disadvantaged largely by language tests being the route to civic rights.”¹⁸¹ His instinct was that, while in strict legal terms Estonia and Latvia were acting within the parameters of EU standards, perhaps the EU and the UK “should be encouraging the Latvians and the Estonians to do more” about this.¹⁸² Mr Bond said that while ethnic Russians could achieve citizenship (by taking the language test), Estonia and Latvia “could probably have found certain small ways of making the process easier”.¹⁸³
131. While the issue of integration of ethnic Russians and linguistic rights has been less challenging for Lithuania, since it hosts a relatively small percentage of ethnic Russians, all three Baltic states have taken steps to facilitate integration. For example, education reforms have instituted bilingual teaching curricula.¹⁸⁴ Baltic states have ensured that there has been “a fully functioning Russian language maintenance system in publications, media, the arts and public discourse”.¹⁸⁵ Furthermore, many ethnic Russians in Estonia and Latvia have taken and passed the linguistic test.¹⁸⁶ Some ethnic Russians in Estonia have chosen not to take the test as it would deprive them of the right to visit Russia without a visa.¹⁸⁷
132. The authors of the article ‘Language Politics and Practices in the Baltic States’ (2007) draw attention to the contradiction between the criticism of Baltic language policies by Russian leaders and the fact that internal relations in the Baltic states have been “far more marked by accommodation and agreement on the part of language minorities and populations generally than

¹⁷⁹ Council of Europe, Framework Convention for the Protection of National Minorities (1994): <https://rm.coe.int/CoERMPublicCommonSearchServices/DisplayDCTMContent?documentId=09000016800c10cf> [accessed 2 February 2015]

¹⁸⁰ [Q 35](#)

¹⁸¹ [Q 33](#)

¹⁸² [QQ 33, 35](#)

¹⁸³ [Q 10](#)

¹⁸⁴ ‘Language Politics and Practices in the Baltic States’, page 539

¹⁸⁵ *Ibid.*, page 596

¹⁸⁶ *Ibid.*, page 543 and Tony Barber, ‘Baltic state fear Kremlin focus on ethnic Russians’, *Financial Times* (2 September 2014): <http://www.ft.com/cms/s/0/71d9145c-3268-11e4-a5a2-00144feabdc0.html> [accessed 2 February 2015]

¹⁸⁷ ‘Baltic state fear Kremlin focus on ethnic Russians’

by overt hostility.”¹⁸⁸ However, the authors also point out that this has been a persistent foreign relations issue between the Baltic states and Russia since the time of the independence of the Baltic states from the Soviet Union in 1991. Moscow’s demands have been “unequivocal and remain essentially the same to the present day: that is, that citizenship should be granted to all permanent residents, and that Russian be recognised as a second official language.”¹⁸⁹

Conclusion

133. **The historical grievance of the rights of ethnic Russians in Estonia and Latvia offers the Russian government a convenient pretext which could be used to justify further destabilising actions in those states. On the basis of the evidence we have taken, there does, *prima facie*, seem to be a question to be investigated, in particular whether more steps could be taken to facilitate access to citizenship for ethnic Russians who have long-established residency in these states, but limited ability in the official language.**

Eurasian Union

134. The Eurasian Union, also known as the Eurasian Economic Union, is a political and economic union, which could have significant implications for relations in the shared neighbourhood.

Box 3: Eurasian Union

The term ‘Eurasian Union’ refers to several entities. It designates a Customs Union, initiated in 2006 and launched in 2010, that includes Russia, Belarus and Kazakhstan, and which developed in 2012 into a Common Economic Space of the three countries. The term is often used to refer to the Eurasian Economic Commission (formerly the Customs Union Commission) which is the executive of the Customs Union. It also refers to the Eurasian Economic Union, a new institution which was launched on 1 January 2015. The treaty on the Eurasian Economic Union was signed in Astana (Kazakhstan) in May 2014.

The organisation of the Eurasian Union is as follows:

- At the lowest level is the ‘College of the Eurasian Economic Commission’ which consists of nine members who preside over 23 departments. Each Eurasian Economic Union country has three delegates but once new candidates join it is likely that there will be a reshuffling;
- The Council of the Eurasian Economic Commission oversees the College. This consists of three serving deputy prime ministers in each of the member state governments who formally take most of the decisions;
- There are two decision making bodies, both called the High Eurasian Economic Council, one made up of the relevant prime ministers, and the other in the format of the presidents only;
- Decisions are taken by unanimity.

Candidate countries expected to join the Eurasian Economic Union are Armenia

¹⁸⁸ ‘Language Politics and Practices in the Baltic States’, page 470

¹⁸⁹ *Ibid.*, page 525

and Kyrgyzstan. Armenia has already signed the treaty to join the Eurasian Union. Kyrgyzstan has signed a roadmap and the timetable is to join the Eurasian Economic Union in 2015.

Mr Dmitry Polyanskiy, Deputy Director, First Department of CIS Countries, Russian Foreign Ministry, described the establishment of the Eurasian Economic Union as the third stage of economic integration following the establishment of the Customs Union and the creation of the Single Economic Space.¹⁹⁰ A community court will arbitrate disputes between the parties.¹⁹¹

Source: Nicu Popescu, 'Eurasian Union: the real, the imaginary and the likely', *European Union Institute for Security Studies Chaillot Paper no. 132* (September 2014): <http://www.iss.europa.eu/publications/detail/article/eurasian-union-the-real-the-imaginary-and-the-likely> [accessed 2 February 2015]

135. Mr Kliment said that the Eurasian Union was the “primary project” for President Putin.¹⁹² The Eurasian Union had both an economic and geopolitical logic. It was aimed at “cementing the economic domination of that region (former Soviet Union) with a formal institutional structure.” The geopolitical logic was to put Russia “on a more equal footing” with the EU.¹⁹³ Dr Hans-Dieter Lucas, Political Director, Federal Foreign Office of the Federal Republic of Germany, agreed that the Eurasian Union was designed to restore Russia as a global power.¹⁹⁴
136. Mr Lukyanov explained that the initial aim of the Eurasian Union had been to “create a framework in which Ukraine could be ... embedded.”¹⁹⁵ Without Ukraine, Mr Kliment confirmed, the Eurasian Union added little “heft” to the Russian economy.¹⁹⁶ However, Mr Polyanskiy contested this view: Russia was “not establishing this union for the sake of Ukraine.” While it would have been “beneficial for Ukraine to join”, he recognised that this was not a “political incentive”, and it “was, and it is still, for Ukrainians to decide.”¹⁹⁷

Economic incompatibility between the Eurasian Union and the EU

137. There is an inbuilt economic incompatibility between EU free trade agreements and the customs element of the Eurasian Union. Mr Polyanskiy explained that Customs Union members would pursue their policies as a bloc: Members “have a common, unified customs tariff, and they conduct free-trade agreement negotiations together.”¹⁹⁸ Member countries transferred their trade competences to the Eurasian Economic Commission, who would negotiate on their behalf.¹⁹⁹ Mr Jean-Luc Demarty, Director-General, Directorate General for Trade, explained that countries would not be able to conclude individual free trade agreements as they would have to respect the

¹⁹⁰ [Q 240](#)

¹⁹¹ Article 8, Treaty on the establishment of the Eurasian Economic Community (adopted on 10 October 2000): http://www.wipo.int/wipolex/en/other_treaties/details.jsp?group_id=24&treaty_id=443 [accessed 2 February 2015]

¹⁹² [Q 19](#)

¹⁹³ [Q 20](#)

¹⁹⁴ Appendix 5: Evidence taken during visit to Berlin

¹⁹⁵ [Q 175](#)

¹⁹⁶ [Q 20](#)

¹⁹⁷ [Q 243](#)

¹⁹⁸ [Q 241](#)

¹⁹⁹ [Q 240](#) (Dmitry Polyanskiy)

common customs tariff.²⁰⁰ The Deep and Comprehensive Free Trade Area between the EU and Ukraine was, therefore, incompatible with Ukraine becoming a member of the Eurasian Customs Union.²⁰¹

138. Of the current members of the Eurasian Customs Union, only Russia was a member of the WTO, and this too made economic co-operation difficult. Dr Shevtsova said that it was not possible for the EU, which followed WTO rules, to have deep trade agreements with non-WTO members (and therefore with the Eurasian Union). She felt that “all rhetoric about their compatibility is mystification and a bogus argument.”²⁰² Mr Demarty explained that without WTO membership and its dispute settlement process there would be “no recourse” if non-WTO countries of the Eurasian Customs Union applied non-WTO compliant rules.²⁰³
139. In contrast, the key point for Mr Lukyanov was that Eurasian integration was based on WTO norms, and that co-operation between the two required the “political will to negotiate”.²⁰⁴ Mr Polyanskiy agreed: “Our customs union is totally compatible with the WTO, so if EU free-trade agreements are WTO-compatible, they should be compatible with the customs union.”²⁰⁵

Relations between the Eurasian Union and the EU

140. The EU does not yet have formal relations with the Eurasian Union. President Putin, in October 2014, said:

“We would also have welcomed the start of a concrete dialogue between the Eurasian and European Union. Incidentally, they have almost completely refused us this as well, and it is also unclear why—what is so scary about it?”²⁰⁶

141. Mr Lukyanov said that the EU had until recently “flatly rejected” establishing ties with the Eurasian Union, fearing that to do so would “legitimise” the project.²⁰⁷ According to Mr Polyanskiy, the Eurasian Union had been keen to initiate a dialogue, but the EU “was always very unwilling to engage in such relations.” He told us that there had been no official meetings between the European Commission and the Eurasian Economic Commission. This had been problematic for EU-Russia trade relations, as the transfer of trade competences to the Eurasian Economic Commission had meant that Russia was “no longer in a position” to discuss these issues

²⁰⁰ [Q 139](#)

²⁰¹ [Q 141](#) (Jean-Luc Demarty), [Q 23](#) (Alexander Kliment)

²⁰² [Q 5](#)

²⁰³ [Q 142](#)

²⁰⁴ [Q 175](#)

²⁰⁵ [Q 241](#). The DCFTA between the EU and Ukraine is compatible with the free trade area between Russia and Ukraine but is not compatible with Ukraine becoming a member of the Eurasian Customs Union. ([Q 141](#) Jean-Luc Demarty). We discuss Russia’s separate concerns about Ukraine’s DCFTA impacting the Russian-Ukraine free trade arrangements in Chapter 5.

²⁰⁶ Vladimir Putin, Meeting of the Valdai International Discussion Club (24 October 2014): <http://eng.kremlin.ru/news/23137> [accessed 2 February 2015]

²⁰⁷ [Q 176](#)

on its own. According to Mr Polyanskiy, Russia had tried “in vain” to explain this point to the European Commission.²⁰⁸

142. More generally, some witnesses viewed the two blocs as diametrically opposed in their values. Dr Shevtsova did not see “any grounds for compatibility” between the Eurasian Union and the EU, as the two models proposed two competing models of development. In her view, the Eurasian Union offered “an alternative—an antithesis—to the European Union”, and created a framework for the “preservation and reproduction of authoritarian regimes and economies under state control in member countries.”²⁰⁹ Professor Elena Korosteleva, Professor of International Politics, University of Kent, pointed out that both projects targeted “an overlapping zone of interest—the eastern neighbourhood.” Both the EU and the Eurasian Union professed and were associated with “differing sets of values.”²¹⁰
143. Nevertheless, Mr Lukyanov detected “slight changes in approach” on the EU side and thought that with a new Commission, “which has a bit more room for manoeuvre, this process (dialogue between the two sides) might be launched.”²¹¹ Dr Tom Casier, Jean Monnet Chair, Senior Lecturer in International Relations, University of Kent, said that the EU should ensure that the Association Agreements with Ukraine, Georgia and Moldova were compatible with both the Eurasian Customs Union and the final terms of the Eurasian Economic Union.²¹² There were signs that others in Europe were beginning to acknowledge the need to engage with the Eurasian Union too. In November 2014, Chancellor Merkel said that Germany was prepared for the EU to engage in trade talks with the Eurasian Union, if progress could be made in eastern Ukraine.²¹³
144. From the European Commission, Mr Demarty did not rule out the possibility of co-operation between the EU and the Eurasian Union. The pre-conditions for such co-operation were primarily that all the members of the Eurasian Customs Union would have to be WTO members and respect their WTO commitments. Russia was the only Customs Union member in the WTO and, as for complying with WTO obligations, Mr Demarty noted that this was “certainly not the case with Russia”.²¹⁴ Also, the Eurasian Customs Union would have to “demonstrate a clear willingness and capacity to commit to the stabilisation of their trade relations.” He noted that “we are far from there.”²¹⁵
145. The Minister for Europe said that it was “a bit early” to consider exploratory discussions between the EU and the Eurasian Economic Union, for two reasons. First, the future of the entity was uncertain and, second, any discussions would have to be predicated on de-escalation of the crisis in

²⁰⁸ [Q 240](#)

²⁰⁹ [Q 5](#)

²¹⁰ Written evidence ([RUS0003](#))

²¹¹ [Q 176](#)

²¹² [Q 114](#)

²¹³ ‘Merkel offers Russia trade talks olive branch’, *Financial Times* (26 November 2014): <http://www.ft.com/cms/s/0/93e5e066-757a-11e4-b1bf-00144feabdc0.html> [accessed 2 February 2015]

²¹⁴ We discuss Russia’s WTO obligations in more detail in Chapter 6.

²¹⁵ [Q 142](#)

Ukraine. If that were so, “perhaps a development of this EU-Eurasian Union relationship at political level would be possible.” However, the UK was “cautious for the time being”.²¹⁶

Conclusions and recommendation

146. **The Eurasian Union is a project to build Russian regional influence in competition with the EU’s own arrangements with partner countries. The current incompatibility that is structured into the economic arrangements between the two blocs is in danger of creating new dividing lines on the continent.**
147. **The European Commission has been hesitant to engage officially with the Eurasian Union. We judge that the EU should reconsider this approach. We recommend that the Commission should track the development of the Eurasian Union and put forward a proposal to the European Council outlining the basis on which formal contacts could be initiated.**
148. **However, we recognise that enabling the two trading blocs to work together is further complicated because Russia is not assiduous in obeying its WTO obligations.**

Reviewing the EU’s instruments in the shared neighbourhood

149. Mr Hugo Shorter, Head of EU Directorate (External), FCO, said that the “experience of the past year or so shows that we need to review how the eastern partnership policy works and our overall approach.”²¹⁷ Dr Shevtsova said that the ENP was “shattered” and that while there remained elements of the ENP in place it was “hardly a vision or package of coherent policy instruments.” She did not see any signs that the EU had a strategy that would “make the European neighbourhood effective.”²¹⁸
150. The new High Representative and Commission will undertake a review of the ENP. Below, we set out our witnesses’ views on some of the core questions which have remained ambiguous for too long, and which we believe the review should examine further.

The EU’s strategic interests in the shared neighbourhood

151. Two strategic interests remain unreconciled in the EU’s policies in the neighbourhood: on the one hand, a ring of well-governed states on the EU’s periphery is in the EU’s strategic interests, while on the other, European security cannot be built in the face of sustained Russian opposition.
152. Mr Kliment saw the choice facing the EU in stark terms: the EU had to decide whether it was more important to expand its political and economic influence in the former eastern bloc countries or have “a functional, stable and growing relationship with Russia.” In his view, those two things were “no longer compatible.”²¹⁹ According to Mr Bond, Russia had decided that it

²¹⁶ [Q 260](#)

²¹⁷ [Q 65](#)

²¹⁸ [Q 4](#)

²¹⁹ [Q 23](#)

was in its interests to keep the countries in the common neighbourhood “weak, unstable and dependent on Russia. That is not in our interest and we should do what we can to prevent it.”²²⁰ Sir Tony Brenton disagreed. It was “perfectly possible for the EU to have good, close, economic and political relations” with countries in the neighbourhood, provided that the EU was not seen to be trying to “pull them” in the EU’s direction.²²¹

Building resilience in the neighbourhood

153. Some witnesses were clear that extending the EU’s model to the neighbourhood should be an EU policy goal: history had shown that accommodating authoritarian states at the expense of the rights of sovereign nations was not a recipe for long term stability. Mr Bond told us that EU Member States had “an interest in the countries to our east becoming democratic, prosperous and more stable, and we should pursue that.” EU Member States should resist Russian efforts to “shut us out of an area that is just as much our backyard” as theirs.²²² Mr John Lough, Associate Fellow, Russia and Eurasia Programme, Chatham House, said it was important to remember that countries on Russia’s periphery “should be able to make choices”, and that if those countries chose the EU’s model of development rather than Russia’s then that was the “Russians’ problem and not ours.”²²³ The Minister for Europe was clear that Eastern Partnership (EaP) countries had “a sovereign right to choose the direction in which they travel.”²²⁴
154. Associate Professor Tomila Lankina, London School of Economics and Political Science, advised the EU to be “firm and consistent in articulating concern that an authoritarian form of government in Russia poses legitimate security concerns to the EU.” The EaP had become hostage to “Russia’s claims of its exceptional security vulnerabilities posed by EU enlargement”, and the EU should counter that its support for democracy was “motivated by its own legitimate vulnerabilities stemming from the 20th century record of dictatorships wreaking havoc on the continent.”²²⁵
155. Dr Casier urged caution, saying that while Ukraine (and other countries) were entitled to seek membership, it would “make the geopolitical situation worse.” He advised us to “think about a different model for a wider Europe”, where the two projects were no longer clashing with each other but became compatible.²²⁶ He suggested that the EU could consider varied integration with a “system of double concentric circles” which reflected the EU’s and Russia’s interests in the neighbourhood. Under this model, the closer the countries were to the EU, the more integrated they would be with the EU and, likewise, the nearer to Russia, the more they could be integrated with Russia.²²⁷

²²⁰ [Q 13](#)

²²¹ [Q 38](#)

²²² [Q 13](#)

²²³ [Q 38](#)

²²⁴ [Q 261](#)

²²⁵ Written evidence ([RUS0001](#))

²²⁶ [Q 116](#)

²²⁷ [Q 114](#)

Engage Russia—voice not veto

156. A specific question, posed by Mr Shorter, was “how do we engage with Russia on what are doing with the Eastern Partnership?”²²⁸ Dr Terterov said that the EU did not have a strategy towards Russia, but rather strategies for the neighbourhood countries which “de facto” became the Russia strategy.²²⁹ Professor Richard Whitman, University of Kent, said that the EU made a “strategic error in decoupling Russia from its ENP/EaP rather than finding a formulation that would have recognised its significance for the region and for the realisation of the EU’s goals.”²³⁰ Dr Casier viewed this as the “age-old problem” of the “place of Russia in the wider Europe.” In his view, if the EU did not find a structural solution to that question then it would “move from crisis to crisis.”²³¹
157. Sir Andrew Wood said that the EU should not “subscribe to the myth” that Russia was “supposed to control everything”, but that it should recognise that the EU owed Russia respect and had to “deal with the powers that exist there.”²³² The Minister for Europe said that the starting point had to be “Russia being prepared to recognise the integrity and the sovereignty of its neighbours.”²³³ The red line for the Minister was to avoid a “great-power pattern” of politics, whereby the EU and Russia decided the fates of other countries. In his view, partner countries had to be “equal participants at any table.”²³⁴
158. Ambassador Gachechiladze offered us the example of how Georgia had taken steps to improve relations between Russia and Georgia. Political issues, in particular those pertaining to the territorial integrity of Georgia, remained off the table, but nevertheless the Georgian government had “offered Russia a dialogue on some humanitarian, economic and cultural issues”. Successive rounds of dialogue had proven quite successful and had resulted in a resumption of trade between the two sides.²³⁵ The Ambassador believed that there was “space for negotiations and dialogue” with the Russians, and that the Georgians were “very supportive of these sorts of actions.”²³⁶

Restructuring the EaP

159. Since its launch in 2009, the Eastern Partnership (EaP) has been the subject of sustained Russian opposition. Soon after its launch, Alexander Grushko, a deputy foreign minister of Russia, said that the EaP must not make the partner countries choose between either Russia or the EU.²³⁷ Ambassador Yakovenko told us that EaP countries “were faced with artificial ‘civilizational choice’: either with the EU or with Russia”, and that the policy

²²⁸ [Q 65](#)

²²⁹ [Q 111](#)

²³⁰ Written evidence ([RUS008](#))

²³¹ [Q 114](#)

²³² [Q 207](#)

²³³ [Q 259](#)

²³⁴ [Q 261](#)

²³⁵ [Q 181](#)

²³⁶ [Q 190](#)

²³⁷ ‘Europe’s bear problem: The trouble with the European Union’s attempts to woo Russia’, *The Economist* (25 February 2010): <http://www.economist.com/node/15578042> [accessed 2 February 2015]

had been “implemented without consideration of Russia’s legitimate interests.”²³⁸ Professor Whitman noted that Russia had become “progressively more hostile” to the EU’s EaP and ENP. During 2013, Russia’s policy had moved from “discontent to active opposition”, demonstrated by its interventions to draw the EU’s eastern partners away from the EaP. Professor Whitman said that the EU had “gambled that Russia would gradually reconcile itself” to the EaP, and that there had been an “absence of a clear sighted diplomacy with Russia that recognised its clear and publicly articulated opposition” to the EaP.²³⁹

160. Other witnesses commented on the binary choice between the EU and Russia offered to partner countries. Professor Korosteleva said that the rhetoric around the Association Agreement (AA) offered to Ukraine was framed around a choice between either the EU or Russia. She argued that both the EU and Russian approaches failed to “understand the region itself and its historical urge for complementary rather than dichotomous relations” with wider Europe”.²⁴⁰ Mr Polyanskiy agreed that for countries like Ukraine and Moldova it was “impossible to make such a choice”; they should be allowed to “develop the best possible relations with both Russia and the European Union”.²⁴¹

Ambiguity of the offer

161. We were told that the ambiguity inherent in the EaP’s offer of EU membership had undermined the capacity of the EaP to build resilience into the neighbourhood, created unrealistic expectations among partner countries, and destabilised relations between the EU and Russia.
162. With regard to Ukraine, Dr Shevtsova said that the weakness of the EaP was its failure to offer membership. In her view, it was “a very difficult process of transformation”, which gave no hope that at some point Ukraine would be “with Europe or in some kindergarten of Europe.”²⁴² Alexander Graf Lambsdorff MEP, Chairman of the Executive Committee of the European Endowment for Democracy (EED), speaking in a personal capacity, was not convinced that the country could “become a member of the European Union as we understand it today.”²⁴³ For Dr Casier, the point was not that Ukraine was not entitled to choose EU membership, but that such steps would make the “geopolitical situation worse.”²⁴⁴
163. From the Russian perspective, Mr Polyanskiy told us that Ukraine did “not have a concrete prospect of membership” of the EU.²⁴⁵ Mr Lukyanov added that the EaP was an “unfair system” for the partner countries, as it did “not

²³⁸ Written evidence ([RUS0019](#))

²³⁹ Written evidence ([RUS0008](#))

²⁴⁰ Written evidence ([RUS0003](#))

²⁴¹ [Q 243](#)

²⁴² [Q 4](#)

²⁴³ [Q 130](#)

²⁴⁴ [Q 116](#)

²⁴⁵ [Q 244](#)

promise anything: not membership, not anything else.” Furthermore, it “undermined very much the Russian-European relationship.”²⁴⁶

164. The Ambassadors for Ukraine and Georgia told us that both countries harboured ambitions for full EU membership. The Acting Ambassador of Ukraine informed us that President Poroshenko had stated that Ukraine “should be ready economically, politically and democratically to submit the application for membership for the year 2020”.²⁴⁷ He added that it was clear that Ukraine was covered by the border of Europe: “We are a European nation; we have a European destiny and a European future.”²⁴⁸ Ambassador Gachechiladze stated that “Georgia’s choice of the West is by necessity and choice. We consider ourselves a European country.”²⁴⁹
165. Dr Lucas, on the other hand, was clear that the EaP was not an accession process: the EaP brought countries closer to the EU economically, but was not itself about membership.²⁵⁰ The Minister for Europe acknowledged that there was a “need for greater clarity and transparency” about what the EaP involved and how it differed from EU accession. He added that: “It is not the same as membership. It is not incompatible with membership either.”²⁵¹

Eastern frontier of the EU

166. We asked our witnesses if it would be helpful to define the Eastern frontier of the EU. Mr Bond told us that there was a difficult line to be drawn, “as to whether Europe comes to a cliff-edge or a beach that slopes gently down to the sea.” He added that AAs attempted to soften the cliff-edge into sloping beach by asking partner countries to adopt much of the *acquis communautaire*. Member States had thereby avoided drawing the line clearly. At the moment “we have a bit of each and that is not very helpful because it leads to a lack of clarity.” The danger inherent in this approach was that the EU would reproduce “the Turkey problem”, which involved “promising something that you subsequently decide you would really rather not deliver.”²⁵²
167. Most recently, the decision by the Juncker Commission to postpone enlargement for five years was, as Dr Casier pointed out, only a reflection of the fact that none of the candidate countries would be ready before that time.²⁵³ The Minister for Europe stated that EU membership was open under the treaty to any European country that wanted to join and could meet the accession criteria. Having said that, he judged that none of the EaP countries would be able to reach the standards for a “long time into the future”; the next in line, the Balkan countries, would be ready only in the “2020s, in some cases the late 2020s.”²⁵⁴

²⁴⁶ [Q 179](#)

²⁴⁷ [Q 74](#)

²⁴⁸ [Q 72](#)

²⁴⁹ [Q 183](#)

²⁵⁰ Appendix 5: Evidence taken during visit to Berlin

²⁵¹ [Q 260](#)

²⁵² [Q 18](#)

²⁵³ [Q 120](#)

²⁵⁴ [Q 260](#). For a further discussion on EU enlargement, see the Committee’s previous report on the subject: European Union Committee, *The future of EU enlargement* (10th Report, Session 2012–13, HL Paper 129).

Conclusions and recommendations

168. **In the review of the neighbourhood policy, the EU and Member States face a strategic question of whether Europe can be secure and prosperous if Russia continues to be governed as it is today. Whatever the present Russian government's real intentions may be, Russia's internal governance and its resulting threat perceptions create geopolitical competition in the neighbourhood. The EU's capacity to influence the internal politics of Russia is limited, and Member States have not demonstrated an appetite to make the attempt. Therefore, if influencing Russia's future governance is not on the agenda, Member States instead need to devise a robust and proactive policy to manage competition with Russia in the shared neighbourhood.**
169. **The first step is for the EU to distinguish between the legitimate and the illegitimate security interests of Russia. Moscow has a right not to be excluded from the eastern neighbourhood. However, it does not have the right to deny or threaten the sovereign rights of its neighbours.**
170. **A strategy to promote reform in the neighbourhood must be matched with a new effort to rebuild relations with Russia. We recommend that the upcoming review of the European Neighbourhood Policy, to be undertaken by the High Representative and the Commission, should consider forums whereby Russia, the EU and the neighbouring countries can work together on regional issues.**
171. **Member States must be closely engaged in the process. As part of the review, Member States should take advantage of the pause in enlargement to engage in a fundamental reassessment of their strategic interests in the eastern neighbourhood. There is an unresolved tension between the offer of membership on the table to Eastern Partnership countries and the political will of Member States to follow through, which is not uniform. This creates unrealistic expectations, and complicates Russia's relationship both with these countries and with the EU. Member States must clarify whether EU membership is on offer. This issue should not be left ambiguous in the upcoming review.**
172. **We recommend that, once the review is complete, the Commission and the European External Action Service should put forward a strategy to communicate the EU's future policies to Russia and the partner countries. This strategy should explain how the Eastern Partnership and, if so decided, future EU enlargement, work to the mutual benefit of the whole region, including Russia.**
173. **Member States' embassies should also play a greater role in EU policies in the eastern neighbourhood. We recommend that the FCO ensures that its embassies in the region monitor and review Commission programmes in the eastern neighbourhood.**

CHAPTER 5: THE CRISIS IN UKRAINE AND THE EU'S RESPONSE

174. In previous chapters we considered some of the structural causes that led to the decline of the relationship between the EU and Russia. In this chapter, we turn to the way those issues came to the fore during the crisis in Ukraine. We set out a chronology of events, assess the EU's response, and examine the EU's current support for Ukraine.

The crisis in Ukraine and Crimea

175. In this section, we assess six key phases in the unfolding of the crisis in Ukraine, outlining at each stage the Russian and European understanding and interpretation of those events. We do not seek to relate the entire history of the crisis.

Phase I: Early discussions on the Association Agreement

176. The EU began negotiating an Association Agreement (AA) with Ukraine in 2007, having started discussing a Free Trade Agreement in 1994. According to the Government, the Russians raised no concerns at the time that the negotiations on the AA began. Mr Neil Crompton, Deputy Political Director, FCO, informed us that "Russia went through a long period in which it did not make a major issue of Ukraine's signature" of the AA. Mr Chris Barton, Director of International Affairs, Trade Policy and Export Control, Department for Business, Innovation and Skills, said that discussions on the Deep and Comprehensive Free Trade Area (DCFTA) were "not a surprise", and that Russia "had not raised specific concerns about what it would like to see different in any free trade agreement."²⁵⁵
177. Mr Pedro Serrano, Adviser on External Affairs, Cabinet of the President of the European Council, said that as late as June 2013, at the summit between the President of the European Council, the President of the Commission and President Putin, everything was "totally normal. No one was talking about DCFTAs, and they were talking even less about Ukraine."²⁵⁶ Mr Pierre Vimont, Executive Secretary, European External Action Service, was also adamant that the EU "never really had any clear warning, on behalf of the Russians, that this was unacceptable to them, for many years; it came only at the last moment."²⁵⁷
178. Mr Fyodor Lukyanov, Chairman, Council on Foreign and Defense Policy, and Editor in Chief of Russia in Global Affairs, in contrast, said that the European Commission "never showed any interest in discussing" Russia's economic concerns: "sometimes it was just indifferent, sometimes it said quite bluntly, 'It is not your business. It is our bilateral business.'"²⁵⁸ His Excellency Dr Alexander Yakovenko, Ambassador of the Russian Federation to the UK, asked whether there was advance discussion of the AA, told us

²⁵⁵ [Q 53](#)

²⁵⁶ [Q 166](#)

²⁵⁷ [Q 154](#)

²⁵⁸ [Q 172](#)

that “there was none.”²⁵⁹ According to Mr Dmitry Polyanskiy, Deputy Director, First Department of CIS Countries, Russian Foreign Ministry, it was only in the summer of 2013, when the text was published, that the Russians had sight of the agreement. The detail in the annexes “clearly showed to [the Russians] that with such an agreement Ukraine would no longer be able to maintain the same level of relations” with Russia.²⁶⁰

179. From August 2013, Russia undertook a policy of coercive economic diplomacy aimed at changing the political calculations of President Yanukovich. Dr Lilia Shevtsova, Senior Associate, Moscow Center, Carnegie Endowment for International Peace, said that Russia started the “August trade war with Ukraine, trying to force the former President Yanukovich to reject the Association Agreement with Brussels.”²⁶¹ His Excellency Andrii Kuzmenko, Ukrainian Acting Ambassador to the UK, spoke of a “number of different ‘wars’—a customs war, a gas war, a milk war, a meat war, cheese war, a chocolate war”, which “the Russians started against Ukraine with the solemn purpose of pursuing us to postpone and then refuse European integration.”²⁶²
180. Mr Serrano said that the “first inklings” of trouble from the Ukrainian side came in September 2013, when the President indicated that “it would be difficult for him to sign the DCFTA.” Then President Yanukovich suggested “trilateral meetings with Russia in order to clarify the consequences of the DCFTA.”²⁶³ By November 2013, Russian hostility had become explicit. Mr Vimont said that “it was only around the Vilnius summit that the Russians became very vocal.”²⁶⁴ “Everything was already done” by then, Mr Jean-Luc Demarty, Director-General, DG Trade, told us.²⁶⁵
181. Mr John Lough, Associate Fellow, Russia and Eurasia Programme, Chatham House, informed us that Russia “suddenly woke up” to the challenge, having believed the AA to be “a totally under-resourced and hopeless initiative that was being conducted by an organisation with so many divisions in it.”²⁶⁶ Mr Lukyanov agreed that Russia was surprised that the signature was imminent, because the situation in Ukraine—“corruption, dysfunction” and the detention of former Prime Minister Yulia Tymoshenko—suggested that Ukraine was far from meeting the requisite conditions. However, when the issue of Tymoshenko’s fate was “removed from the picture and the decision was made that it should be signed anyway”, then “Russia woke up.”²⁶⁷

²⁵⁹ Written evidence ([RUS0019](#))

²⁶⁰ [Q 243](#)

²⁶¹ [Q 2](#)

²⁶² [Q 68](#)

²⁶³ [Q 166](#)

²⁶⁴ [Q 154](#)

²⁶⁵ [Q 138](#)

²⁶⁶ [Q 30](#)

²⁶⁷ [Q 172](#)

EU response

182. When Russian hostility became evident the EU did two things. First, it continued with the AA. Sir Tony Brenton KCMG, former British Ambassador to Russia and Fellow of Wolfson College, Cambridge, said that the EU pursued the negotiations on the AA “with a reasonable level of confidence that they were going to be brought to a successful conclusion.”²⁶⁸ Professor Elena Korosteleva, Professor of International Politics, University of Kent, said that the EU undertook a “moderate but miscalculated campaign to accelerate or arguably compel Ukraine to a decision over the AA” at the Vilnius summit in November 2013.²⁶⁹
183. Second, the Commission engaged in a consultation process with Russia on the economic effects of the AA.²⁷⁰ Mr Barton explained that when the level of opposition became clear, the EU was open to discussion with Russia about its concerns.²⁷¹ The Minister for Europe confirmed that “as soon as the Russian Government expressed serious concerns” about the compatibility of the DCFTA with their own free trade agreements, a “dialogue was begun, but Russia left it very late in the day.”²⁷²
184. The Russian view is that even in November 2013 the EU was still not open to dialogue. According to Ambassador Yakovenko, when Ukraine decided to suspend signature of the Association Agreement, Russia proposed to hold trilateral discussions with the EU, Ukraine and Russia “on the impact of the Association Agreement.” However, “these proposals were rejected by the European Commission.”²⁷³ Mr Polyanskiy also noted that “instead of accepting this proposal and creating such a mechanism, which it was not too late to establish at this point, the EU ... did everything to facilitate the power change in Kiev”. This was the point where “we could have avoided everything that is happening right now.”²⁷⁴ Mr Lukyanov said that it was only now, “after all the tragedies”, that the EU was inviting the Russian side to discussions.²⁷⁵

Phase II: President Yanukovich suspends signature of the Association Agreement—Maidan Square protests

185. In November 2013, President Yanukovich decided to suspend the signature of the AA. The domestic economic situation had become very pressing, partly due to Russia’s restrictive trade measures. EU Member States had committed to facilitating an International Monetary Fund (IMF) loan in the region of \$15 billion, but this was conditional on reforms which would have been difficult to deliver in the short term. On the other side, Russia offered Ukraine a \$15 billion loan, without specific conditions, which was likely to

²⁶⁸ [Q 37](#)

²⁶⁹ Written evidence ([RUS0003](#))

²⁷⁰ [Q 134](#) (Jean-Luc Demarty)

²⁷¹ [Q 53](#)

²⁷² [Q 254](#)

²⁷³ Written evidence ([RUS0019](#))

²⁷⁴ [Q 245](#)

²⁷⁵ [Q 172](#)

be accompanied by the lifting of Russian trade restrictions and a large gas discount.²⁷⁶

186. President Yanukovich's decision not to sign the AA triggered the protests now referred to as "the Maidan." These protests took both the EU and Russia by surprise. Events had begun to take on a momentum of their own which neither side could predict or control.
187. Mr Serrano told us: "No one foresaw this. I do not think that Yanukovich foresaw it, I do not think that the European Union foresaw it, and I do not think that Russia foresaw it."²⁷⁷ Mr Lough agreed that events "simply stunned the Russians."²⁷⁸ The Russians, he said, had "misread" the mood in Ukrainian society and the "degree of civic organisation" on the Ukrainian streets. Within a short space of time, "Yanukovich had completely lost control of the situation and the Russians had given up on him."²⁷⁹ Mr Lough said that the EU too "got way out of its depth" in pushing the Association Agreement, though there had been warning signs at least two years earlier, when "some people warned that if Yanukovich carried on looting the country in the way he was, the lid was just going to blow off in Ukraine."²⁸⁰
188. As the protests in Maidan Square continued, they were viewed with increasing concern in Moscow. The Russian government's position, as explained by Ambassador Yakovenko, is that "neo-Nazi and other extremist groupings took the lead in the 'Euromaidan' movement."²⁸¹ Mr Crompton dismissed this as "very concerted Russian propaganda ... to portray the political turbulence in Ukraine as the result of right-wing activists." In reality the protestors in Maidan wanted what most people in Europe wanted, which was "the rule of law, good governance, economic structures and association with the rest of Europe."²⁸²
189. Ambassador Yakovenko also claimed that the public protests were "supported by the EU, a number of its member states, and the US."²⁸³ Mr Polyanskiy told us that rather than de-escalate tensions the EU "did everything to facilitate the power change in Kiev".²⁸⁴ The European Endowment for Democracy (EED) lists 15 Member States, along with the EU and Switzerland, as its Funding Members.²⁸⁵ Alexander Graf Lambsdorff MEP, Chairman of the Executive Committee of the EED, said that the EED had supported civil society, blogs, newsletters and radio broadcasting, as well as rapid emergency relief of people who were injured in the

²⁷⁶ David Cadier, 'Eastern Partnership vs Eurasian Union? The EU–Russia Competition in the Shared Neighbourhood and the Ukraine Crisis', *Global Policy* (October 2014): <http://www.globalpolicyjournal.com/articles/climate-change-energy-and-sustainability/eastern-partnership-vs-eurasian-union-eu%E2%80%9393russia-co> [accessed 2 February 2015]

²⁷⁷ [Q 166](#)

²⁷⁸ [Q 30](#)

²⁷⁹ [Q 37](#)

²⁸⁰ [Q 30](#)

²⁸¹ Written evidence ([RUS0019](#))

²⁸² [Q 53](#)

²⁸³ Written evidence ([RUS0019](#))

²⁸⁴ [Q 245](#)

²⁸⁵ European Endowment for Democracy, 'About EED': <https://www.democracyendowment.eu/about-eed/> [accessed 2 February 2015]

demonstrations.²⁸⁶ He was categorical that this was support for a “genuine civil movement that brought together very heterogeneous actors.”²⁸⁷ On the other hand, Mr Václav Klaus, former President of the Czech Republic, strongly recommended that EU Member States should not “support the Maidan demonstrations in an unconditional way.”²⁸⁸

Phase III: The flight of Yanukovych

190. In late February 2014, a deal was brokered by the foreign ministers of Poland, Germany and France, President Yanukovych and some of the representatives of the protestors. The proposal was to hold early presidential elections, form a government of national unity and revert to the 1996 constitution, removing some of the president’s power. However, the deal was rejected by the protestors in Maidan Square. This rejection President Putin “chose or was persuaded to interpret as instigated by western states in order to install a compliant government that would be ready to lobby for NATO membership and perhaps revoke the basing agreement Russia had in Crimea.”²⁸⁹ On the night of 21 February 2014, President Yanukovych lost a vote of no confidence in the Ukrainian Parliament and fled Ukraine.
191. President Yanukovych’s flight triggered the next, more acute stage of the crisis. It radically altered Russian threat perceptions. Moscow viewed the events as a deliberate plot against Russia: Ambassador Yakovenko described them as a “coup”, followed by “a civil war, persecution of dissenters, and deliberate actions to accelerate the destruction of the traditional ties with Russia.”²⁹⁰ By February, Sir Tony Brenton explained, the “Russians had decided that there was a great western plot against them, probably more American than EU, to displace them from their oldest and closest friend, Ukraine”.²⁹¹ The trope of a western-fomented plot was one that recurred in Russian political thinking: in the words of Dr Alexander Libman, Associate of Eastern Europe and Eurasia Division, Stiftung Wissenschaft und Politik, in the “eyes of the Russian leadership, Euromaidan is just one more step in the sequence of events, which were initiated by ‘the West’”.²⁹²
192. In the following weeks, a series of events reinforced Russian perceptions of a government in Kiev hostile to Russian interests. The Verkhovna Rada (Ukrainian parliament) took various steps that demonstrated strong anti-Russian sentiment. First it alarmed many Russian-speaking Ukrainians by seeking to repeal the 2012 language law allowing Ukrainian regions to make Russian a second official language.²⁹³ Then, on 5 March, the Verkhovna Rada secretariat registered draft legislation which would have reinstated the goal of joining NATO as Ukrainian national strategy. Acting President

²⁸⁶ [Q 124](#)

²⁸⁷ [Q 128](#)

²⁸⁸ [Q 213](#)

²⁸⁹ Roy Allison, ‘Russian ‘deniable’ intervention in Ukraine: how and why Russia broke the rules’, *International Affairs*, vol. 90:6 (2014), pp 1255–1297: <http://onlinelibrary.wiley.com/doi/10.1111/1468-2346.12170/pdf> [accessed 2 February 2015]

²⁹⁰ Written evidence ([RUS0019](#))

²⁹¹ [Q 31](#)

²⁹² Written evidence ([RUS0015](#))

²⁹³ ‘Russian ‘deniable’ intervention in Ukraine: how and why Russia broke the rules’, page 1262

Turchynov also issued a statement that Ukraine was considering changing its non-bloc status.²⁹⁴

193. In particular, Moscow feared that the 2010 Kharkiv Agreements, which had extended the Russian Navy's lease of Sevastopol as a base for 25 years from 2017 until 2042, would be renounced. Professor Roy Allison has pointed out that even in 2010 "President Yanukovich's approval of this extension was virulently opposed by Ukrainian opposition politicians, suggesting that efforts may well be made to revise it in the future."²⁹⁵ On 1 March 2014, three former Ukrainian Presidents, Leonid Kravchuk, Leonid Kuchma and Viktor Yushchenko, called on the new government to renounce the Kharkiv Agreements.²⁹⁶ Mr Lukyanov said that President Putin's "real motivation was national security and the risk that the new rule in Kiev would very quickly denounce" the agreements of 2010 that prolonged Russia's base in Crimea for 25 years.²⁹⁷ In the event, the language law was withdrawn and the draft legislation was never formally introduced. The new government in Kiev also guaranteed to honour all its existing international agreements, including those covering Russian bases.²⁹⁸

Phase IV: Annexation of Crimea

194. In late February, pro-Russian separatists seized key buildings in the Crimean capital, Simferopol, and unidentified gunmen in combat uniforms appeared outside Crimea's main airports. On 16 March, Crimea voted to secede in a disputed referendum, and the next day the Crimean parliament declared independence and formally applied to join the Russian Federation. On 18 March, President Putin signed a bill to absorb the peninsula into the Federation.²⁹⁹
195. While Ukraine as a whole is significant to Russia, Crimea, in particular, is of critical strategic importance. Crimea gives Moscow access to the naval base at Sevastopol and is home to Russia's Black Sea Fleet. Sevastopol's warm water port, natural harbour and existing infrastructure make it one of Russia's most important naval bases, and its geographical configuration provides a "platform for power projection into the Black Sea and beyond."³⁰⁰

²⁹⁴ *Ibid.*, page 1272

²⁹⁵ *Ibid.*, page 1278

²⁹⁶ 'Kravchuk, Kuchma and Yuschenko call to denounce Kharkiv Pact', *Kyiv Post*, (3 March 2014): <http://www.kyivpost.com/content/ukraine/media-kravchuk-kuchma-and-yuschenko-call-to-denounce-kharkiv-pact-338252.html> [accessed 2 February 2015]

²⁹⁷ Q 177

²⁹⁸ 'Russian 'deniable' intervention in Ukraine: how and why Russia broke the rules', page 1263

²⁹⁹ 'The Ukraine Crisis Timeline', Centre for Strategic and International Studies website: <http://csis.org/ukraine/index.htm> and International Crisis Group website: <http://www.crisisgroup.org/en/publication-type/crisiswatch/crisiswatch-database.aspx?CountryIDs=%7b8864A71C-2EC4-456D-A9BC-5E7190244489%7d#results> [accessed 2 February 2015]

³⁰⁰ 'Russian 'deniable' intervention in Ukraine: how and why Russia broke the rules', page 1280 and Paul N Schwartz, 'Crimea's Strategic Value to Russia', *Centre for Strategic and International Studies* (18 March 2014): <http://csis.org/blog/crimeas-strategic-value-russia> [accessed 2 February 2015]. In fact, Roy Allison goes further to argue that the Russians viewed the retaking of the Sevastopol base as an opportunity to rebuild it as a platform for power projection.

196. In a speech to the Federation Council on 18 March President Putin said:

“We have already heard declarations from Kiev about Ukraine soon joining NATO. What would this have meant for Crimea and Sevastopol in the future? It would have meant that NATO’s navy would be right there in this city of Russia’s military glory, and this would create not an illusory but a perfectly real threat to the whole of southern Russia.”³⁰¹

197. In Mr Crompton’s view, everyone understood that Crimea was “of strategic importance to Russia, but there was no proper discussion about it.” He believed that this “was an issue that Moscow was very capable of pursuing diplomatically with Kiev but instead it chose to resort to, essentially, military occupation in a way that we regard as completely unacceptable.”³⁰² Dr Libman commented that, when acting in support of its security priorities, the Russian leadership’s readiness to compromise was “very low” and “massively constrained by the lack of trust.”³⁰³ Sir Tony Brenton and Mr Lough agreed that the annexation of Crimea had not been foreseen. Mr Lough said that “no one saw this coming—that the Russians would simply annex Crimea”. Sir Tony Brenton said that “the assumption that ‘the Russians don’t like this but they will probably live with it’ was reasonably consistent with the Russia that we thought we had prior to the Maidan revolution.”³⁰⁴

198. Russia claimed that at the referendum the “Crimeans *en masse* made an unambiguous choice in favour of independence from Ukraine”, and had “voted for the subsequent re-unification with the Russian Federation.”³⁰⁵ Mr Polyanskiy said that “people’s right to self-determination ... is part of the UN charter as well, and this right should also be respected.”³⁰⁶ However, the legitimacy of the referendum had been criticised by the international community and by domestic critics within Russia. Mr Vladimir Kara-Murza, Co-ordinator, Open Russia, told us that the referendum “was not recognised by any international organisations”.³⁰⁷

199. Other witnesses also listed a series of Russian contraventions of international law in the course of the annexation of Crimea, including:

- non-intervention provisions in the United Nations Charter;
- the Helsinki Final Act of 1975;
- the 1990 Paris Charter (the tenets of which are that borders of countries are not rewritten by force and all states enjoy equal security and equal rights to choose their own alliances);

³⁰¹ Vladimir Putin, speech to State Duma deputies and Federation Council members (18 March 2014): <http://eng.kremlin.ru/news/6889> [accessed 2 February 2015]

³⁰² [Q 57](#)

³⁰³ Written evidence ([RUS0015](#))

³⁰⁴ [Q 37](#)

³⁰⁵ Written evidence from His Excellency Dr Alexander Yakovenko ([RUS0019](#))

³⁰⁶ [Q 246](#)

³⁰⁷ [Q 98](#)

- the 1997 Treaty of Friendship, Cooperation and Partnership between Russia and Ukraine (which requires Russia to respect Ukraine's territorial integrity).³⁰⁸

200. In addition, Acting Ambassador Kuzmenko cited the 1994 Budapest Memorandum on Security Assurances, signed by the US, UK, and Russia, which provided guarantees on Ukrainian territorial integrity in exchange for Ukraine relinquishing its nuclear arsenal. He considered that the Memorandum was still “valid”, and that Russia had “direct obligations under it”, even though it was a declaration rather than a legally binding document. The Ukrainians would be interested in “upgrading” the document, and he felt that it could provide “ground for negotiations”.³⁰⁹
201. Witnesses noted that there was significant public support in Russia for President Putin's annexation of Crimea. Mr Alexander Kliment, Director, Emerging Markets Strategy, Eurasia Group, said that the “Russians absolutely loved” the message of “Russia finally springing back against years, decades, and in some sense centuries, of western encroachment and perfidy”.³¹⁰ Mr Lukyanov said that the President's policy enjoyed “very wide support”, and that in fact the President had broadened his base of support to include the nationalists who “perceive Russian actions in Crimea and in eastern Ukraine as legitimate protection of our people endangered by events in Ukraine.”³¹¹ Mr Denis Volkov, Head of Development Department, Levada Center, added that at the end of the 1990s, about 80% of the Russian people “thought that Crimea should be with Russia”, suggesting that President Putin had “acted on some existing expectations.” At the moment about 88% of the Russian population said “that it should be part of Russia”.³¹²

Phase V: Rebellion in eastern Ukraine and downing of MH17

202. A further deterioration of relations between Russia and the EU and escalation of insecurity took place as a result of Russian intervention in eastern Ukraine and the downing of the Malaysian airliner MH17. From late February, demonstrations by pro-Russian groups took place in the Donbas region (oblasts³¹³ of Donetsk and Luhansk) of Ukraine. Acting Ambassador Kuzmenko told us that the separatists in the Donetsk and Luhansk oblasts were “inspired, fed, paid and equipped by the Russians.”³¹⁴
203. On 17 July, a Malaysian airliner (MH17) was brought down near Torez, a town in eastern Ukraine 50 km from the Russian border. All 298 people on board were killed. The victims came from a number of countries and included nationals from the Netherlands, Malaysia, Australia, Indonesia, the UK, Germany, Belgium, the Philippines, Canada and New Zealand. The

³⁰⁸ [Q 76](#) (Acting Ambassador Kuzmenko), [Q 256](#) (Rt Hon David Lidington, Minister for Europe) and [Q 38](#) (John Lough)

³⁰⁹ [Q 76](#)

³¹⁰ [Q 27](#)

³¹¹ [Q 170](#)

³¹² [Q 192](#)

³¹³ Administrative divisions

³¹⁴ [Q 67](#)

circumstances surrounding the downing of MH17 are still unclear and an international investigation is planned, but it has been hampered by continued fighting in the region, while Russian and separatist officials have also been accused of obstruction. Some have accused Russia of being responsible, either directly or by supplying to separatists the BUK missile system that is believed to have brought down the plane. Russia, for its part, has argued that the plane was shot down by a Ukrainian fighter.³¹⁵

204. At the end of August 2014, when the Ukrainian government was beginning to regain the initiative in eastern Ukraine, “the Russians sent their regular troops. It was the feet of Russian soldiers directly on Ukrainian territory.”³¹⁶ Mr Crompton confirmed that after the shooting down of MH17 there was “then a sharp deterioration of the situation on the ground, which led to the incursion of regular Russian troops into eastern Ukraine”.³¹⁷ Mr Polyanskiy, on the other hand, denied that there was any “real proof” that there were Russian troops in eastern Ukraine.³¹⁸
205. The tragedy of the downing of flight MH17 hardened the political position of EU Member States on Russia. In the words of Mr Crompton, the plane crash “very much changed the politics of Russia within European Governments.”³¹⁹ Mr Lough added that it had increased the “level of impatience and frustration on the part of a number of leading European countries.”³²⁰

Phase VI: Minsk Protocol

206. On 5 September 2014 the Minsk Protocol was signed between Ukraine, Russia and representatives of the ‘People’s Republic of Donetsk’ and the ‘People’s Republic of Luhansk’,³²¹ setting out the terms of a ceasefire and a political process. The Protocol set out 12 steps, including a ceasefire monitored by the Organization for Security and Co-operation in Europe (OSCE); mutual withdrawal of troops and heavy weapons; border monitoring by the OSCE; decentralisation of power in Ukraine and provisions for local governance in Donetsk and Luhansk; hostage release and prisoner exchange; inclusive national dialogue; and humanitarian and economic measures to be adopted in the Donbas region.³²²

³¹⁵ *International Crisis Group* website: <http://www.crisisgroup.org/en/Search%20Results.aspx?keywords=ukraine>, ‘MH17 crash: Pressure grows on Russia over crash inquiry’, *BBC News* (20 July 2014): <http://www.bbc.co.uk/news/world-europe-28388136> and ‘Germany blames pro-Russian rebels for MH17 passenger plane crash—Spiegel’, *Reuters* (19 October 2014): <http://www.reuters.com/article/2014/10/19/ukraine-crisis-mh17-germany-idUSL6N0SE0AX20141019> [accessed 2 February 2015]

³¹⁶ [Q 67](#) (Acting Ambassador Kuzmenko)

³¹⁷ [Q 52](#)

³¹⁸ [Q 251](#)

³¹⁹ [Q 60](#)

³²⁰ [Q 29](#)

³²¹ The self-proclaimed People’s Republic of Luhansk and People’s Republic of Donetsk have declared themselves independent republics. They have held referendums and elections which have been declared illegal by the EU. The leaders are listed by the EU under its Ukraine restrictive measures.

³²² In the weeks that followed the signing of the Minsk Protocol there were frequent violations of the ceasefire. Talks continued in Minsk and a follow-up to the Minsk Protocol was agreed on 19 September. These two memorandums are collectively known as the Minsk Agreements.

207. The Minsk Protocol remains the basis for any move towards peace. The Minister for Europe told us that what was needed was a de-escalation of the situation starting with the full implementation of the Minsk agreements.³²³ Mr Serrano said that the European Council would want “to ensure that the aggression stops in eastern Ukraine, that Ukrainian law is respected in eastern Ukraine, and that a political process is launched in eastern Ukraine.” What was needed, he added, was “not only Russian words but concrete action to ensure that its border with Ukraine is not used to transfer arms and fighters into Ukraine, and that the ceasefire is respected. Russia is a key player in ensuring that this happens.”³²⁴ From a German viewpoint, Dr Hans-Dieter Lucas, Political Director, Federal Foreign Office of the Federal Republic of Germany, agreed that the Minsk Protocol remained the basis on which a political process could be built.³²⁵
208. However, all our witnesses agreed that the Minsk Protocol was not being implemented and that the situation was getting worse.³²⁶ The onus had been on the Russian side to act by withdrawing support for the separatists and controlling the flow of arms and fighters across its border, but Acting Ambassador Kuzmenko said that the promise of a Russian withdrawal was “far from being implemented”.³²⁷ The Minister pointed to a continuing “flow of people and material crossing from Russia to reinforce the separatists in Donetsk and Luhansk.”³²⁸ Mr Vimont said that the EU would welcome the opportunity to begin the political process, but that it was “difficult to do that as long as we see that even the agreements that have been reached are not being implemented properly.”³²⁹
209. Dr Libman feared that finding a sustainable solution to the Ukrainian crisis in the near future was “unlikely to be feasible”, and said that the immediate priority should be to “concentrate on managing the crisis, i.e., preventing it from escalation, searching for opportunities of dialogue and, above all, preventing the military conflict.”³³⁰

Recurring themes

210. Two significant factors emerge from the summary of key events above:
- Lack of political oversight; and
 - The pivotal and exceptional nature of Ukraine.

³²³ [Q 257](#)

³²⁴ [Q 165](#)

³²⁵ Appendix 5: Evidence taken during visit to Berlin

³²⁶ As at 21 January 2015, the United Nations estimated that more than 5,000 people had been killed and over 10,000 had been wounded in the conflict in Ukraine since mid-April 2014. The United Nations Office of the High Commissioner for Human Rights added that the real figure could be “considerably higher”. ‘Death toll in Ukraine conflict exceeds 5,000, may be ‘considerably higher’—UN’, *UN News Centre* (23 January 2015): <http://www.un.org/apps/news/story.asp?NewsID=49882> [accessed 2 February 2015]

³²⁷ [QQ 67, 76](#)

³²⁸ [Q 257](#)

³²⁹ [Q 164](#)

³³⁰ Written evidence ([RUS0015](#))

Lack of political oversight

211. An element of ‘sleep-walking’ was evident in the lead-up to the crisis. Sir Tony Brenton said that during the negotiation on the AA, any awareness of Russian hostility was not felt “at a high enough political level in the EU for people who really understand Russia actually to be asked how tough the Russian reaction was likely to be.”³³¹ There was, he told us, “a lack of ... simple thinking about how the Russians were behaving at that stage.”³³² He added that the EU knew that the Russians “did not like what was happening,” but assumed “Ukraine could simply ride over that.”³³³ Mr Lough put it to us that the “EU did indeed underestimate the determination of the Russians to ensure that Yanukovych would not sign” the Association Agreement.³³⁴
212. Assistant Professor Serena Giusti, Scuola Superiore Sant’Anna, saw the EU’s post-Maidan policy as “technocratic”, taken forward by EU institutions which “acted in the vacuum of politics.” She believed that the “EU’s governments remained either unresponsive or divided on a common strategy,” that the EU response was driven by “inertia rather than from an accurate analysis of the situation”, and that the EU “failed to come up with a strategy for Ukraine”.³³⁵
213. At the same time, Mr Demarty reminded us that the decision to take forward the trade agreement with Ukraine “was not something decided by obscure trade officials; it was an initiative that was taken with the unanimity of member states at a meta-political level.” As Director-General for Trade he had “implemented the strategy that [had] been fixed” at the political level.³³⁶
214. Mr Lukyanov said that a similar absence of political oversight may have been present on the Russian side, “because the Russian state apparatus never was very functional”.³³⁷ Sir Tony Brenton added that there was “no evidence that the Russians really took to a high level the extent to which the EU was pursuing this”.³³⁸ Despite this, Mr Lukyanov was clear that the deliberate exclusion of Russia by the EU was chiefly to blame: “The lack of co-ordination on the Russian side was in place, but I would not believe that the European Union was really interested in discussing things with Russia.”³³⁹

Conclusions

215. **An element of ‘sleep-walking’ was evident in the run-up to the crisis in Ukraine, and important analytical mistakes were made by the EU. Officials in Brussels as well as Member States’ embassies all participate in the EU foreign policy process, but all seem to have missed the warning signs. The EU and Member States lacked good**

³³¹ [Q 37](#)

³³² [Q 31](#)

³³³ [Q 37](#)

³³⁴ *Ibid.*

³³⁵ Written evidence ([RUS0007](#))

³³⁶ [Q 153](#)

³³⁷ [Q 172](#)

³³⁸ [Q 31](#)

³³⁹ [Q 172](#)

intelligence-gathering capacity on the ground. The lack of an integrated and co-ordinated foreign policy was also evident.

216. **Collectively, the EU overestimated the intention of the Ukrainian leadership to sign an Association Agreement, appeared unaware of the public mood in Ukraine and, above all, underestimated the depth of Russian hostility towards the Association Agreement. While each of these factors was understood separately, Member States, the European External Action Service and the Commission did not connect the dots.**
217. **The Russians, on their side, were taken by surprise and misjudged the determination of Member States to sign the Association Agreement. When Russian hostility became explicit, the EU had a very small window of opportunity to act. By that stage, events began to take on a momentum of their own.**

The pivotal and exceptional nature of Ukraine

218. We heard that Ukraine, and in particular Crimea, holds particular strategic, economic and historic importance to Russia. For many Russians, losing Ukraine would be to lose not only a part of the former Russian (as opposed to Soviet) empire, but a country that has played a key role in shaping their history, religion and identity.³⁴⁰
219. Mr Kliment told us it was “impossible to overstate the extent to which not only the Russian elite but the Russian population at large view Ukraine as part of Russia’s sphere of influence—historically, economically, culturally and even religiously.”³⁴¹ Mr Lukyanov pointed out that Ukraine was (before the crisis) “very important for the Russian economy”, as well as being important to Russia strategically.³⁴²
220. Mr Klaus said that such views were long-standing and widely held: “Russia would have behaved very similarly in the Ukrainian crisis or conflict with any Russian President.” In this respect he believed that President Putin’s actions were “not anti-Russian—it is very Russian in this respect. I do not think it is rational to try to make any sort of schism between Russia and Putin on Ukraine.”³⁴³
221. Mr Klaus also urged us to consider internal factors within Ukraine. In his view, Ukraine was an inherently unstable entity, weakened by decades of political faction.³⁴⁴ He believed that Ukraine was a “heterogeneous, divided country, and that an attempt to forcefully and artificially change its

³⁴⁰ Kiev was the capital of the first Slav state, Kyivan Rus (10th–11th centuries). Crimea only became part of Ukraine in 1954 when Nikita Khrushchev gifted it to Ukraine. Ukraine achieved independence in 1991 with the dissolution of the Soviet Union (Rodric Braithwaite, ‘Russia, Ukraine and the West’, *RUSI Journal*, vol. 159 no. 2 (April/May 2014), pp 62–65)

³⁴¹ [Q 21](#)

³⁴² [Q 174](#)

³⁴³ [Q 218](#)

³⁴⁴ [QQ 210, 212](#)

geopolitical orientation would inevitably result in its break-up, if not its destruction.”³⁴⁵

222. Mr Crompton, on the other hand, argued that Ukraine was “not the only country to have emerged from the post-Soviet orbit that did not really exist as an independent state, so it is not unique in that respect.”³⁴⁶ Mr Mikhail Kasyanov, former Prime Minister of Russia and co-leader of the Republican Party of People’s Freedom (PARNAS party), added that none of the arguments regarding religious divisions or history were pertinent to the state of Ukraine today.³⁴⁷
223. In fact, Graf Lambsdorff and Mr Kasyanov said that what had weakened Ukraine was the failure of its leaders to undertake economic and political reforms, rather than any inherent instability—in Graf Lambsdorff’s words, Ukraine had “not realised its great potential” due to “endemic corruption and a dysfunctional political system”.³⁴⁸ Writing in November 2013, in an article titled ‘The Basket Case’, Mr Anders Aslund argued that for years “the Ukrainian government has pursued a disastrous economic policy, rendering a serious financial crisis possible or even likely.”³⁴⁹ The ruling elite, having engaged in “predatory rule”, had found IMF reforms detrimental to their personal enrichment. The International Crisis Group concluded that the “crisis in Ukraine is the logical legacy of twenty years of mismanagement and massive corruption”.³⁵⁰

Russia’s economic interests

224. Ukraine, we heard, was a very important economic partner for Russia.³⁵¹ It would have been the pivotal country in the Eurasian Economic Union. One of the ostensible reasons for the Russian intervention was that Ukraine’s signature of an EU Association Agreement (AA), which contained a Deep and Comprehensive Free Trade Area (DCFTA), would have had a negative impact on the Russian economy, as well as being incompatible with Ukraine’s regional agreements. President Putin has stated that Russia:

“Believed it was indeed unreasonable to sign that agreement because it would have a grave impact on the economy, including the Russian economy. We have 390 economic agreements with Ukraine and Ukraine is a member of the free trade zone within the CIS (Commonwealth of Independent States). And we wouldn’t be able to continue this economic relationship with Ukraine as a member of the free trade zone.”³⁵²

³⁴⁵ [Q 210](#)

³⁴⁶ [Q 53](#)

³⁴⁷ [Q 238](#)

³⁴⁸ [Q 130](#) (Graf Lambsdorff) and [Q 238](#) (Mikhail Kasyanov)

³⁴⁹ Anders Aslund, ‘The Basket Case’, *Foreign Policy* (26 November 2013): <http://foreignpolicy.com/2013/11/26/the-basket-case/> [accessed 29 January 2015]

³⁵⁰ ‘Ukraine: Running out of Time’, *International Crisis Group*, Europe Report no. 231 (14 May 2014), page 26: <http://www.crisisgroup.org/en/regions/europe/ukraine/231-ukraine-running-out-of-time.aspx> [accessed 29 January 2015]

³⁵¹ [Q 183](#) (Ambassador Gachechiladze) and written evidence from Ambassador Yakovenko ([RUS0019](#))

³⁵² ‘Vladimir Putin’s interview with Radio Europe 1 and TF1 TV channel’ (3 June 2014): <http://eng.kremlin.ru/transcripts/22441> [accessed 29 January 2015]

225. In contrast, Professor Sergei Guriev, Professor of Economics, Sciences Po, Paris, advised us that “Russia’s statement that a free trade area between Russia and Ukraine is not compatible with the DCFTA is false.” There was “nothing wrong with being a member of free trade areas with different partners.”³⁵³ Mr Vimont agreed that there was “no incompatibility between the DCFTA that we were pushing forward with the kind of trade agreement that Ukraine could have with Russia.”³⁵⁴ Mr Polyanskiy qualified the Russian position, saying that what would not have been possible was for “Ukraine to sign an Association Agreement and preserve its current situation as a privileged partner.”³⁵⁵
226. Two particular Russian economic concerns were the surging or dumping of products into the Russian market, and alignment of regulatory standards.
227. Mr Kliment told us that the Russians feared that Ukraine’s signature of the DCFTA would create a conduit for competitive European goods to “flood the Russian market and to damage the interests of Russian producers,” who were not able to compete with European producers.³⁵⁶ Mr Polyanskiy focused on potential dumping: export quotas offered to Ukraine were “very small—even laughable”, while there were “no limitations for EU products entering Ukraine.” As a result, Ukrainian products which could not enter the EU market because of EU regulatory standards or because of limited quotas would be dumped onto the Russian market.³⁵⁷
228. Mr Demarty, on the other hand, took the view that if a product was not competitive in the domestic market then it was unlikely to be competitive in the Russian market. In the case of surging of exports or dumping of products by Ukrainian companies, the terms of the CIS free-trade agreement permitted “the use of safeguarding measures and anti-dumping procedures, just as is the case today.”³⁵⁸
229. With regard to regulatory standards, Mr Polyanskiy explained that the provisions of the DCFTA which would involve Ukraine adopting EU technical and regulatory standards were particularly threatening. They meant that when Ukraine introduced EU technical regulations, it would no longer be able to “export many products of the steel industry, for example, or railroad vans to Russia, because they will not meet Russian technical regulations or customs union technical regulations.”³⁵⁹ Mr Kliment explained that Russians feared that the “shift in Ukraine to European standards and regulations—technical standards, phytosanitary standards, the whole run of it—would in fact make goods produced in Ukraine incompatible with supply chains for Russian firms and Russian sectors that rely on Ukraine for key economic inputs.”³⁶⁰

³⁵³ [Q 81](#)

³⁵⁴ [Q 162](#)

³⁵⁵ [Q 243](#)

³⁵⁶ [Q 21](#)

³⁵⁷ [Q 245](#)

³⁵⁸ [Q 134](#)

³⁵⁹ [Q 245](#)

³⁶⁰ [Q 21](#)

230. At the same time, Mr Kliment could see no reason why producers in Ukraine who depended on Russian markets or supplied Russian markets “could not continue to produce goods that meet Russian specifications separate from those that meet EU specifications.”³⁶¹ Mr Demarty suggested that the DCFTA foresaw “progressive timetables” for the implementation of new requirements, which could be adjusted and extended if necessary.³⁶²
231. Considering the ease with which these arguments could be addressed, Mr Demarty thought it likely that Russian concerns were “more political than really commercial”. Mr Luc Pierre Devigne, Head of Unit, Directorate General for Trade, also believed it was “very unlikely” that there were genuine commercial concerns, as Russian trade with Ukraine was mostly composed of raw materials rather than manufactured goods.³⁶³ The Minister for Europe dismissed Russian economic concerns as “more a pretext than a genuine concern”.³⁶⁴
232. According to Mr Demarty, the unstated economic rationale for Russian commercial concerns was that the DCFTA implied the gradual development of a level playing field in the Ukrainian market, on which EU and Russian products would compete on equal terms. For Russia this would be “a source of loss”, because at the moment it had free access to the Ukrainian market while most EU goods were paying duties.³⁶⁵ Professor Guriev agreed that for “certain interest groups in Russia, Ukraine joining the DCFTA would represent a problem”. More competition from European goods in Ukraine, and Europe being a destination for exports from Ukraine, created “competition and therefore a cost.”³⁶⁶

Conclusion

233. **It is clear that Russian concerns about the impact of EU trade agreements, while having an economic basis, were also politically driven, while in seeking to address Russian concerns, the Commission was putting forward free-market liberal economic arguments. Both sides were to some extent talking past each other. The absence of Member States’ political oversight during this process is glaring.**

The EU’s response to the crisis

Member State unity

234. As the crisis escalated in the summer of 2014, EU Member States forged a united position. Having previously only applied asset freezes and visa bans, on 31 July 2014 the European Council agreed ‘stage three sanctions’,

³⁶¹ *Ibid.*

³⁶² [Q 134](#)

³⁶³ [Q 141](#)

³⁶⁴ [Q 254](#)

³⁶⁵ [Q 134](#)

³⁶⁶ [Q 81](#)

comprising restrictions and bans in three key areas: finance, military and dual use products, and high-tech energy exports.³⁶⁷

235. Mr Crompton informed us that securing agreement to these significant sectoral sanctions “was very easy.”³⁶⁸ Mr Kasyanov pointed out that, in contrast to the “back to business as usual” approach that followed the Russo-Georgian war in 2008, this time the West and EU had behaved differently: “There is a transatlantic unity and strong positioning, and a principled attitude to the policies that Mr Putin is pursuing now.”³⁶⁹ In his view President Putin “was shocked” by the united position and strong attitude. However, this united position was then undermined by disagreement on the sanctions policy among Member States, which “was viewed by Mr Putin as weakness. After the so-called Normandy meetings, which Mr Putin was pleased with, he decided to go further with the escalation.”³⁷⁰
236. Mr Vimont accepted that Member States had their reservations, but said that they had agreed that “unity had to prevail above some of their reservations.”³⁷¹ Mr Serrano agreed that the EU had a “very clear position towards Russia and very clear interests”, namely ensuring that Russia played a constructive role in solving the crisis in Ukraine. He believed that this policy would be “pushed forward and maintained without hesitation.”³⁷²

EU sanctions policy

237. Associate Professor Tomila Lankina, London School of Economics and Political Science, said that the objective of EU sanctions had been “to constrain Russian support for separatist forces in Eastern Ukraine in the ongoing conflict, while also preventing the repetition of a similar scenario elsewhere in the post-Soviet space in the future.”³⁷³ Mr Crompton viewed sanctions both as a useful deterrent, designed to “change the cost-benefit equation” of actions in the neighbourhood, and also as an instrument to bring President Putin to the negotiating table.³⁷⁴ Below, we assess the impact that the sanctions have had on Russia against these objectives.

Effect of sanctions in Russia

238. Sanctions have compounded the damage done to the Russian economy by two other factors: falling oil revenues, on which the government budget is very dependent, and an unreconstructed economic structure. Russia has been haemorrhaging capital. Mr Barton, giving evidence on 9 September 2014, told us that the rouble had sunk to a “record 16 year low against the dollar” and that the ratings agency Fitch had estimated that sanctions had caused Russia’s reserves to “fall from about \$470 billion to \$450 billion” by

³⁶⁷ Council Decision 2014/512/CFSP of 31 July 2014 concerning restrictive measures in view of Russia’s actions destabilising the situation in Ukraine (31 July 2014): http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.229.01.0013.01.ENG [accessed 2 February 2015]

³⁶⁸ [Q 60](#)

³⁶⁹ [Q 220](#)

³⁷⁰ [Q 221](#)

³⁷¹ [Q 161](#)

³⁷² [Q 165](#)

³⁷³ Written evidence ([RUS0001](#))

³⁷⁴ [Q 59](#)

the end of 2014.³⁷⁵ In November 2014, Russian Finance Minister Anton Siluanov said that Russian capital outflows may reach \$130 billion in 2014.³⁷⁶

239. In December, the Minister for Europe confirmed that sanctions were an “additional burden on top of the grievous structural weaknesses that Russia already faces”, which had been laid bare by the collapse of global crude oil prices. The “tangible impact upon Russia” had been that the rouble had hit historic lows, headline inflation outstripped wage inflation for the first time in five years, growth forecasts had been revised downwards to near zero for the current and next quarter, and borrowing costs had spiralled as Russia was locked out of western financial markets.³⁷⁷
240. By October 2014, witnesses had begun to estimate a two to three year crunch period for the Russian economy. Professor Guriev said that the sanctions had worsened the economic difficulties for the Russian budget caused by falling oil prices. The price of oil would hit Russian public finances and this effect would be “strongly reinforced by the sanctions.” Oil prices in the range of \$80 or \$85 directly implied that the Russian government would face “significant problems three years down the road.”³⁷⁸ In November, Mr Kasyanov too thought that if oil prices stayed as they were President Putin had “two years to decide what to do.”³⁷⁹ We note that, by January 2015, crude oil prices had further fallen to under \$50 per barrel, with implications for the timeline suggested by our witnesses.
241. It was less clear whether the sanctions were having a political impact in Ukraine. On 24 July 2014, commenting on the asset freezes and visa bans, Sir Tony Brenton judged not. He said that sanctions were “not having any political effect at all.”³⁸⁰ By September, after the imposition of three-tier economic sanctions, Mr Crompton believed that sanctions had an impact on President Putin’s calculations: “Every time the EU has applied sanctions over the past few months, on the day before Russia has made some diplomatic gesture in an effort to avoid further sanctions”.³⁸¹ Professor Guriev agreed that sanctions had driven a change in the President’s political calculations in eastern Ukraine. The ceasefire and Russia’s willingness to moderate its support for separatists in eastern Ukraine were evidence of sanctions working. He put it to us that President Putin “does understand the numbers”, which is why Donetsk and Luhansk “even after holding a referendum, have not become part of Russia.”³⁸²
242. In contrast, we heard that sanctions had not so far changed President Putin’s calculations in Crimea. Professor Guriev said that Russia was not going to

³⁷⁵ [Q 58](#)

³⁷⁶ ‘Russia sees higher capital outflows with rouble near record level’, *Bloomberg* (17 November 2014): <http://www.bloomberg.com/news/articles/2014-11-17/russia-sees-higher-capital-outflows-with-rouble-near-record-level> [accessed 2 February 2015]

³⁷⁷ [Q 256](#)

³⁷⁸ [Q 77](#)

³⁷⁹ [Q 222](#)

³⁸⁰ [Q 44](#)

³⁸¹ [Q 59](#)

³⁸² [QQ 85, 77](#)

give back Crimea “any time soon.”³⁸³ According to Dr Tom Casier, Jean Monnet Chair, Senior Lecturer in International Relations, University of Kent, the Russian government was trapped by its own nationalist rhetoric. The Russians would be “willing to hurt themselves ... for the simple reason that Putin and the elite have identified their position so much with power and Russian pride that it will be very hard to force them, by sanctions or whatever, to step back.”³⁸⁴

243. Dr Libman argued that the Russian leadership divided issues into first-order priorities, such as national security (where it pursued its policies with determination and rigour), and second-order issues, such as the economy and domestic issues (where the Russian leadership was flexible and able to compromise). Even major economic difficulties did not move the Russian leadership on first-order security issues.³⁸⁵
244. As for whether sanctions would bring the Russian government to the negotiating table, in September 2014 Mr Crompton said that sanctions had actively targeted the group of oligarchs and senior businessmen surrounding the Kremlin, and that there was “quite a lot of evidence” that that group of people were “very concerned.”³⁸⁶ In December, the Minister for Europe was frank that sanctions were not yet bringing about a change in President Putin’s actions regarding Ukraine, but he pointed to “dissension within the Russian elite”, and “very senior people inside the Russian system” who believed that the President was taking Russia in the wrong direction.³⁸⁷
245. In addition, some witnesses drew our attention to the unintended consequences of sanctions. Professor Guriev said that as the Russian economy stuttered, the Russian government would “have to come up with certain—probably non-economic—solutions to convince Russians ... that they are suffering economically for a good cause.” In his view, “we should expect more propaganda, more repression and maybe even further foreign policy adventures.” He added that the Russian government was using sanctions to “call Russians to rally around the flag.”³⁸⁸
246. Sectoral sanctions were also driving the Russian economy towards more protectionism. Mr Kliment told us that in response to the threat of increased sanctions, Russia had taken a number of steps that prepared the economy to become “more autarchic rather than more open to western trade and European norms.”³⁸⁹ Dr Libman predicted that the Russian economy would “enter a lengthy period of stagnation and lose its chances to modernise.”³⁹⁰ Sir Tony Brenton viewed the ending of European Bank for Reconstruction and Development (EBRD) funding streams to Russia as one of the “more ludicrous sanctions”, as it would end support for small private enterprises in

³⁸³ [Q 77](#)

³⁸⁴ [Q 116](#)

³⁸⁵ Written evidence ([RUS0015](#))

³⁸⁶ [Q 59](#)

³⁸⁷ [Q 256](#)

³⁸⁸ [Q 77](#)

³⁸⁹ [Q 22](#)

³⁹⁰ Written evidence ([RUS0015](#))

Russia, which were “exactly the component in Russian society that we want to develop if we are thinking about Russia post-Putin.”³⁹¹

Impact of sanctions in the EU

247. Sanctions on Russia have also imposed economic hardship on EU countries. The Confederation of British Industry (CBI) drew our attention to trading statements from publicly listed companies that cited geopolitical tensions in Ukraine and Russia as a contributing factor to downgrading performance forecasts for 2015.³⁹² Professor Guriev pointed out that in the fragile state of the EU economy, while sanctions against Russia and counter-sanctions by Russia had not had a dramatic effect, they had “had a negative effect on European growth perspectives.”³⁹³
248. Ms Shona Riach, Director, International Finance, Her Majesty’s Treasury, acknowledged the impact of sanctions on the Eurozone, but added that the biggest risk to the European economy was “the geopolitical threat and the threat from the situation in Ukraine, rather than specifically the impact of the sanctions.” It followed that “not to do anything and not to take action would have had greater costs associated with it.”³⁹⁴
249. The CBI informed us that Russian ‘retaliatory’ sanctions, such as banning the import of agricultural goods from the EU, had a significant direct impact on EU countries, particularly in Eastern Europe. The stockpiling of some agricultural products in EU countries as a result of the Russian import ban had put a downward pressure on commodity prices across the EU as a whole.³⁹⁵ Mr Barton told us that the total value of the EU food exports that were affected was “about £4.5 billion, which will mainly affect Lithuania, Poland and Germany.”³⁹⁶
250. The economic impact of sanctions on the UK has been limited. Overall, CBI members believed that the sanctions had so far “been carefully designed to limit the impact on British companies while maximising the impact on the Russian economy.” According to the CBI, the impact of Russian retaliatory sanctions on the agricultural sector had also been limited. The UK exported a relatively small amount of agricultural products to Russia—in 2013 the UK’s largest agricultural exports to Russia were £5.4 million of cheese and £1.4 million of poultry meat—accounting for less than 1% of the UK’s total cheese and poultry trade. However, the stockpiling of agricultural products in EU countries, and downward pressure on commodity prices across the EU, had caused a consequent impact on British companies and suppliers exposed to these commodity markets.³⁹⁷
251. There has been a more severe impact on the German economy. Open Europe informed us that German trade with Russian had declined significantly between August 2013 and August 2014—exports had fallen

³⁹¹ [Q 50](#)

³⁹² Written evidence ([RUS0010](#))

³⁹³ [Q 78](#)

³⁹⁴ [Q 90](#)

³⁹⁵ Written evidence ([RUS0010](#))

³⁹⁶ [Q 58](#)

³⁹⁷ Written evidence ([RUS0010](#))

26% and imports 19%.³⁹⁸ Russia currently takes 3% of Germany's exports. The decline in German-Russia trade has contributed to a broader fall in German exports. In the second quarter of the current financial year the German economy shrank by 0.2%. Economists expected it to contract again in the third quarter, meaning that the economy would technically be in recession.³⁹⁹

The future of the sanctions policy

252. The EU's asset-freezes and travel bans on individuals are due to be reviewed by the EU in March and April 2015, while the sectoral sanctions come up for renewal in July 2015.
253. We understood from our conversations in Berlin and in Brussels that there was growing frustration that the EU's offer of dialogue was not being reciprocated by Russia. In particular, we sensed the growing impatience and disappointment in Germany. Dr Lucas told us that, in light of the slow progress on Crimea, the Federal Foreign Office was considering whether tougher sanctions should be developed. The opinion of Dr Markus Kerber, Director General, Federation of German Industries, was that some Member States tended to be of the view that if Russia's behaviour had not worsened then the sanctions should be lifted. The German position was that if Russia's behaviour had not improved, then the sanctions should continue.⁴⁰⁰
254. Ms Riach noted that at both UK and EU levels thought was being given to how sanctions could be tightened further. The financial sanctions had "a number of exemptions within them", and the first thing that could be done "would be to look at tightening that up as far as possible."⁴⁰¹ Other witnesses drew attention to the possibility of targeting the Russian government more closely. Mr Ian Bond CVO, Director of Foreign Policy, Centre for European Reform, suggested that the EU had been "very gentle so far", and that the majority of those sanctioned so far were "utterly unknown figures in local politics in Crimea or relatively middle-ranking military officers." The EU had not done what the US had done, which was "to target those who are closest to Putin, which is likely to be more effective as a short-term measure."⁴⁰²
255. Mr Kara-Murza too suggested that the EU should target individuals close to President Putin. Such a step would have enormous political significance for the President and his entourage. In his view there was "nothing or very little that the Putin regime fears more than targeted personal sanctions imposed by the European Union and North America—by the West in general—on the people in Putin's inner circle."⁴⁰³ Mr Kasyanov agreed that there could be

³⁹⁸ Written evidence ([RUS0013](#))

³⁹⁹ 'Why the German economy is in a rut', *The Economist* (21 October 2014): <http://www.economist.com/blogs/economist-explains/2014/10/economist-explains-14> [accessed 2 February 2015]

⁴⁰⁰ Appendix 5: Evidence taken during visit to Berlin

⁴⁰¹ [Q 96](#)

⁴⁰² [Q 12](#)

⁴⁰³ [Q 98](#)

space to increase sanctions to named individuals, including members of parliament nominated by President Putin.⁴⁰⁴

256. Mr Kara-Murza also suggested that the generic term “sanctions against Russia” resonated badly among the Russian public: “It allows Mr Putin to portray these individual sanctions as being directed not against his oligarchs and his officials, but against the whole of Russian society.” He said that it was “really crucial to choose the language carefully and to talk not about ‘sanctions on Russia,’ but about sanctions on the regime, on the corrupt officials, on the human rights abusers, on the aggressors and so forth.” The shorthand was “easier to say”, but it was “very important to say those few extra words and not play into Mr Putin’s propaganda.”⁴⁰⁵
257. In the long term, Dr Lucas argued that sanctions needed to be part of an overall strategy, in which the EU would be closely aligned with the US.⁴⁰⁶ Mr Barton assured us that there had deliberately been a “very close alignment” between what the EU and the US were doing, and that there was agreement that this approach should be maintained.⁴⁰⁷ The Minister informed us that the Prime Minister had “personally worked very hard” to ensure that the EU and US sanctions regimes were as consistent as possible.⁴⁰⁸

Conclusions

258. **We welcome Member States uniting around an ambitious package of sanctions on Russia.**
259. **Sanctions need to be part of an overall strategy of diplomacy and a political process, including intensive dialogue on Crimea. This strategy is not yet in place.**
260. **The Russian government is under severe pressure. Internal economic problems, including the falling price of oil, have been worsened by the EU sanctions regime, and are likely to have a very serious impact on the viability of the current government. However, the EU is in danger of having offered President Putin a tool for fomenting further nationalist and anti-EU sentiment.**
261. **There is no evidence that sanctions have caused President Putin to shift his stance on Crimea, where Russia has direct and vital security interests through the Sevastopol naval base.**
262. **While EU and US sanctions have been broadly aligned, the US has been prepared to target individuals close to the Russian government. If there is no progress on the Minsk Protocol and the situation in eastern Ukraine continues to deteriorate, the EU should find ways of targeting individuals close to President Putin and consider broadening sectoral sanctions into the Russian financial sector.**

⁴⁰⁴ [Q 230](#)

⁴⁰⁵ [Q 102](#)

⁴⁰⁶ Appendix 5: Evidence taken during visit to Berlin

⁴⁰⁷ [Q 60](#)

⁴⁰⁸ [Q 256](#)

263. **In the long-term, three-tier sanctions are detrimental to the EU's interests as well as to Russia's. While they could be renewed in the short term, the prospect of the progressive removal of sanctions should be part of the EU's negotiating position. Genuine progress by Russia in delivering the ceasefire in eastern Ukraine should be the basis for ratcheting down sanctions.**

EU support for Ukraine

Political support for Ukraine

264. Member States have united around strong political messages, which support the territorial integrity of Ukraine and denounce the annexation of Crimea. On 20 March 2014, the European Council concluded:

“The European Union remains committed to uphold the sovereignty and territorial integrity of Ukraine. The European Council does not recognise the illegal referendum in Crimea, which is in clear violation of the Ukrainian Constitution. It strongly condemns the illegal annexation of Crimea and Sevastopol to the Russian Federation and will not recognise it.”⁴⁰⁹

265. Acting Ambassador Kuzmenko urged the EU not to “leave Ukraine to deal with Russia alone.” This was because Ukraine was not fighting “just for the territorial integrity or sovereignty of Ukraine but for the European values ... We are the only European country that has paid such a price just for its declared decision to become a future European state.”⁴¹⁰ Mr Crompton told us that the UK regarded the “annexation of Crimea as illegal” and would “maintain a position of principled support for Ukraine's sovereignty and territorial integrity.”⁴¹¹
266. Nevertheless, witnesses feared that the possibility of resolving the annexation of Crimea in the short-term was remote. Mr Crompton admitted that “we do not know how this will end.” There was no possibility of getting a resolution through the United Nations Security Council, because of the Russian veto.⁴¹² Dr Casier said that losing Crimea would be “unacceptable and non-negotiable for Russia.” Dr Marat Terterov, Executive Director and Co-Founder, Brussels Energy Club, also considered it impossible that Russia would accept Crimea being a state distinct from Russia.⁴¹³
267. It was suggested that the EU could adopt a tactical and pragmatic approach to the annexation of Crimea, in effect shelving the issue for the long-term. Dr Casier pointed out that while with the annexation of Crimea “one of the most important European taboos” had been broken, namely the annexation of part of another country, it would “be very hard to do anything about the situation.” He had heard it said in diplomatic circles that it was “already very

⁴⁰⁹ European Council 20/21 March 2014, Council Conclusions (21 March 2014): http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/141749.pdf [accessed 2 February 2015]

⁴¹⁰ [Q 75](#)

⁴¹¹ [Q 56](#)

⁴¹² *Ibid.*

⁴¹³ [Q 115](#)

much accepted as a done deed, a *fait accompli*.”⁴¹⁴ He envisaged a scenario whereby EU Member States would “continue business as usual with Russia and just keep mentioning in all sorts of documents” that they did not accept the annexation of Crimea.⁴¹⁵ Mr Josef Janning, Senior Policy Fellow, European Council on Foreign Relations, judged that the Ukrainians were likely to make a pragmatic and tactical calculation to “solve the problems already on the table”, such as energy in the winter and restarting the economy, while leaving the status of Crimea for a later date. If that were the case, the EU “could take that position too without speaking much about it”.⁴¹⁶

268. Mr Janning noted that one option could be to resolve the region’s political status with the help of an internationally mediated referendum, but that this would only be possible once relations between Ukraine and Russia had reached a calmer equilibrium.⁴¹⁷ Mr Kasyanov cautioned that it would have to be a “referendum organised in normal circumstances in the normal way”, but said that to hold such a referendum would be to accept the order created by the Russians in violation of international assurances.⁴¹⁸

Conclusions

269. **The Minsk Protocol is not being implemented, violence is escalating and with it the risk of a *de facto* annexation of part of Ukraine. A ceasefire, however desirable, is not in itself a permanent solution: the dismemberment of a sovereign independent state is not acceptable.**
270. **There appears to be tacit acceptance within European and Ukrainian political circles that the priority is to move towards a political process in eastern Ukraine, leaving resolution of the status of Crimea to the medium or long term. We support this ordering of priorities: a political process with Russia on eastern Ukraine is urgent.**
271. **However, the territorial integrity of Ukraine should not be jeopardised by any tactical steps taken as part of the peace process. As part of the peace process, an international dialogue could be convened to discuss the final status of Crimea. Here the signatories of the Budapest Memorandum, including the UK, could play a useful role.**
272. **The possibility of another referendum on Crimea, under international mediation, is one option. We recognise that there is a danger that any such referendum would be coloured by Russia’s domination of the political and media landscape in Crimea. It is critical that there should be an open and honest debate, and that citizens should vote without fear of reprisal. Nevertheless, this option should remain on the table.**

⁴¹⁴ [Q 112](#)

⁴¹⁵ [Q 115](#). We note that there are precedents for this: for example, the EU and Member States maintain diplomatic and economic relations with China, despite not recognising its occupation of Tibet.

⁴¹⁶ [Q 115](#)

⁴¹⁷ *Ibid.*

⁴¹⁸ [Q 239](#)

Economic support for Ukraine

273. The conflict itself, along with the loss of revenue from industrial production and resources in eastern Ukraine, have imposed a debilitating cost on the Ukrainian economy. Lord Livingston of Parkhead, Minister of State for Trade and Investment, informed us that in September, “the European Bank for Reconstruction and Development (EBRD) predicted Ukrainian GDP would contract by 9% in 2014. In October, the World Bank predicted a contraction of 8%, while the IMF predicted a contraction of 6.5%”.⁴¹⁹ In November 2014, Mr Bond wrote that inflation was expected to rise to 11.8% this year and that the value of the Ukrainian currency had fallen by almost 50% in 2014.⁴²⁰ In January 2015, *The Economist* estimated that, factoring debt repayments and gas import bills into the equation, Ukraine would probably need \$20 billion in external support to survive 2015.⁴²¹
274. Professor Guriev told us that the EU had committed €11.5 billion to Ukraine, which was “something like 6% or 7% of Ukrainian GDP”.⁴²² Mr Crompton, speaking in September 2014, also drew attention to a significant IMF programme, “a £17 billion package in all, of which I believe £4.6 billion has been disbursed.” The Government “believe that is enough but that is under review.”⁴²³
275. On the other hand, Dr Libman doubted that any realistic external funding would be enough to “rescue Ukraine”, while accepting that the EU “could provide help in designing and implementing economic reforms, improving quality of bureaucracy etc.”⁴²⁴ Professor Guriev urged that if the EU wanted “an independent, democratic and prosperous Ukraine ... the EU should prepare to think about further programmes of support in Ukraine.”⁴²⁵
276. The Minister for Europe, in December 2014, informed us that thanks to Russian intervention Donbas industrial production was not delivering the expected figures, and that the IMF was therefore reviewing the level of financing. He would not be surprised if there was “a need to add to the financing package that was agreed earlier in the year.” He did not want to speculate on what the IMF would report, but said that the Government recognised that support for Ukraine would have to be for the long term. Beyond the moral case for supporting Ukraine, the Minister noted that a wealthy Ukraine could provide “marvellous investment opportunities for the agricultural and food processing sector, for retailing and for energy investment”.⁴²⁶

⁴¹⁹ Letter from Lord Livingston of Parkhead, Minister of State, Department for Business, Innovation and Skills to Lord Boswell of Aynho, Chairman of the European Union Select Committee, 5 January 2015

⁴²⁰ Quoted in Ian Bond, ‘Ukraine after the elections: Democracy and the barrel of a gun’, *Centre for European Reform* (27 November 2014): <http://www.cer.org.uk/publications/archive/bulletin-article/2014/ukraine-after-elections-democracy-and-barrel-gun> [accessed 2 February 2015]

⁴²¹ ‘Ukraine and the IMF, Bigger and better’, *The Economist* (22 January 2015): <http://www.economist.com/news/finance-and-economics/21640374-new-bail-out-will-be-no-panacea-bigger-and-better> [accessed 2 February 2015]

⁴²² [Q 78](#)

⁴²³ [Q 55](#)

⁴²⁴ Written evidence ([RUS0015](#))

⁴²⁵ [Q 78](#)

⁴²⁶ [Q 254](#)

277. On 21 January 2015, the IMF indicated that there would be a new bailout package for Ukraine. It will be an “extended-fund facility”, which means that the IMF will be able to lend more money to Ukraine for a longer period. However, while it may be more generous, it will not necessarily lead to quick, up-front disbursements. *The Economist* judged that the new bail-out would not help Ukraine solve its external debt owed to Russia.⁴²⁷
278. When the Minister wrote to us in January, significant sums of EU funding had not yet reached Ukraine. The Minister informed us that since March 2014 the EU had disbursed “€1.36bn of the €1.61bn in macro-financial assistance committed to Ukraine”, and that the Commission had funded three bilateral programmes under the ENP instrument: a €355 million ‘state-building’ general budget support programme (of which €250 million had been disbursed), to support the process of stabilisation; a €10 million civil society programme designed to enhance civil society’s ability to promote the reforms required under the ‘state-building’ programme; and a €55 million regional development sectoral budget support programme to support Ukraine’s Decentralisation and Regional Policy reforms.⁴²⁸
279. The AA and the DCFTA were also seen as a “key element” of the EU’s support for Ukraine. Mr Barton informed us that the DCFTA was “potentially a very significant step in terms of its immediate impacts”, with the tariff reductions providing an estimated boost to the economy of over \$1 billion a year. In the long-term, the adoption of the *acquis* would “play a very important role in helping Ukraine develop in a positive direction.”⁴²⁹ However, the implementation of the DCFTA has been postponed until January 2016, and there are still ongoing discussions on its implementation. Acting Ambassador Kuzmenko saw the trilateral process, involving Russia, Ukraine and the EU, as “a very good instrument to explain to the Russians that the majority of their negative expectations, worries and concerns about the Association Agreement are groundless.”⁴³⁰
280. Fighting corruption was also highlighted as a priority area. Mr Crompton said that “everyone recognises that [corruption] is a huge problem in Ukraine, including the Ukrainians”. The AA could be a “powerful tool and leverage” to combat it. Mr Hugo Shorter, Head of EU Directorate (External), FCO, noted that the AA contained provisions “to help Ukraine strengthen the rule of law and attack the problem of corruption.”⁴³¹ Acting Ambassador Kuzmenko assured us that the Ukrainian government was committed to combating corruption, with important steps being taken such as the adoption of anti-corruption laws and a law on lustration, which helped “to clean up the Government and local authorities.”⁴³²

⁴²⁷ ‘Ukraine and the IMF, Bigger and better’

⁴²⁸ Written evidence ([RUS0020](#)). In January 2015, the Commission proposed providing a further €1.8 billion of macro-financial assistance to Ukraine in the form of long-term loans. ‘Proposal for a Decision of the European Parliament and of the Council providing macro-financial assistance to Ukraine’, *COM (2015) 5 Final* (8 January 2015): http://ec.europa.eu/economy_finance/eu_borrower/documents/council_parliament_proposal_ukraine_en.pdf [accessed 2 February 2015]

⁴²⁹ [Q 55](#)

⁴³⁰ [Q 69](#)

⁴³¹ [Q 55](#)

⁴³² [Q 74](#)

281. The Minister for Europe wrote that “combating corruption was one of the earliest demands of the Maidan protestors.” He set out the steps taken by the UK to aid Ukraine to fight corruption, which included hosting the Ukraine Asset Recovery Forum in London in April 2014, in order to help recover assets stolen by the former Ukrainian regime; a £0.5 million investment in supporting ongoing asset recovery investigations; and, in August, the launching by the UK of a two-year £4.3 million programme to provide rapid technical assistance to the Ukrainian Government.⁴³³

Conclusions and recommendations

282. **Ukraine’s reconstruction will require significantly more resources than have already been committed. We recommend that the United Kingdom should convene urgently an international donor conference for Ukraine.**

283. **The disbursement of funds should be predicated on tough economic and political conditionality. This crisis is an opportunity for Ukraine to undertake difficult and much needed reforms. The EU, by holding the Ukrainian government to its commitments, has a role to play.**

284. **The Association Agreement will only be a key element of support for Ukraine if the EU upholds its political conditionality. The area which we judge to be of particular importance to the future of Ukraine is in tackling corruption, also a key demand of the Maidan protestors.**

285. **Member States, again, must play a role in monitoring and evaluating the implementation of conditionality attached to the disbursement of funds. We recommend that the UK Government should review its own internal mechanisms for monitoring Commission programmes, in order to maintain this political oversight.**

286. **Building a Ukraine that is economically successful and secure in its energy supply will need Russian co-operation. The trilateral process, whereby the EU, Russia and Ukraine are engaging in discussions about the impact of the EU-Ukraine Deep and Comprehensive Free Trade Area, could be a useful template to discuss the broader Ukraine-Russia economic relationship.**

⁴³³ Written evidence ([RUS0002](#))

CHAPTER 6: BASIS OF A FUTURE RELATIONSHIP

The way forward

287. We do not know how Russia will develop in the future. Mr Vladimir Kara-Murza, Co-ordinator, Open Russia, pointed out that there had been “mass protests in Moscow” against President Putin’s policies in Ukraine and in Russia.⁴³⁴ Sir Tony Brenton KCMG, former British Ambassador to Russia and Fellow of Wolfson College, Cambridge, on the other hand, was “pretty confident” that President Putin would remain President. Mr John Lough, Associate Fellow, Russia and Eurasia Programme, Chatham House, suggested that “all bets are off in terms of how Russia is going to develop and what Mr Putin’s position is going to be in the coming years.”⁴³⁵
288. The underlying basis of the EU’s approach to Russia must therefore be a sober assessment of the Russia that we have today. In the words of the President of the European Council, “Russia is not our strategic partner. Russia is our strategic problem.”⁴³⁶ Mr Josef Janning, Senior Policy Fellow, European Council on Foreign Relations, said that the EU approach was often to take “the moral high ground” but that a new strategic vision had to be “pragmatic or realistic.” If the EU intended to be strategic then it would have to “face the realpolitik.”⁴³⁷ Above all, it must recognise that “Russia is different, difficult and can do harm but it will always be there, and we will have to find a way to live with whatever Russia we have.”⁴³⁸ We further believe that a realistic policy must also be founded on today’s EU—28 Member States with strong views on Russia, a community of laws and treaties, and deep energy and economic interdependence with Russia.
289. The evidence pointed towards a two-pronged approach to the EU’s future policy. First, the EU must construct a credible response to Russia. While the EU is not a military organisation, witnesses urged the EU to uphold its rules and values and not to accommodate breaches of them. By doing so, the EU would make its strategic intent felt in Moscow.
290. Second, Member States should not have a merely transactional relationship with Russia. Russia is singularly placed geopolitically to support the EU’s strategic interests in counter-terrorism and security on the European continent and further afield. Therefore, alongside a less accommodating approach to Russian breaches of international rules, the EU must look to construct a genuinely collaborative relationship with Russia in areas of shared interest.
291. We recognise that this change is unlikely at present, especially while there are no signs that the current Russian administration seeks a real partnership. Nevertheless, we believe that by approaching the relationship in the way we have outlined, the EU could change the mood of EU-Russia relations: this

⁴³⁴ [Q 99](#)

⁴³⁵ [Q 48](#)

⁴³⁶ Henry Foy, ‘Lunch with the FT: Donald Tusk’, *Financial Times* (28 November 2014): <http://www.ft.com/cms/s/0/72d9b928-7558-11e4-b1bf-00144feabdc0.html> [accessed 2 February 2015]

⁴³⁷ [Q 110](#)

⁴³⁸ [Q 118](#)

will stand the EU in good stead when Russia becomes once again open to genuine partnership. We next consider how this might be done.

Continuing engagement

292. Views were divided on whether the EU should continue its engagement with the current Russian government. Mr Mikhail Kasyanov, former Prime Minister of Russia and co-leader of the Republican Party of People's Freedom (PARNAS party), said that as "Russia is temporarily not under the right regime", all current agreements, including membership of the Council of Europe, of the OSCE, and other agreements with the EU, "should wait for a better time."⁴³⁹ In his view the EU and the West should stand on principle and cease co-operation and engagement with President Putin.⁴⁴⁰ However, Mr Kara-Murza recommended "dual-track diplomacy", and saw "no contradiction between talking to the regime on issues you need to talk about but also keeping channels of communication open to the millions of Russians and their representatives who want a different future".⁴⁴¹
293. Mr Martin Hoffman, Executive Director, German-Russian Forum, suggested that international engagement with the Russian state could focus on wider cultural issues, such as the upcoming events to commemorate World War II.⁴⁴² The Minister agreed, telling us that the UK continued to co-operate with Russia on non-political issues and commemorations for World War II. He added that the British Ambassador in Moscow had attended the Victory Day celebrations in May, and that the Russian Ambassador in London had attended the Remembrance Day commemorations.⁴⁴³ We also note that, in June 2014, President Putin attended the commemorations in Normandy, marking the 70th anniversary of D-Day.

Conclusions and recommendations

294. **Member States have to live with Russia as a neighbour, as a member of the United Nations Security Council, and as a regional power.**
295. **The EU must be guided by a robust assessment of its interests and a sober understanding of today's Russia. There is no prospect of a rapid return to business as usual, but the EU and Member States still need to engage in dialogue, in the course of which the interests of both sides should be reconciled as far as possible. We therefore recommend that the UK Government should consider putting forward a proposal at an opportune moment to reconvene the EU-Russia summits, which are currently suspended.**
296. **Events which commemorate our shared pan-European history should stand separate from international disputes. We recommend that EU Member States should continue to participate with Russian leaders in such events.**

⁴³⁹ [Q 229](#)

⁴⁴⁰ [Q 233](#)

⁴⁴¹ [Q 107](#)

⁴⁴² Appendix 5: Evidence taken during visit to Berlin

⁴⁴³ [Q 261](#)

Enforcing rules and values

297. Several witnesses urged the EU to return to its core principles. Mr Bond said that “the most important thing is that the EU, as a rules-based organisation, should follow a rules-based approach to Russia.”⁴⁴⁴ Sir Andrew Wood GCMG, former British Ambassador to Russia and Associate Fellow of the Russia and Eurasia Programme, Chatham House, agreed that “being our better selves is the best thing that we can do for Russia.”⁴⁴⁵ He added that as a values-based organisation, the EU had to “defend those values or the European Union is absolutely nothing. Those values include the rule of law, the essential equality of the states within the European Union and the democratic accountability of their rulers.”⁴⁴⁶ Mr Kara-Murza also advised that the EU should stand by its values, “as the leaders of this country and America did ... with regards to the Soviet regime”.⁴⁴⁷
298. The strategic rationale for enforcing values, according to Mr Kara-Murza, was that history had shown that there was a “direct connection between internal repression and outward aggression.” A government that abused the rights of its own citizens and violated its own constitution was unlikely to respect its neighbours and abide by the norms of international law. It was “in the interests of every democratic nation to understand this and to behave accordingly.”⁴⁴⁸ His Excellency Dr Revaz Gachechiladze, Georgian Ambassador to the UK, and Mr Kasyanov also drew our attention to the 2008 war in Georgia, where the EU was quick to resume good relations with Russia and, thereby, in the words of Mr Kasyanov, gave “Mr Putin permission to perform in such a manner in the future.”⁴⁴⁹ Ambassador Gachechiladze considered that “if the West had been more assertive towards Russia maybe the present conflict over Ukraine might have been avoided.”⁴⁵⁰
299. Below we examine different arenas in which the EU could enforce its values and uphold its rules.

Enforcing international trade rules

300. Mr Alexander Kliment, Director, Emerging Markets Strategy, Eurasia Group, told us that Russia, which acceded to the WTO in 2012, had not been “very attentive” to WTO norms.⁴⁵¹ Dr Shevtsova said that Russia was “recklessly arrogant and in breach of WTO standards”,⁴⁵² while Mr Jean-Luc Demarty, Director-General, DG Trade, had “never seen, after a recent accession, a member being in such breach with the WTO rules”.⁴⁵³
301. Mr Demarty informed us that the European Commission had launched dispute settlement cases against Russia. He cited three cases: a case on

⁴⁴⁴ [Q 9](#)

⁴⁴⁵ [Q 209](#)

⁴⁴⁶ [Q 200](#)

⁴⁴⁷ [Q 99](#)

⁴⁴⁸ [Q 107](#)

⁴⁴⁹ [Q 220](#)

⁴⁵⁰ [Q 182](#)

⁴⁵¹ [Q 19](#)

⁴⁵² [Q 5](#)

⁴⁵³ [Q 147](#)

recycling fees on cars, a case on anti-dumping measures on light commercial vehicles, and a case on the Russian import ban on live pigs and pork products from EU territory.⁴⁵⁴ DG Trade was considering other potential cases as well.⁴⁵⁵

302. Sir Tony Brenton praised EU action on trade as “sharp and effective”.⁴⁵⁶ His Excellency Andrii Kuzmenko, Ukrainian Acting Ambassador to the UK, saw the Commission’s efforts with the WTO dispute settlement process as “useful as part of wider long-term comprehensive measures”, and believed that they would “certainly bring results in a couple of years”.⁴⁵⁷

Conclusions

303. **To the extent that the EU engages with Russia it must be without prejudice to its own rules and values. Holding Russia to the commitments to which it has signed up in international forums is a source of leverage for the EU. There is a role for both the Commission and Member States.**
304. **The European Commission has played a strong and effective role in holding Russia to its international commitments in the World Trade Organization.**

Enforcing anti-corruption and anti-money laundering legislation

305. Transparency International (TI) told us that, according to estimates by the Russian Central Bank, in 2012 proceeds of crime valued at \$56 billion left Russia.⁴⁵⁸ Mr Ian Bond CVO, Director of Foreign Policy, Centre for European Reform, stressed that tackling money laundering was important “because we are facilitating the theft of large amounts of money from the Russian people”.⁴⁵⁹
306. At the EU level, Ms Shona Riach, Director, International Finance, Her Majesty’s Treasury, told us that the “key thing” would be the next iteration of the so-called Fourth Money Laundering Directive, which was currently under negotiation.⁴⁶⁰ The Government has been engaged on the negotiations and was “optimistic” that the right language would be present, though Ms Riach noted that the text was “not a done deal yet.”⁴⁶¹ We were therefore disappointed to learn in December 2014 that the Government was

⁴⁵⁴ [Q 136](#)

⁴⁵⁵ [Q 147](#). For details of these three cases see the Report from the European Commission to the European Council Trade and Investment Barriers Report 2014, COM(2014) 153 (12 March 2014): http://trade.ec.europa.eu/doclib/docs/2014/march/tradoc_152272.pdf [accessed 2 February 2015]

⁴⁵⁶ [Q 30](#)

⁴⁵⁷ [Q 70](#)

⁴⁵⁸ Written evidence ([RUS0014](#))

⁴⁵⁹ [Q 12](#)

⁴⁶⁰ [Q 91](#). The Fourth Money Laundering Directive encompasses the Proposal for a Directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing and the Proposal for a Regulation on information on the payer accompanying transfers of funds. The Directive has been examined by the Committee and was released from scrutiny in June 2014: <http://www.parliament.uk/business/committees/committees-a-z/lords-select/eu-home-affairs-sub-committee-f/news/fourth-money-laundering-directive/>

⁴⁶¹ *Ibid.*

considering challenging the legal base of the measure at the Court of Justice once it had been adopted.⁴⁶²

307. TI welcomed changes in the Directive, which would lead to “increased co-operation between Financial Intelligence Units and a risk-based approach.” However, it felt that the Directive fell short in other areas, “as it only calls for companies to hold their beneficial ownership data and provide it to authorities upon request.” TI recommended “the establishment of public registers of beneficial ownership for companies, which would be interconnected and build on existing business registers.”⁴⁶³ Professor Sergei Guriev, Professor of Economics, Sciences Po, Paris, also suggested that more could be done to trace the beneficial owners of companies and verify any connections to those on the sanctions list.⁴⁶⁴
308. The key weakness in the current anti-corruption regime lies in enforcement. Professor Guriev explained that “the laws in place are already quite strong; they should just be enforced”, adding that the “EU and the UK could have done a much better job” of enforcing existing anti-money laundering and anti-corruption legislation. He offered the example of people on sanctions lists who continued to hold assets abroad through chains of companies. Considering the intelligence capacities of EU Member States and the US, many were surprised that these things were “not tracked down.”⁴⁶⁵ Mr Bond agreed that there was “very uneven enforcement of the regulations” across some of the EU Member States.⁴⁶⁶ Ms Tracey McDermott, Director of Enforcement and Financial Crime, Financial Conduct Authority, said that Cyprus, in particular, had conducted its own internal audit—exposing significant areas where Cypriot banks needed to improve their ability to screen Russian capital flows.⁴⁶⁷
309. Mr Bond told us that implementation of anti-money laundering legislation was primarily for national authorities, but he was clear that Member States should exert pressure on each other to raise standards, and that, in the last resort, the Commission could take infraction proceedings.⁴⁶⁸ TI, though, said that the capacity of the EU to enforce Member State compliance was limited: “There is no EU level equivalent of the FCA. The responsibility to monitor compliance lies with national level competent authorities.”⁴⁶⁹

United Kingdom

310. The UK is a key player in tackling money laundering. TI cited 2013 figures from the UK Financial Services Authority which showed that “£23-57 billion was potentially being laundered in the UK each year.”⁴⁷⁰

⁴⁶² Letter from Lord Deighton, Commercial Secretary to the Treasury, to Lord Boswell of Aynho, Chairman of the European Select Committee, 4 December 2014

⁴⁶³ Written evidence ([RUS0014](#))

⁴⁶⁴ [Q 82](#)

⁴⁶⁵ [Q 82](#)

⁴⁶⁶ [Q 12](#)

⁴⁶⁷ [Q 87](#)

⁴⁶⁸ [Q 12](#)

⁴⁶⁹ Written evidence ([RUS0014](#))

⁴⁷⁰ *Ibid.*

311. The FCA’s 2011 report on anti-money laundering provisions and implementation in financial institutions focused on banks’ controls over high-risk customers, and “found significant weaknesses.” In particular, Ms McDermott told us that the FCA had found “failures in the overall risk assessment and governance within institutions and how they identified what risks they faced”. Significant work had been done subsequently both by the regulator and by institutions to improve controls, and the FCA had taken enforcement actions against 10 institutions over the past five years. Ms McDermott had found “a significant improvement in the amount of effort and energy, particularly at senior management level” that had been put into this area in the past few years, though there was “still some way to go.”⁴⁷¹
312. The Treasury was confident about the robustness of the UK’s anti-money laundering mechanisms, noting that the Financial Action Task Force—the intergovernmental body that sets global standards on tackling money laundering and terrorist financing—considered that the UK had “one of the most robust anti-money laundering and counter-terrorist financing regimes of all its members.”⁴⁷²
313. Further steps are also being taken: Ms Riach told us that the UK would “establish a central registry of beneficial ownership,” through Companies House, and that the information would be publicly accessible.⁴⁷³ The Government has also announced an overhaul of the company director disqualification regime, which would broaden the matters to be taken into account when determining whether a director is unfit, allow the courts to take overseas misconduct into account, and give power to disqualify someone from being a UK director if he or she had been convicted of an overseas criminal offence in connection with company management.⁴⁷⁴

Conclusions and recommendations

314. **Combating corruption should be an essential part of the EU-Russia relationship. Only in this way will the EU be able to prevent the theft of assets from the Russian people.**
315. **The UK could play a very useful role at the EU level. We urge the UK Government to take the lead in supporting good practice across the EU.**
316. **The necessary EU legislation is in place, but there is inconsistent enforcement across the Member States. It is not enough to enact the law. The EU Commission, if necessary through infraction proceedings, must also ensure that all national governments are implementing the law correctly.**

⁴⁷¹ [Q 88](#)

⁴⁷² [Q 87](#)

⁴⁷³ [Q 91](#)

⁴⁷⁴ Department for Business, Innovation and Skills, ‘Transparency and Trust: Enhancing the transparency of UK company ownership and increasing trust in UK business’ (April 2014): https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/304297/bis-14-672-transparency-and-trust-consultation-response.pdf [accessed 2 February 2015]

317. **The capacity of some smaller Member States to enforce anti-corruption legislation is limited. The EU should consider providing additional resources—financial, staff and training—to these Member States. Not to do so puts the entire Union’s anti-money laundering and anti-corruption regime at risk. We recommend that the Commission should put forward a proposal to assess the shortage of capacity across Member States. This could form the basis of an action plan to address this shortage, and thereby strengthen implementation.**

Upholding human rights

318. Russia frequently claims that other countries should not interfere in its domestic policies. But several witnesses reminded us that Russia had voluntarily signed up to a number of human rights commitments in international forums, and that human rights within Russia were therefore not just an internal matter. Mr Bond reminded us that as a member of the OSCE Russia had accepted the commitments embodied in the Helsinki Final Act and later additions.⁴⁷⁵ Mr Kara-Murza and Mr Kasyanov also emphasised that Russia was a member of both the Council of Europe (and thus a signatory to the European Convention on Human Rights (ECHR)) and the OSCE, within which human rights, democracy and the rule of law were the concern of all the participating states.⁴⁷⁶ The onus lay with Member States, as signatories to these international treaties and parties to these international bodies, to hold Russia to those international commitments.
319. Witnesses highlighted the importance of the pan-European Convention system—the Council of Europe, the ECHR and the European Court of Human Rights (ECtHR)—in helping Russia remedy its human rights problems. Russia, as a member of the Council of Europe, is a signatory to the ECHR and judgments of the Court are binding on it. Mr Gunnar Wiegand, Director for Russia, Eastern Partnership, Central Asia, Regional Cooperation and OSCE, EEAS, said that the ECHR was “binding law” in Russia, but that Russia was not very attentive and faced “by far the largest caseload in terms of human rights violations of any member of the Council of Europe.”⁴⁷⁷ Mr Kara-Murza said that the ECtHR was the “last independent court that we have in Russia”.⁴⁷⁸ In the context of the OSCE, Mr Bond urged Member States to be “more forward and more assertive in challenging Russia on its compliance with those commitments.”⁴⁷⁹ We note that the enforcement of judgments of the ECtHR and Member State actions at the OSCE fall outside the scope of this Report and indeed the remit of this Committee.

⁴⁷⁵ [Q 14](#). The Final Act of the Conference on Security and Co-operation in Europe Summit of Heads of State or Government states that human rights are of “universal significance” and an “essential factor for the peace, justice and wellbeing necessary to ensure the development of friendly relations and co-operation among themselves as among all States.” Conference on Security and Cooperation in Europe, Final Act (Helsinki 1975): <http://www.osce.org/mc/39501?download=true> [accessed 2 February 2015]

⁴⁷⁶ [Q 100](#) (Vladimir Kara-Murza), [Q 221](#) (Mikhail Kasyanov)

⁴⁷⁷ [Q 160](#)

⁴⁷⁸ [Q 108](#)

⁴⁷⁹ [Q 14](#)

320. The UK, as a founding member of the Council of Europe, had a significant role to play. Mr Thorbjørn Jagland, Secretary General to the Council of Europe, in his evidence to the Joint Committee on the Draft Voting Eligibility (Prisoners) Bill, said that during its chairmanship the UK had undertaken reforms “so that the Court can work more effectively”.⁴⁸⁰ He said that the UK “has always been seen as the leading nation regarding human rights and rule of law in Europe and worldwide.” He pointed out that any failures by the UK to implement judgments from the Court would set a bad example and may be “the beginning of the weakening of the Convention system”.⁴⁸¹ He emphasised that it was of “extraordinary importance that this Convention system is functioning effectively in order to remedy the human rights problems in such countries” as Russia, Ukraine and Turkey.⁴⁸²
321. There is also a role for Member States and the European External Action Service to raise these issues in their bilateral and institutional contacts with Russia. Sir Andrew Wood reminded us that during the era of the Soviet Union, the EU “explicitly supported individuals”—often “high-level cases” which had achieved some publicity. That, he saw, was “an honourable record and I see every reason why we should live up to it.”⁴⁸³ Mr Bond noted that “we need to make sure that we raise their [human rights activists’] problems on a regular basis with the Russian authorities.”⁴⁸⁴ Mr Kara-Murza also urged the EU to raise the question of human rights, democracy and rule of law “in every single meeting with the representatives of the Putin regime”.⁴⁸⁵ At the same time, Sir Tony Brenton offered the caveat that the Russians were “used to these lectures and they do not pay a lot of attention”; but, even so, not to repeat them would send the “signal that we had lost interest.”⁴⁸⁶
322. The EEAS urged a more calibrated approach. Mr Wiegand said that there was a “dilemma”, because the moment information was made public, the partners in the discussion often became “less inclined to change either the legislation or implementation.”⁴⁸⁷ Mr Pierre Vimont, Executive Secretary, European External Action Service, urged us to take a case-by-case approach, as sometimes it was necessary to say “plainly what we think about the violation of human rights” in a non-public way, whereas in other cases it might be “important to make it public.”⁴⁸⁸ When particular cases of human rights were brought to their attention the EEAS made “representations in Moscow if necessary.”⁴⁸⁹ Mr Vimont explained that Member States valued the “division of labour” whereby Member States left it to the EU “to

⁴⁸⁰ Oral evidence taken before Joint Committee on the Draft Voting Eligibility (Prisoners) Bill, 6 November 2013 (Session 2013–14), Q 177

⁴⁸¹ *Ibid.*, Q 178

⁴⁸² *Ibid.*, Q 177

⁴⁸³ [Q 207](#)

⁴⁸⁴ [Q 14](#)

⁴⁸⁵ [Q 106](#)

⁴⁸⁶ [Q 32](#)

⁴⁸⁷ [Q 158](#)

⁴⁸⁸ [Q 159](#)

⁴⁸⁹ [Q 158](#)

promote and defend human rights” and sometimes remained “a little bit silent” themselves.⁴⁹⁰

Conclusions and recommendations

323. **The EU and Member States must continue to raise the human rights situation in Russia in international forums and to press Russia on human rights violations in their bilateral relations. It is not sufficient for Member States to delegate this to the EU institutions.**
324. **The Convention system, including the European Convention on Human Rights and the European Court of Human Rights, remains the most important means of addressing violations of human rights in Russia. Member States, as signatories to the Convention and parties to the Council of Europe, bear a shared responsibility to ensure that Russia respects the rights enshrined in the Convention and the judgments of the Court.**
325. **We make a brief postscript on UK policy on the European Convention. If the UK is to retain its credibility in its criticisms of Russia on human rights, then its position would be undermined if it sought to weaken its own commitment to the Convention. Such a move would resonate in Russia in a very significant way and would be a powerful tool of propaganda for the Russian government.**

Building a relationship beyond the Russian government

326. Several witnesses differentiated between the Russian state and the Russian public, suggesting that the EU could play a greater role in supporting civil society within Russia. Assistant Professor Serena Giusti, Scuola Superiore Sant’Anna, noted that we “should not commit the grave mistake of identifying an entire country with its leadership.”⁴⁹¹ Dr Lilia Shevtsova, Senior Associate, Moscow Center, Carnegie Endowment for International Peace, also urged us to “divide the state and the nation, and the state and society.”⁴⁹² Mr Kara-Murza suggested a dual-track policy whereby the EU would:

“Talk to the regime—you cannot avoid this—but you also recognise that the regime is not the same as the country, and you talk to opposition leaders, to civil society representatives and to people who frankly could be the face of the Russia of tomorrow. It is not very far-sighted to deal just with the group in power in the Kremlin now without regard for what happens next.”⁴⁹³

327. We asked how this could be achieved within the circumscribed conditions of contemporary Russia. Associate Professor Tomila Lankina, of the London School of Economics and Political Science, advised that the EU should continue its “efforts to support media development, civil society, and democratic governance at regional and local levels across the country”.

⁴⁹⁰ [Q 159](#)

⁴⁹¹ Written evidence ([RUS0007](#))

⁴⁹² [Q 8](#)

⁴⁹³ [Q 105](#)

Associate Professor Lankina’s research showed that EU support for small projects nurturing civil society, media freedom and municipal capacity in the former Soviet Union was effective. These projects often appeared “unglamorous”—examples included “sponsoring cross-border exchanges in small towns, purchase of computer equipment for a community civil society group, or student scholarships”—but could “help nurture islands of resilience to authoritarianism.”⁴⁹⁴

328. Mr Vimont drew attention to the existing dialogue with civil society organisations (CSOs). The EU-Russia Civil Society Forum, set up in 2011 and supported by the EU, brought together around 120 CSOs from EU Member States and Russia. Mr Vimont added that the EU had “regular contacts with the CSOs on the European and the Russian sides”, and that it “participated in many meetings and conferences with these civil society organisations.”⁴⁹⁵
329. In Germany, Mr Hoffman outlined the work of the German-Russian Forum in promoting social initiatives between Germany and Russia. He stressed the importance of separating the political conflict from the EU’s relationship with the Russian people, and added that the EU should continue to try to engage with Russia in cultural, civil society areas wherever possible.⁴⁹⁶

European Endowment for Democracy

330. The EED is a joint initiative by EU Member States and EU institutions, including the European Parliament and the European Commission, which aims to foster and encourage democracy in countries in the European neighbourhood. In October 2014, Alexander Graf Lambsdorff MEP, Chairman of the Executive Committee of the EED, informed us that the EED’s remit did not currently extend to Russia, but that this decision was being reconsidered by the board.⁴⁹⁷ Mr Bond suggested that “we should urgently extend it to cover Russia.” The UK Government had not yet contributed to the EED financially, and Mr Bond urged the UK to “do better” in its support of the EED.⁴⁹⁸ Graf Lambsdorff noted that the UK had contributed intellectually and had “been actively involved” in making a number of constructive suggestions, particularly regarding monitoring and evaluation. However, he agreed that it “would be desirable for the UK to become perhaps a little more engaged, particularly in financial terms”.⁴⁹⁹

Co-operation further afield

331. Russia and the EU continue to co-operate on issues further afield. The Minister for Europe told us that the UK had maintained contact on issues like “Iran, counterterrorism, Afghanistan post-ISAF and counter-narcotics policy”.⁵⁰⁰ The Russians played a “constructive role” in talks with Iran on its nuclear programme, and had “adopted a positive approach during the ISIL

⁴⁹⁴ Written evidence ([RUS0001](#))

⁴⁹⁵ [Q 158](#)

⁴⁹⁶ Appendix 5: Evidence taken during visit to Berlin

⁴⁹⁷ [Q 131](#)

⁴⁹⁸ [Q 14](#)

⁴⁹⁹ [Q 129](#)

⁵⁰⁰ [Q 261](#)

conference in Paris” earlier in 2014. At the international level, relationships and mechanisms were “working satisfactorily”, albeit with some chilliness at the political level which made it difficult to develop those relationships further. The Government wanted these relationships to continue and was “certainly not going to try to weaken them.”⁵⁰¹ His Excellency Dr Alexander Yakovenko, Ambassador of the Russian Federation to the UK, said that when it came to international affairs, it was “much easier for Russia to work with the EU when its Member States manage to agree on a truly united position.” Co-operation on the Iranian nuclear programme was one such example; he disputed the “widely-held misconception” that Russia was not interested in the EU as a strong foreign policy player.⁵⁰²

A relationship in the long term

332. We were disappointed by the lack of suggestions coming out of Russia, the EU, and Member States on how to establish a new basis for the long-term relationship between the EU and Russia. Below we offer three suggestions. We recognise that the present conditions are unpropitious, but we urge the EU, the UK Government and other Member States to consider how they should structure their relations with Russia beyond the present impasse.

Lisbon to Vladivostok—common economic space

333. President Putin first proposed the creation of a common economic space in an editorial in 2010, and has subsequently reiterated his support for the idea.⁵⁰³

334. Hitherto, the EU has been sceptical. Mr Demarty urged us to distinguish between “speeches on the one hand and acts on the other”, noting that “Russia mentioned this project while stopping all attempts to create such a common economic space.” He added that the EU had tried to negotiate this common economic space with Russia for “years and years”, but that Russia had not shown itself willing to respect open competition rules, which could mean restricting its subsidy system, or requiring Russian companies to compete with non-Russian companies on an equal footing.⁵⁰⁴ The Minister for Europe told us that talks “did not get anywhere”, because it was never very clear what the Russians wanted—for example “what convergence on a free trade area would mean”.⁵⁰⁵

335. On the other hand, Professor Guriev felt that the common economic space was “a great idea and it should be pursued.” The EU “should have devoted more resources to this conversation.” He recognised that it was unlikely to happen under the current Russian government, but “in the long run, I think it should happen and it will happen.”⁵⁰⁶ Dr Tom Casier, Jean Monnet Chair,

⁵⁰¹ [Q 262](#)

⁵⁰² Written evidence ([RUS0019](#))

⁵⁰³ ‘From Lisbon to Vladivostok: Putin Envisions a Russia-EU Free Trade Zone’, *Spiegel Online* (25 November 2010): <http://www.spiegel.de/international/europe/from-lisbon-to-vladivostok-putin-envisions-a-russia-eu-free-trade-zone-a-731109.html> and ‘Russia and the changing world’, *Ria Novosti* (27 February 2012): <http://themoscownews.com/politics/20120227/189488862.html> [accessed 2 February 2015]

⁵⁰⁴ [Q 149](#)

⁵⁰⁵ [Q 261](#)

⁵⁰⁶ [Q 86](#)

Senior Lecturer in International Relations, University of Kent, agreed that it was an ambitious, long-term project, but it had “to remain a core strategic objective.”⁵⁰⁷ Dr Marat Terterov, Executive Director and Co-Founder, Brussels Energy Club, said that while the idea might “be a bit of pipe dream”, if the EU started to create the perception that it was “trying to move in that direction, I guarantee that it will change the chemistry in our relationship with Russia.”⁵⁰⁸

European security architecture

336. Some witnesses suggested that it might be helpful to engage Russia in discussions on a new security architecture. Dr Casier noted that the recent crisis had shown that “we have no effective collective security mechanisms in Europe.”⁵⁰⁹ The OSCE lacked legitimacy, had not proved itself effective, and, when it came to NATO’s enlargement to the Baltic states and the missile defence system, “Russia felt that its concerns were not heard.”⁵¹⁰ He added that the EU had no choice but to discuss these issues with Russia: “security in Europe will never be achieved without including Russia in one way or another.”⁵¹¹
337. His Excellency Vladimir Chizhov, Permanent Representative of the Russian Federation to the EU, felt that, as NATO’s borders had moved closer to Russia, the need for a new security architecture had become apparent. He told us that President Putin had proposed a treaty on European security co-operation, to include all OSCE and NATO countries, but Russia had been disappointed by NATO’s response, which was that it could only guarantee security to its members, without any flexibility to share it with partners. Ambassador Chizhov suggested that discussions on security co-operation could be one way in which to develop a more positive relationship between the EU and Russia.⁵¹²
338. Other witnesses pointed out that Russia had already signed up to a European security order (which it had breached), and that such actions had made neighbouring countries wary of co-operation. Ambassador Gachechiladze said that it would be “next to impossible” to nudge or push Russia towards a security partnership in the European space. The Russians “have their own agenda; they have their own geopolitical code, which does not coincide with the European geopolitical code.”⁵¹³ Mr Vimont told us that the EU had found Russia prone to statements, but short on concrete action: in response to Russian proposals, the EU had at many times at all levels affirmed that it was “interested and ready to see how we could move ahead”, but at the end of the day, it had “never got very far.”⁵¹⁴ The Minister for Europe said that EU Member States had been “right to be wary”. He warned us that Russia

⁵⁰⁷ [Q 114](#)

⁵⁰⁸ [Q 121](#)

⁵⁰⁹ [Q 114](#)

⁵¹⁰ [QQ 114, 117](#)

⁵¹¹ [Q 114](#)

⁵¹² Appendix 4: Evidence taken during visit to Brussels

⁵¹³ [Q 186](#)

⁵¹⁴ [Q 157](#)

had a history of attempting to build Eurasian security structures from which the US and Canada were excluded.⁵¹⁵

Co-operation in the fields of culture, education and science

339. Several witnesses commented on the need to build trust between the EU and the Russian people. Mr Hoffman told us that the EU was in danger of losing the Russian people.⁵¹⁶ Sir Tony Brenton said it looked as if the cultural and educational links built up since the collapse of communism might “stop and go into reverse.” This, he judged, was “one of the great tragedies of where we are now.”⁵¹⁷
340. Mr Denis Volkov, Head of Development Department, Levada Center, said that there was a clear correlation between Russian people feeling European and their direct experiences of visiting the West. The extent to which Russians felt European and welcomed a western type of democracy was “twice as high” for those who had had direct experience of communication with the West, or who had been abroad and seen for themselves “what life in the West is”.⁵¹⁸
341. Mr Kara-Murza suggested that the EU might ease the visa application process for “law-abiding Russian citizens and ... increase and enhance the people-to-people contacts between Russia and the rest of Europe.”⁵¹⁹ Mr Lough agreed that it was important to maintain links in culture, education and science: “We wish to see Russians able to travel more freely, to come to this country more easily and to receive visas more easily, which is a massive problem. It is still a relatively small number of Russians who are travelling abroad.”⁵²⁰
342. For Sir Andrew Wood, educational exchanges were the way forward. The EU did a “lot of long-term good by including Russians within our educational system”, because Russians “learn a lot from being in a rules-based democratic country. They learn that the myths they are taught are at least to be questioned.”⁵²¹ Mr Lough said that links in culture, education and science were important, and agreed that it was important to continue to maintain those links.⁵²²
343. The British Council informed us that over 5,000 Russians were currently undertaking full-time education in the UK—an increase of 63% over the past five years—and that in the Russian state sector, “English is taught to an estimated 15 million learners in more than 60,000 schools.” The British Council had continued its work in Russia despite the difficult context and remained committed to working there. It believed that when political or diplomatic relations became difficult, cultural exchange helped “to maintain open dialogue between people and institutions.” The British Council’s

⁵¹⁵ [Q 261](#)

⁵¹⁶ Appendix 5: Evidence taken during visit to Berlin

⁵¹⁷ [Q 50](#)

⁵¹⁸ [Q 196](#)

⁵¹⁹ [Q 98](#)

⁵²⁰ [Q 50](#)

⁵²¹ [Q 205](#)

⁵²² [Q 50](#)

experience also highlights the difficulties for foreign NGOs working in Russia: in 2008 it had to close its offices in St Petersburg and Ekaterinburg, and it now operates only in Moscow.⁵²³

344. 2014 was the UK-Russia Year of Culture and we were pleased to note that cultural institutions had continued the tradition of co-operating with Russian counterparts in the face of political difficulties. In particular, it is notable that the British Museum lent one of the ‘Elgin marbles’ to the State Hermitage Museum in St Petersburg for the museum’s 250th anniversary celebrations.⁵²⁴ Mr Lough drew our attention to the Kazimir Malevich exhibition at Tate Modern in 2014. He also pointed out that 2014 was the EU-Russia Year of Science. While he did not have firm evidence, it was said that “in the scientific area there has been a lot of effective collaboration”.⁵²⁵
345. The Minister for Europe said that contacts in the fields of education, culture and science continued, and added that he believed that “people-to-people, free-institution-to-free-institution contact should go ahead”. However, he acknowledged that, as had happened with the Year of Culture, it was going to be “very difficult for the Government to encourage those activities or participate in them in the absence of a de-escalation of the crisis in Ukraine and the implementation of the Minsk agreements.”⁵²⁶

Conclusions and recommendations

346. **The EU and Member States must pursue a dual-track policy. In the short term, there must be a strong credible response to Russian actions in eastern Ukraine, involving a tough sanctions policy and a strong enforcement of rules. In the long term, the capacity to bring about political change is more likely to be successful if coupled with a willingness to engage with Russia on broader issues. Starting a serious dialogue on issues of shared interest, such as a common economic space and a shared security architecture, as well as cultural co-operation and educational exchanges, could have a positive effect both on public opinion in Russia and on the adversarial mindset present in official circles.**
347. **While the current government in Russia may not appear to welcome a strategic dialogue with the EU or the West, the EU and Member States must nevertheless be bold and ambitious in their aims for a better understanding with Russia.**
348. **A discussion with Russia on collective security should involve Europe as a whole, along with the US and Canada. Russian security threat perceptions of NATO have to be acknowledged, and also challenged, in any discussions on European security.**

⁵²³ Written evidence ([RUS0016](#))

⁵²⁴ ‘British Museum to send more Elgin Marbles abroad despite Greek anger’, *The Daily Telegraph* (6 December 2014): <http://www.telegraph.co.uk/news/worldnews/europe/russia/11277535/British-Museum-to-send-more-Elgin-Marbles-abroad-despite-Greek-anger.html> [accessed 2 February 2015]

⁵²⁵ [Q 50](#)

⁵²⁶ [Q 261](#)

349. **We welcome the ongoing co-operation in the fields of culture, education and science, which are vital to build up the relationship with the Russian people. Irrespective of how EU-Russia relations proceed, this co-operation should not be sacrificed.**
350. **It would be a failure of imagination and diplomacy if the crisis in Ukraine were to result in a long-lasting era of colder relations and reduced co-operation not only at the political, but also the cultural, level.**

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Chapter 3: The state of the EU-Russia relationship

Russia

1. Russia is increasingly defining itself as separate from, and as a rival to, the EU. Its Eurasian identity has come to the fore and Russia perceives the EU as a geopolitical and ideological competitor. The model of European ‘tutelage’ of Russia is no longer possible. (Paragraph 49)

European Union

2. The EU’s relationship with Russia has for too long been based on the optimistic premise that Russia has been on a trajectory towards becoming a democratic ‘European’ country. This has not been the case. Member States have been slow to reappraise the relationship and to adapt to the realities of the Russia we have today. They have allowed the Commission’s programmes to roll over with inadequate political oversight. (Paragraph 54)
3. The present institutional structures have not deepened understanding, given each side confidence in the other, or provided for the resolution of emergent conflicts. (Paragraph 55)
4. There has been a decline in Member States’ analytical capacity on Russia. This has weakened their ability to read the political shifts and to offer an authoritative response. Member States need to rebuild their former skills. (Paragraph 66)
5. While there has been an increase in staff at the FCO to deal with Ukraine and Russia, we have not seen evidence that this uplift is part of a long-term rebuilding of deep knowledge of the political and local context in Russia and the region. We recommend that the FCO should review how its diplomats and other officials can regain this expertise. (Paragraph 67)
6. There is also a reduced emphasis on the importance and role of analytical expertise in the FCO. The FCO should review how such skills could be renewed and how analysis can feed into decision-making processes. (Paragraph 68)
7. The current division of competences within the EU, whereby both the Commission and Member States have responsibility for different aspects of the EU-Russia relationship, complicates co-operation with Russia. Russia finds the institutional complexities of the EU difficult to navigate and would prefer to deal with Member States on a bilateral basis. The Commission rightly has some areas of exclusive competence, in trade in particular, but it must be clearly mandated by Member States who should take ownership of the policy and signal it to Russia. (Paragraph 72)

Current relationship: divided Member States

8. As one of the four signatories of the Budapest Memorandum (1994), which pledged to respect Ukraine’s territorial integrity, the UK had a particular responsibility when the crisis erupted. The Government has not been as active or as visible on this issue as it could have been. (Paragraph 82)

9. We welcome the Government's realistic appraisal of relations with Russia and recognition of the strategic challenge posed by the Russian regime. However, the Government has not developed a strategic response for the long-term and should now do so. (Paragraph 83)

Building Member State unity

10. Recent events in Ukraine have triggered a fundamental reassessment of EU-Russia relations among Member States, who have shown a surprising and welcome unity in condemning Russian actions and demanding a response. We hope that this unity continues. However, there seems to be less consensus on a constructive way forward, and a resulting danger that current unity could dissolve. (Paragraph 96)
11. Europe is at the centre of the crisis in Ukraine and relations with Russia. The handling of future relations is a key test for European diplomacy and foreign policy, yet hitherto divisions between Member States have been the most important factor hampering development of a strategic EU policy on Russia. In the long term, only a dual approach, with Member States acting together as well as using their bilateral connections in the service of EU policy, will be effective. The first step must be to maintain solidarity on current policy and to continue to seek a common approach in the response to the crisis. There is a real danger that once the crisis ebbs away Member States will continue to prioritise their economic relations above their shared strategic interests. (Paragraph 97)
12. We see merit in proposals that the President of the European Council, carrying the authority of the Member States, should take the lead in shaping the EU's policy towards Russia. We recommend that the UK Government should strongly support such a move and bring forward a proposal at the EU level to bolster the role of the President of the European Council on Russia. (Paragraph 98)
13. The very fact of the European Council exercising its decision-making processes and strategic thinking on Russia will, by demonstrating the engagement of Member States, send an important message to the Russian government. To maintain political oversight, we recommend that the UK Government should ensure that a discussion on Russia is regularly placed on the agenda of the European Council. (Paragraph 99)
14. The starting point for reviewing the EU's policy towards Russia should be a common analysis, with a view to identifying shared strategic interests and vulnerabilities. The analysis would form the basis of a strategic framework on Russia. We recommend that the UK Government should ask the European Council to commission this analysis from the European External Action Service. (Paragraph 100)

Chapter 4: The shared neighbourhood

Russia's role in the shared neighbourhood

15. While we are clear that NATO is a defensive alliance, for the Russians NATO is seen as a hostile military threat, and successive rounds of NATO's eastern enlargement have, as the Russians see it, brought it threateningly close to the Russian border. EU enlargement, as it has become conflated

with NATO enlargement, has also taken on the aspect of a security threat. These views are sincerely and widely held in Russia, and need to be factored into Member States' strategic analyses of Russian actions and policies. (Paragraph 116)

16. The responsibility for European defence remains with Member States and NATO. Hostile actions of any kind by the Russian government towards the Baltic states must be met by Member States and NATO with a strong response. (Paragraph 124)
17. The historical grievance of the rights of ethnic Russians in Estonia and Latvia offers the Russian government a convenient pretext which could be used to justify further destabilising actions in those states. On the basis of the evidence we have taken, there does, *prima facie*, seem to be a question to be investigated, in particular whether more steps could be taken to facilitate access to citizenship for ethnic Russians who have long-established residency in these states, but limited ability in the official language. (Paragraph 133)

Eurasian Union

18. The Eurasian Union is a project to build Russian regional influence in competition with the EU's own arrangements with partner countries. The current incompatibility that is structured into the economic arrangements between the two blocs is in danger of creating new dividing lines on the continent. (Paragraph 146)
19. The European Commission has been hesitant to engage officially with the Eurasian Union. We judge that the EU should reconsider this approach. We recommend that the Commission should track the development of the Eurasian Union and put forward a proposal to the European Council outlining the basis on which formal contacts could be initiated. (Paragraph 147)
20. However, we recognise that enabling the two trading blocs to work together is further complicated because Russia is not assiduous in obeying its WTO obligations. (Paragraph 148)

Reviewing the EU's instruments in the shared neighbourhood

21. In the review of the neighbourhood policy, the EU and Member States face a strategic question of whether Europe can be secure and prosperous if Russia continues to be governed as it is today. Whatever the present Russian government's real intentions may be, Russia's internal governance and its resulting threat perceptions create geopolitical competition in the neighbourhood. The EU's capacity to influence the internal politics of Russia is limited, and Member States have not demonstrated an appetite to make the attempt. Therefore, if influencing Russia's future governance is not on the agenda, Member States instead need to devise a robust and proactive policy to manage competition with Russia in the shared neighbourhood. (Paragraph 168)
22. The first step is for the EU to distinguish between the legitimate and the illegitimate security interests of Russia. Moscow has a right not to be excluded from the eastern neighbourhood. However, it does not have the right to deny or threaten the sovereign rights of its neighbours. (Paragraph 169)

23. A strategy to promote reform in the neighbourhood must be matched with a new effort to rebuild relations with Russia. We recommend that the upcoming review of the European Neighbourhood Policy, to be undertaken by the High Representative and the Commission, should consider forums whereby Russia, the EU and the neighbouring countries can work together on regional issues. (Paragraph 170)
24. Member States must be closely engaged in the process. As part of the review, Member States should take advantage of the pause in enlargement to engage in a fundamental reassessment of their strategic interests in the eastern neighbourhood. There is an unresolved tension between the offer of membership on the table to Eastern Partnership countries and the political will of Member States to follow through, which is not uniform. This creates unrealistic expectations, and complicates Russia's relationship both with these countries and with the EU. Member States must clarify whether EU membership is on offer. This issue should not be left ambiguous in the upcoming review. (Paragraph 171)
25. We recommend that, once the review is complete, the Commission and the European External Action Service should put forward a strategy to communicate the EU's future policies to Russia and the partner countries. This strategy should explain how the Eastern Partnership and, if so decided, future EU enlargement, work to the mutual benefit of the whole region, including Russia. (Paragraph 172)
26. Member States' embassies should also play a greater role in EU policies in the eastern neighbourhood. We recommend that the FCO ensures that its embassies in the region monitor and review Commission programmes in the eastern neighbourhood. (Paragraph 173)

Chapter 5: The crisis in Ukraine and the EU's response

Lack of political oversight

27. An element of 'sleep-walking' was evident in the run-up to the crisis in Ukraine, and important analytical mistakes were made by the EU. Officials in Brussels as well as Member States' embassies all participate in the EU foreign policy process, but all seem to have missed the warning signs. The EU and Member States lacked good intelligence-gathering capacity on the ground. The lack of an integrated and co-ordinated foreign policy was also evident. (Paragraph 215)
28. Collectively, the EU overestimated the intention of the Ukrainian leadership to sign an Association Agreement, appeared unaware of the public mood in Ukraine and, above all, underestimated the depth of Russian hostility towards the Association Agreement. While each of these factors was understood separately, Member States, the European External Action Service and the Commission did not connect the dots. (Paragraph 216)
29. The Russians, on their side, were taken by surprise and misjudged the determination of Member States to sign the Association Agreement. When Russian hostility became explicit, the EU had a very small window of opportunity to act. By that stage, events began to take on a momentum of their own. (Paragraph 217)

The pivotal and exceptional nature of Ukraine

30. It is clear that Russian concerns about the impact of EU trade agreements, while having an economic basis, were also politically driven, while in seeking to address Russian concerns, the Commission was putting forward free-market liberal economic arguments. Both sides were to some extent talking past each other. The absence of Member States' political oversight during this process is glaring. (Paragraph 233)

The EU's response to the crisis

31. We welcome Member States uniting around an ambitious package of sanctions on Russia. (Paragraph 258)
32. Sanctions need to be part of an overall strategy of diplomacy and a political process, including intensive dialogue on Crimea. This strategy is not yet in place. (Paragraph 259)
33. The Russian government is under severe pressure. Internal economic problems, including the falling price of oil, have been worsened by the EU sanctions regime, and are likely to have a very serious impact on the viability of the current government. However, the EU is in danger of having offered President Putin a tool for fomenting further nationalist and anti-EU sentiment. (Paragraph 260)
34. There is no evidence that sanctions have caused President Putin to shift his stance on Crimea, where Russia has direct and vital security interests through the Sevastopol naval base. (Paragraph 261)
35. While EU and US sanctions have been broadly aligned, the US has been prepared to target individuals close to the Russian government. If there is no progress on the Minsk Protocol and the situation in eastern Ukraine continues to deteriorate, the EU should find ways of targeting individuals close to President Putin and consider broadening sectoral sanctions into the Russian financial sector. (Paragraph 262)
36. In the long-term, three-tier sanctions are detrimental to the EU's interests as well as to Russia's. While they could be renewed in the short term, the prospect of the progressive removal of sanctions should be part of the EU's negotiating position. Genuine progress by Russia in delivering the ceasefire in eastern Ukraine should be the basis for ratcheting down sanctions. (Paragraph 263)

Political support for Ukraine

37. The Minsk Protocol is not being implemented, violence is escalating and with it the risk of a *de facto* annexation of part of Ukraine. A ceasefire, however desirable, is not in itself a permanent solution: the dismemberment of a sovereign independent state is not acceptable. (Paragraph 269)
38. There appears to be tacit acceptance within European and Ukrainian political circles that the priority is to move towards a political process in eastern Ukraine, leaving resolution of the status of Crimea to the medium or long term. We support this ordering of priorities: a political process with Russia on eastern Ukraine is urgent. (Paragraph 270)

39. However, the territorial integrity of Ukraine should not be jeopardised by any tactical steps taken as part of the peace process. As part of the peace process, an international dialogue could be convened to discuss the final status of Crimea. Here the signatories of the Budapest Memorandum, including the UK, could play a useful role. (Paragraph 271)
40. The possibility of another referendum on Crimea, under international mediation, is one option. We recognise that there is a danger that any such referendum would be coloured by Russia's domination of the political and media landscape in Crimea. It is critical that there should be an open and honest debate, and that citizens should vote without fear of reprisal. Nevertheless, this option should remain on the table. (Paragraph 272)

Economic support for Ukraine

41. Ukraine's reconstruction will require significantly more resources than have already been committed. We recommend that the United Kingdom should convene urgently an international donor conference for Ukraine. (Paragraph 282)
42. The disbursement of funds should be predicated on tough economic and political conditionality. This crisis is an opportunity for Ukraine to undertake difficult and much needed reforms. The EU, by holding the Ukrainian government to its commitments, has a role to play. (Paragraph 283)
43. The Association Agreement will only be a key element of support for Ukraine if the EU upholds its political conditionality. The area which we judge to be of particular importance to the future of Ukraine is in tackling corruption, also a key demand of the Maidan protestors. (Paragraph 284)
44. Member States, again, must play a role in monitoring and evaluating the implementation of conditionality attached to the disbursement of funds. We recommend that the UK Government should review its own internal mechanisms for monitoring Commission programmes, in order to maintain this political oversight. (Paragraph 285)
45. Building a Ukraine that is economically successful and secure in its energy supply will need Russian co-operation. The trilateral process, whereby the EU, Russia and Ukraine are engaging in discussions about the impact of the EU-Ukraine Deep and Comprehensive Free Trade Area, could be a useful template to discuss the broader Ukraine-Russia economic relationship. (Paragraph 286)

Chapter 6: Basis of a future relationship

The way forward

46. Member States have to live with Russia as a neighbour, as a member of the United Nations Security Council, and as a regional power. (Paragraph 294)
47. The EU must be guided by a robust assessment of its interests and a sober understanding of today's Russia. There is no prospect of a rapid return to business as usual, but the EU and Member States still need to engage in dialogue, in the course of which the interests of both sides should be reconciled as far as possible. We therefore recommend that the UK Government should consider putting forward a proposal at an opportune

moment to reconvene the EU-Russia summits, which are currently suspended. (Paragraph 295)

48. Events which commemorate our shared pan-European history should stand separate from international disputes. We recommend that EU Member States should continue to participate with Russian leaders in such events. (Paragraph 296)

Enforcing international trade rules

49. To the extent that the EU engages with Russia it must be without prejudice to its own rules and values. Holding Russia to the commitments to which it has signed up in international forums is a source of leverage for the EU. There is a role for both the Commission and Member States. (Paragraph 303)
50. The European Commission has played a strong and effective role in holding Russia to its international commitments in the World Trade Organization. (Paragraph 304)

Enforcing anti-corruption and anti-money laundering legislation

51. Combating corruption should be an essential part of the EU-Russia relationship. Only in this way will the EU be able to prevent the theft of assets from the Russian people. (Paragraph 314)
52. The UK could play a very useful role at the EU level. We urge the UK Government to take the lead in supporting good practice across the EU. (Paragraph 315)
53. The necessary EU legislation is in place, but there is inconsistent enforcement across the Member States. It is not enough to enact the law. The EU Commission, if necessary through infraction proceedings, must also ensure that all national governments are implementing the law correctly. (Paragraph 316)
54. The capacity of some smaller Member States to enforce anti-corruption legislation is limited. The EU should consider providing additional resources—financial, staff and training—to these Member States. Not to do so puts the entire Union’s anti-money laundering and anti-corruption regime at risk. We recommend that the Commission should put forward a proposal to assess the shortage of capacity across Member States. This could form the basis of an action plan to address this shortage, and thereby strengthen implementation. (Paragraph 317)

Upholding human rights

55. The EU and Member States must continue to raise the human rights situation in Russia in international forums and to press Russia on human rights violations in their bilateral relations. It is not sufficient for Member States to delegate this to the EU institutions. (Paragraph 323)
56. The Convention system, including the European Convention on Human Rights and the European Court of Human Rights, remains the most important means of addressing violations of human rights in Russia. Member States, as signatories to the Convention and parties to the Council of Europe,

bear a shared responsibility to ensure that Russia respects the rights enshrined in the Convention and the judgments of the Court. (Paragraph 324)

57. We make a brief postscript on UK policy on the European Convention. If the UK is to retain its credibility in its criticisms of Russia on human rights, then its position would be undermined if it sought to weaken its own commitment to the Convention. Such a move would resonate in Russia in a very significant way and would be a powerful tool of propaganda for the Russian government. (Paragraph 325)

A relationship in the long term

58. The EU and Member States must pursue a dual-track policy. In the short term, there must be a strong credible response to Russian actions in eastern Ukraine, involving a tough sanctions policy and a strong enforcement of rules. In the long term, the capacity to bring about political change is more likely to be successful if coupled with a willingness to engage with Russia on broader issues. Starting a serious dialogue on issues of shared interest, such as a common economic space and a shared security architecture, as well as cultural co-operation and educational exchanges, could have a positive effect both on public opinion in Russia and on the adversarial mindset present in official circles. (Paragraph 346)
59. While the current government in Russia may not appear to welcome a strategic dialogue with the EU or the West, the EU and Member States must nevertheless be bold and ambitious in their aims for a better understanding with Russia. (Paragraph 347)
60. A discussion with Russia on collective security should involve Europe as a whole, along with the US and Canada. Russian security threat perceptions of NATO have to be acknowledged, and also challenged, in any discussions on European security. (Paragraph 348)
61. We welcome the ongoing co-operation in the fields of culture, education and science, which are vital to build up the relationship with the Russian people. Irrespective of how EU-Russia relations proceed, this co-operation should not be sacrificed. (Paragraph 349)
62. It would be a failure of imagination and diplomacy if the crisis in Ukraine were to result in a long-lasting era of colder relations and reduced co-operation not only at the political, but also the cultural, level. (Paragraph 350)

APPENDIX 1: LIST OF MEMBERS AND DECLARATIONS OF INTEREST

Members

Baroness Billingham
 Baroness Bonham-Carter of Yarnbury
 Baroness Coussins
 Lord Foulkes of Cumnock
 Baroness Henig
 Lord Jopling
 Lord Lamont of Lerwick
 Lord Maclennan of Rogart
 Lord Radice
 The Earl of Sandwich
 Lord Trimble
 Lord Tugendhat (Chairman)
 Baroness Young of Hornsey

Declarations of Interest

Baroness Billingham
No relevant interests declared

Baroness Bonham-Carter of Yarnbury
Prime Minister's Trade Envoy to Mexico (unpaid)

Baroness Coussins
Independent consultant on corporate responsibility to the following companies:
Brown-Forman Corporation
Mars Chocolate UK
Heineken International
Camelot Group
Vice-Chair, APPG on the British Council (unpaid)

Lord Foulkes of Cumnock
No relevant interests declared

Baroness Henig
No relevant interests declared

Lord Jopling
Receives funds from the Common Agricultural Policy
Member of the UK Delegation to the NATO Parliamentary Assembly
Chairman, NATO Parliamentary Assembly Sub-Committee on Democratic Governance, Committee on the Civilian Dimension of Security
Vice-President, NATO Parliamentary Assembly

Lord Lamont of Lerwick
Vice President, Bruges Group
Consultant, Stanhope Capital LLP
Senior Adviser to the Official Monetary and Financial Institutions Forum
Member of the Advisory Council of the Eurasian Council on Foreign Affairs

Lord Maclennan of Rogart
No relevant interests declared

Lord Radice
Board Member, Policy Network

The Earl of Sandwich
No relevant interests declared

Lord Trimble

No relevant interests declared

Lord Tugendhat (Chairman)

Chairman, Advisory Council, European Policy Forum

Member of Advisory Council, Official Monetary and Financial Institutions Forum

Shareholdings in Rio Tinto, Shell, BP, Exxon, Chevron, and ETFs

Commodity Securities

Baroness Young of Hornsey

No relevant interests declared

The following Members of the European Union Select Committee attended the meeting at which the report was approved:

Lord Boswell of Aynho

The Earl of Caithness

Baroness Eccles of Moulton

Lord Foulkes of Cumnock

Lord Harrison

Baroness Henig

Lord Kerr of Kinlochard

Lord MacLennan of Rogart

Baroness O’Cathain

Baroness Parminter

Baroness Prashar

Baroness Quin

The Earl of Sandwich

Baroness Scott of Needham Market

Lord Tomlinson

Lord Tugendhat

Lord Wilson of Tillyorn

During consideration of the report the following interests were declared:

Lord Kerr of Kinlochard

Chairman, Centre for European Reform, London

Vice President, European Policy Centre, Brussels

Baroness Prashar

Deputy Chair, British Council

A full list of registered interests of Members of the House of Lords can be found at: <http://parliament.uk/mps-lords-and-offices/standards-and-interests/register-of-lords-interests>

Dr Samuel Greene acted as Specialist Adviser for this inquiry and declared the following relevant interests:

Member of the Executive Committee, British Association for Slavonic and East European Studies (BASEES)

Trustee, Pushkin House

Dr Greene’s wife is a Russian citizen and is an employee of the Russian Agency for Home Mortgage Lending

Hospitality received

While in Brussels, the Committee attended a working breakfast hosted by the UK Permanent Representative to the EU.

While in Berlin, the Committee attended a working dinner hosted by the British Ambassador to the Federal Republic of Germany.

APPENDIX 2: LIST OF WITNESSES

Evidence is published online at <http://www.parliament.uk/eu-russia> and is available for inspection at the Parliamentary Archives (020 7219 3074).

Evidence received by the Committee is listed below in chronological order of oral evidence session and in alphabetical order. Those witnesses marked ** gave both oral and written evidence. Those marked with * gave oral evidence and did not submit any written evidence. All other witnesses submitted written evidence only.

Oral evidence in chronological order

- | | | |
|----|--|-----------------------------------|
| * | Dr Lilia Shevtsova, Senior Associate, Russian Domestic Politics and Political Institutions Program, Moscow Center, Carnegie Endowment for International Peace | <u>QQ 1–8</u> |
| * | Mr Ian Bond CVO, Director of Foreign Policy, Centre for European Reform | <u>QQ 9–18</u> |
| * | Mr Alexander Kliment, Director, Emerging Markets Strategy, Eurasia Group | <u>QQ 19–28</u> |
| * | Sir Tony Brenton KCMG, former British Ambassador to Russia and Fellow of Wolfson College, Cambridge, and Mr John Lough, Associate Fellow, Russia and Eurasia Programme, Chatham House | <u>QQ 29–51</u> |
| * | Mr Neil Crompton, Deputy Political Director, FCO, Mr Hugo Shorter, Head of EU Directorate (External), FCO and Mr Chris Barton, Director of International Affairs, Trade Policy & Export Control, BIS | <u>QQ 52–66</u> |
| * | His Excellency Andrii Kuzmenko, Ukrainian Acting Ambassador to the UK | <u>QQ 67–76</u> |
| * | Professor Sergei Guriev, Professor of Economics, Sciences Po, Paris | <u>QQ 77–86</u> |
| * | Ms Tracey McDermott, Director of Enforcement and Financial Crime, Financial Conduct Authority and Ms Shona Riach, Director, International Finance, Her Majesty's Treasury | <u>QQ 87–96</u> |
| * | Mr Vladimir Kara-Murza, Co-ordinator, Open Russia | <u>QQ 97–109</u> |
| ** | Dr Tom Casier, Jean Monnet Chair, Senior Lecturer in International Relations, University of Kent | <u>QQ 110–122</u> |
| * | Mr Josef Janning, Senior Policy Fellow, European Council on Foreign Relations, and Dr Marat Terterov, Executive Director and Co-Founder, Brussels Energy Club | <u>QQ 110–122</u> |
| * | Alexander Graf Lambsdorff MEP, Chairman of Executive Committee, European Endowment for Democracy, Dr Alastair Rabagliati, Director of Operations, European Endowment for Democracy, and Mr Peter Sondergaard, Director of Programmes, European Endowment for Democracy | <u>QQ 123–133</u> |

- * Mr Jean-Luc Demarty, Director-General, DG Trade, and Mr Luc Pierre Devigne, Head of Unit, DG Trade [QQ 134–153](#)
- * Mr Pierre Vimont, Executive Secretary, European External Action Service, Mr Luis Felipe Fernández-de-la-Peña, Managing Director for Europe and Central Asia, European External Action Service, and Mr Gunnar Wiegand, Director for Russia, Eastern Partnership, Central Asia, Regional Cooperation and OSCE, European External Action Service [QQ 154–164](#)
- * Mr Pedro Serrano, Adviser on External Affairs, Cabinet of the President of the European Council [QQ 165–169](#)
- * Mr Fyodor Lukyanov, Chairman, Council on Foreign and Defense Policy, and Editor in Chief, Russia in Global Affairs [QQ 170–180](#)
- * His Excellency Dr Revaz Gachechiladze, Georgian Ambassador to the UK [QQ 181–190](#)
- * Mr Denis Volkov, Head of Development Department, Levada Center [QQ 191–199](#)
- * Sir Andrew Wood GCMG, former British Ambassador to Russia and Associate Fellow of the Russia and Eurasia Programme, Chatham House [QQ 200–209](#)
- * Mr Václav Klaus, former President of the Czech Republic [QQ 210–219](#)
- * Mr Mikhail Kasyanov, former Prime Minister of Russia and Co-Leader of the Republican Party of People's Freedom (PARNAS party) [QQ 220–239](#)
- * Mr Dmitry A Polyanskiy, Deputy Director, First Department of CIS Countries, Russian Foreign Ministry [QQ 240–252](#)
- ** Rt Hon David Lidington MP, Minister for Europe, FCO [QQ 253–263](#)

As part of the inquiry the Committee visited Brussels, 27–28 October 2014. Evidence was taken from the following witness:

- * His Excellency Vladimir Chizhov, Permanent Representative of the Russian Federation to the European Union

A note of this evidence is provided in Appendix 4.

The Committee also visited Berlin, 26–28 November 2014. Evidence was taken from the following witnesses:

- * Mr Martin Hoffman, Executive Director, German-Russian Forum
- * Dr Christoph Heusgen, Foreign Policy and Security Adviser to Chancellor Merkel, Federal Chancellery

- * Dr Hans-Dieter Lucas, Political Director, Federal Foreign Office
- * Dr Markus Kerber, Director General, Federation of German Industries (BDI)

A note of this evidence is provided in Appendix 5.

Alphabetical list of all witnesses

- | | | |
|----|---|--------------------------------|
| | Ms Beate Apelt, Desk Officer for East and South-East Europe, Friedrich Naumann Stiftung für die Freiheit | <u>RUS0017</u> |
| * | Mr Chris Barton, Director of International Affairs, Trade Policy & Export Control, BIS (QQ 52–66) | |
| * | Mr Ian Bond CVO, Director of Foreign Policy, Centre for European Reform (QQ 9–18) | |
| | Sir Rodric Braithwaite GCMG, former British Ambassador to the Soviet Union and Russia | <u>RUS0021</u> |
| * | Sir Tony Brenton KCMG, former British Ambassador to Russia and Fellow of Wolfson College, Cambridge (QQ 29–51) | |
| | British Council | <u>RUS0016</u> |
| ** | Dr Tom Casier, Jean Monnet Chair, Senior Lecturer in International Relations, University of Kent (QQ 110–122) | <u>RUS0006</u> |
| * | His Excellency Vladimir Chizhov, Permanent Representative of the Russian Federation to the European Union | |
| | Confederation of British Industry | <u>RUS0010</u> |
| * | Mr Neil Crompton, Deputy Political Director, FCO (QQ 52–66) | |
| * | Mr Jean-Luc Demarty, Director-General, DG Trade (QQ 134–153) | |
| * | Mr Luc Pierre Devigne, Head of Unit, DG Trade (QQ 134–153) | |
| | European Commission and the European External Action Service | <u>RUS0009</u> |
| * | Mr Luis Felipe Fernández-de-la-Peña, Managing Director for Europe and Central Asia, European External Action Service (QQ 154–164) | |
| * | His Excellency Dr Revaz Gachechiladze, Georgian Ambassador to the UK (QQ 181–190) | |
| | Assistant Professor Serena Giusti, Scuola Superiore Sant’Anna | <u>RUS0007</u> |
| * | Professor Sergei Guriev, Professor of Economics, Sciences Po, Paris (QQ 77–86) | |

- * Dr Christoph Heusgen, Foreign Policy and Security Adviser to Chancellor Merkel, Federal Chancellery
- * Mr Martin Hoffman, Executive Director, German-Russian Forum
- * Mr Josef Janning, Senior Policy Fellow, European Council on Foreign Relations (QQ 110–122)
- * Mr Vladimir Kara-Murza, Co-ordinator, Open Russia (QQ 97–109)
- * Mr Mikhail Kasyanov, former Prime Minister of Russia and co-leader of the Republican Party of People’s Freedom (PARNAS party) (QQ 220–239)
- * Dr Markus Kerber, Director General, Federation of German Industries (BDI)
- Ms Irina Kirillova MBE, University of Cambridge [RUS0012](#)
- * Mr Václav Klaus, former President of the Czech Republic (QQ 210–219)
- * Mr Alexander Kliment, Director, Emerging Markets Strategy, Eurasia Group (QQ 19–28)
- Professor Elena Korosteleva, Professor of International Politics, University of Kent [RUS0003](#)
- * His Excellency Andrii Kuzmenko, Ukrainian Acting Ambassador to the UK (QQ 67–76)
- * Alexander Graf Lambsdorff MEP, Chairman of Executive Committee, European Endowment for Democracy (QQ 123–133)
- Associate Professor Tomila Lankina, London School of Economics and Political Science [RUS0001](#)
- Dr Alexander Libman, Associate of Eastern Europe and Eurasia Division, Stiftung Wissenschaft und Politik [RUS0015](#)
- ** Rt Hon David Lidington MP, Minister for Europe, FCO (QQ 253–263) [RUS0002,](#)
[RUS0020](#)
- * Mr John Lough, Associate Fellow, Russia and Eurasia Programme, Chatham House (QQ 29–51)
- Ms Sabine Lösing MEP [RUS0004](#)
- * Dr Hans-Dieter Lucas, Political Director, Federal Foreign Office
- * Mr Fyodor Lukyanov, Chairman, Council on Foreign and Defense Policy, and Editor in Chief, Russia in Global Affairs (QQ 170–180)
- * Ms Tracey McDermott, Director of Enforcement and Financial Crime, Financial Conduct Authority (QQ 87–96)
- Mr Bernhard Müller-Härlin, Programme Director International Affairs, Körber Stiftung [RUS0018](#)

Open Europe

[RUS0013](#)

- * Mr Dmitry A Polyanskiy, Deputy Director, First Department of CIS Countries, Russian Foreign Ministry (QQ 240–252)
- * Dr Alastair Rabagliati, Director of Operations, European Endowment for Democracy (QQ 123–133)
- * Ms Shona Riach, Director, International Finance, Her Majesty’s Treasury (QQ 87–96)
- * Mr Pedro Serrano, Adviser on External Affairs, Cabinet of the President of the European Council (QQ 165–169)
- * Dr Lilia Shevtsova, Senior Associate, Russian Domestic Politics and Political Institutions Program, Moscow Center, Carnegie Endowment for International Peace (QQ 1–8)
- * Mr Hugo Shorter, Head of EU Directorate (External), FCO (QQ 52–66)
- * Mr Peter Sondergaard, Director of Programmes, European Endowment for Democracy (QQ 123–133)
- * Dr Marat Terterov, Executive Director and Co-Founder, Brussels Energy Club (QQ 110–122)

TheCityUK

[RUS0011](#)

Transparency International UK

[RUS0014](#)

- * Mr Pierre Vimont, Executive Secretary, European External Action Service (QQ 154–164)
- * Mr Denis Volkov, Head of Development Department, Levada Center (QQ 191–199)

Professor Richard Whitman, University of Kent

[RUS0008](#)

- * Mr Gunnar Wiegand, Director for Russia, Eastern Partnership, Central Asia, Regional Cooperation and OSCE, European External Action Service (QQ 154–164)
- * Sir Andrew Wood GCMG, former British Ambassador to Russia and Associate Fellow of the Russia and Eurasia Programme, Chatham House (QQ 200–209)

His Excellency Dr Alexander Yakovenko, Ambassador of the Russian Federation to the UK

[RUS0019](#)

APPENDIX 3: CALL FOR EVIDENCE

The EU Sub-Committee on External Affairs of the House of Lords, chaired by Lord Tugendhat, is launching an inquiry into the relationship between the European Union (EU) and the Russian Federation. The Sub-Committee seeks evidence from anyone with an interest. Written evidence is sought by Friday 24 October 2014. Public hearings will be held from July 2014 and the Committee aims to publish its report to the House, with recommendations, in the first half of 2015.

Background

The Sub-Committee's inquiry will examine recent relations between the EU and Russia and consider how recent events should help to shape future relations. The Committee will consider the proximate and structural causes of the recent crisis in Ukraine and Crimea, including EU actions and the consequent Russian response, how the EU handled the crisis, and how the EU has handled relations with Russia's neighbouring countries. This will provide the background for the Committee to understand the strategic intent of Russia and the EU towards each other and to assess how the EU and its member states should conduct their relations with Russia. The inquiry will also assess the EU's current approach to relations with former Soviet republics and ask how the EU should structure its relationship with these former Soviet republics.

The Committee will also look at the means by which both sides conduct their foreign policy towards each other. Trade, business and investment form a significant part of the strategic tool-kit on either side. This inquiry will consider how this economic interdependence in key economic sectors (including but not limited to hydro-carbons, professional services, finance, consumer goods and the food and drink sector) is determining EU foreign policy decision-making and strategic intent. The inquiry will consider if the business environment in Russia, in particular corruption, uncertain rule of law, barriers to business and the role of the state in the commercial sector is having an impact on the business environment in the EU. The inquiry will also seek to define the criteria, framework and means through which the EU and its member states should conduct their relationship with Russia so as to develop a mutually beneficial economic relationship with Russia where the EU is able to safeguard its values and promote its strategic interests.

Particular questions raised to which we invite you to respond are as follows (there is no need for individual submissions to deal with all of these issues):

EU and Russia acting in the shared neighbourhood

- (1) Looking at recent events in Ukraine and Crimea, what was the trigger for the crisis? What were the proximate and structural causes of the conflict? How did the EU respond to recent events in Ukraine? What lessons can be learnt from recent events for EU policy in the neighbourhood?
- (2) In the recent past, how has the EU handled its relationship with Russia?
- (3) How has the EU developed its relations with former Soviet republics in the shared neighbourhood? How has the EU managed the balance of its relations with countries in the shared neighbourhood and with Russia? How has the EU responded to Russia's relations and strategic interests with the former Commonwealth of Independent States (CIS)?

- (4) In the future, what sort of relationship should the EU have with countries of the shared neighbourhood in light of the recent Russian response? How should the EU structure its economic and trade relationship with the countries of the neighbourhood? What should be the nature of EU engagement in the shared neighbourhood and with the members of the Eurasian Economic Union?

EU Action

- (5) How clear have the EU and its member states been in their strategic intent in their business and economic relations with Russia? How could the EU and member states do more? Has the EU used its commercial relations strategically and effectively?
- (6) To what extent and in what sectors are the UK and other EU member states' economies dependent on Russia and vice versa? To what extent is Russia turning towards the East in its business and economic relationships and what implications does this have for its relationship with the EU?
- (7) How effective have Russian businesses been in wielding influence in EU member states, at the EU institutional level and through what means? What are the political and diplomatic implications of the depth of our economic relations?
- (8) Are these business interactions used for political and strategic purposes by the Russian state? What is the impact on the business environment and corporate governance in the EU as a result of doing business with Russia?
- (9) Could the EU do more to address the problem of corruption, rule of law and corporate governance within the commercial relationship between the EU and Russia and could it do more to improve standards of governance in corporate behaviour? How do EU regulations, and the business environment in member states, encourage a mutually beneficial trading relationship?
- (10) Does the EU take sufficient account of the 'Russian perspective' and of Russian sensibilities? Do the Russians take account of the EU perspective? What steps can the EU take to encourage the Russians to take more account of the EU perspective in their political calculations?
- (11) How can the EU design sanctions, if these should be required, which affect the Russian economy and the Russian elite while minimising damage to the EU economy?
- (12) Does the EU have a joined-up approach towards Russia, which couples political strategy with economic and business agreements? Is there a divergence between the approaches of member states and that of the EU? How can the EU and its member states build a consistent, coherent and strategic policy towards Russia? How can the EU ensure that its economic aims do not run counter to its political and strategic goals? What are the decision-making processes in the EU which might improve this?

Framework for Relations

- (13) What criteria should govern the relationship with Russia and within what sort of overarching structures? What is the appropriate framework to conduct our relations with Russia? How can the EU construct a relationship with Russia that is positive, mutually beneficial but also respects the EU's strategic purposes and its values?

- (14) What are the criteria for best practice in the conduct of those relationships? How can the EU uphold its values of corporate governance and good practice in its commercial relations with Russia?
- (15) What role can EU businesses play in promoting EU best practice and EU values in Russia?

July 2014

APPENDIX 4: EVIDENCE TAKEN DURING VISIT TO BRUSSELS

On 27 and 28 October 2014, five Members of the Committee (accompanied by the Clerk and Policy Analyst) visited Brussels in order to take evidence from EU institutions, the Permanent Representative of the Russian Federation to the European Union, and academics.

Members attending: Lord Tugendhat (Chairman), Baroness Billingham, Lord Lamont of Lerwick, Lord Maclennan of Rogart, Lord Trimble.

In attendance: Miss Sarah Jones (Clerk) and Miss Roshani Palamakumbura (Policy Analyst).

Day One: Monday 27 October

Academic Roundtable

The Committee took evidence from Dr Tom Casier, Jean Monnet Chair, Senior Lecturer in International Relations, University of Kent, Mr Josef Janning, Senior Policy Fellow, European Council on Foreign Relations, and Dr Marat Terterov, Executive Director and Co-founder, Brussels Energy Club.

A transcript was taken and is published in the evidence volume accompanying this report.

Briefing with UK Government officials

The Committee held a private discussion with His Excellency Sir Adam Thomson, UK Permanent Representative to the North Atlantic Council, and His Excellency Julian Braithwaite, UK Representative to the EU's Political and Security Committee.

Day Two: Tuesday 28 October

Briefing with UK Government official

The Committee held a private discussion with Mr Ivan Rogers, UK Permanent Representative to the EU.

Directorate General for Enlargement and European Neighbourhood Policy, European Commission

The Committee held a private discussion with Mrs Iwona Piorko, Cabinet of Commissioner Füle.

Political and Security Committee Ambassadors

The Committee held a private discussion with Ambassador Michel Tilemans, Belgian Representative to the EU's Political and Security Committee, and Ambassador Dainius Kamaitis, Lithuanian Representative to the EU's Political and Security Committee.

European Endowment for Democracy

The Committee took evidence from Alexander Graf Lambsdorff MEP, Chairman of Executive Committee, European Endowment for Democracy, Dr Alastair Rabagliati, Director of Operations, European Endowment for Democracy, and

Mr Peter Sondergaard, Director of Programmes, European Endowment for Democracy.

A transcript was taken and is published in the evidence volume accompanying this report.

His Excellency Vladimir Chizhov, Permanent Representative of the Russian Federation to the European Union

Four Members of the Committee took evidence from His Excellency Vladimir Chizhov, Permanent Representative of the Russian Federation to the European Union, at the Permanent Mission of the Russian Federation in Brussels.

A note of the meeting is below.

Members present: Lord Tugendhat (Chairman), Baroness Billingham, Lord Lamont of Lerwick, Lord Maclennan of Rogart.

In attendance: Miss Sarah Jones (Clerk), Miss Roshani Palamakumbura (Policy Analyst).

EU-Russia relationship

Ambassador Chizhov began by noting that Russia's relationship with the EU had its ups and downs, but that this was the case for many countries' relationships with the EU. He felt that the EU was not an easy partner to deal with and that many countries would feel the same way.

However, Russia did have numerous ties with the EU. The Ambassador stated that Russia's trade with the EU was worth approximately €1 billion per day, which was 12 times the value of Russia's trade with the US. There were international issues on which Russia and the EU could work together—for example, in tackling the threats posed by ISIL. There were also many cultural and historical ties between Russia and European countries.

The EU's formal relationship with Russia was based on the Partnership and Cooperation Agreement (PCA) agreed between the Russian Federation and the EU in 1994. This agreement was based around trade and had been automatically renewed annually since 2007. In 2008, negotiations were launched to develop a new EU-Russia Agreement, to replace the PCA. These negotiations stalled in 2010 for a number of reasons, including:

- The talks were put on hold while Russia was expected to join the World Trade Organization (WTO);
- The EU wanted further liberalisation of trade between the EU and Russia, which Russia could not offer while it was still adapting to WTO obligations; and
- At around the same time, the Eurasian Union initiative was being developed.

Negotiations regarding a new agreement were currently on hold and there was no timeline for resumption.

Ukraine

In Ambassador Chizhov's view, the crisis in Ukraine was not the ultimate cause of the decline in current relations between the EU and Russia, but a trigger which caused other problems to be exposed.

One of the problems was visa liberalisation: Russia was keen to agree greater visa liberalisation with EU countries, but the EU had taken a long time to consider and negotiate this. In the Ambassador's view, EU Member States and the Commission all seemed to be blaming each other for the delay in negotiating visa liberalisation.

A further problem was international security issues, where there had not been enough co-operation. In 2010, Chancellor Merkel had proposed the Meseberg Process, for an EU-Russia Security Council. Russia had agreed to this, but then other Member States did not support the proposal and so it fell by the wayside.

Turning to the sequencing of events in Ukraine, Ambassador Chizhov felt that, over the last five years, successive Ukrainian governments had fed propaganda to young people in Ukraine which promised that as soon as the Association Agreement was signed then Ukraine would *de facto* become a member of the EU. Members of the Ukrainian public therefore looked forward to the benefits that would accompany EU membership, such as visa abolition, the right to travel and work in the EU, etc. When President Yanukovich announced that he needed more time to reflect on the agreement, it therefore led to the initial protests. The EU had a part to play in the crisis as it had been supporting Ukraine's enthusiasm for signing the Association Agreement, without making it clear that the agreement would not automatically lead to EU membership.

In February, the German, French and Polish foreign ministries had signed up to a number of commitments regarding Ukraine. Ambassador Chizhov noted that at that time President Yanukovich agreed to withdraw forces and start constitutional reforms, all of which had been delivered before he fled the country. The then opposition undertook to stop the violence but the protestors declared themselves victorious and made declarations which caused obvious concern to people in eastern Ukraine, such as declarations banning the Russian language. Although the ban on the Russian language was never implemented, it had a great psychological impact on people in eastern Ukraine.

The local population in Crimea were also very concerned about the events in Ukraine and felt that it was a golden opportunity to rectify past injustices. In Ambassador Chizhov's opinion, the population in Crimea would not have forgiven President Putin if he had not acted to protect them. However, Russia had acted within international laws.

Despite the current situation, the Ambassador felt that there was still a window of opportunity to stop the conflict and to launch a political process to end the dispute. He hoped that Russia and the EU could continue to facilitate dialogue in order to achieve that.

Security

Ambassador Chizhov felt that positive relations between the EU and Russia could be built around security co-operation. President Putin had proposed a treaty on European security co-operation to include OSCE and NATO countries, the US and Canada. In general, Russia preferred international obligations, rather than commitments, but Russia had invited all the major players to be a part of the

process. Russia had been disappointed by NATO's response, which was that it could only guarantee security to its members, without any flexibility to share it with partners. In Russia's view, this was tantamount to recreating dividing lines.

In Ambassador Chizhov's view, as NATO's borders had moved closer to Russia, further work was therefore needed on a new security architecture.

Shared neighbourhood

With regard to relations within the shared neighbourhood, the Ambassador acknowledged that NATO membership was one of Russia's 'red lines'. NATO membership for countries such as Belarus, Moldova, Ukraine, Georgia, Azerbaijan and Armenia would not be acceptable to Russia.

Russia did not have a problem with those countries having free trade agreements with the EU but there were other, more detailed, aspects of Association Agreements which could cause difficulties, not just for Russia, but for the countries themselves. For example, the Association Agreement with Ukraine would place certain obligations on Ukraine to ensure that products met specific regulations, and those standards would not necessarily be compatible with the regulations required for products in the CIS region, or the Eurasian Economic Union. The Ambassador gave two examples of potential problems for Ukraine when the Association Agreement came into effect:

- At the moment, most of the engines for Russian helicopters were produced in Ukraine. If Ukraine started to produce engines to EU standards then Russia would no longer buy them. Although it would take time, within a couple of years Russia could produce its own helicopter engines instead. However, the Ukrainian market would then be destroyed as EU countries would not necessarily want helicopter engines produced in Ukraine.
- Some EU Member States had recorded cases of African swine fever in pigs and Russia had therefore agreed veterinary controls which meant that pork from EU countries could not be imported into Russia. The ban did not currently apply to Ukraine, but if Ukraine became a part of the single EU phytosanitary and veterinary space then Russia would have to extend the ban to Ukrainian pork products as well.

It was for these reasons that Russia had wanted a part in the negotiation process regarding the Association Agreement with Ukraine. The Ambassador felt that Russia had not wanted a veto, but had wanted a chance to discuss the issues, which had not been accepted by the EU until after the Association Agreement was signed and ratified.

He stressed that the Association Agreement would have a negative impact on Ukraine, as well as for Russia and other countries in the Eurasian Customs Union. In terms of the compatibility between the Eurasian Customs Union and the EU, the Ambassador felt that membership of the Eurasian Customs Union would not prevent countries from signing trade agreements with the EU, as long as they had compatible regulations.

Energy

Ambassador Chizhov noted that Russia was not satisfied with the Third Energy Package. Russia had been critical of the legislative proposals from the beginning and while the EU's intentions to liberalise its energy market may have been good,

the proposals were impractical for a number of reasons. First, it would not be appropriate to extend EU legislation to companies in Russia. Secondly, the retrospective nature of the proposals was not acceptable to Russia. Russia was currently constructing the South Stream pipeline to transport Russian natural gas through the Black Sea and other countries to Austria. Russia had agreements with eight countries (Austria, Bulgaria, Croatia, Greece, Hungary, Macedonia, Serbia and Slovenia) regarding the pipeline, six of which were EU Members. The EU was now applying pressure in order to change these agreements, even though they had been signed, before the Third Energy Package took effect. Construction was continuing though the negotiations were ongoing.

Future relations between the EU and Russia

Ambassador Chizhov felt that, in general, Russia preferred legal obligations for countries rather than political commitments. He felt that international agreements between Russia and EU Member States should be based on the following principles:

- No interference in the domestic policies of other countries
- No pressure for regime change in other countries
- No extension of international legislation onto other countries

There was also an information war between Russia and the West which, if continued, would cause misperceptions to increase and spread. Ambassador Chizhov noted that Russia was open to dialogue with all international actors, including the EU, OSCE and the Council of Europe. Russia was willing to engage and the G20 summit in November 2014 would be the next opportunity for President Putin to discuss international issues with other world leaders.

Directorate General for Trade, European Commission

The Committee took evidence from Mr Jean-Luc Demarty, Director-General, and Mr Luc Pierre Devigne, Head of Unit.

A transcript was taken and is published in the evidence volume accompanying this report.

European External Action Service

The Committee took evidence from Mr Pierre Vimont, Executive Secretary-General, Mr Luis Felipe Fernández-de-la-Peña, Managing Director for Europe and Central Asia, and Mr Gunnar Wiegand, Director for Russia, Eastern Partnership, Central Asia, Regional Cooperation and OSCE.

A transcript was taken and is published in the evidence volume accompanying this report.

European Council

The Committee took evidence from Mr Pedro Serrano, Adviser on External Affairs, Cabinet of the President of the European Council.

A transcript was taken and is published in the evidence volume accompanying this report.

APPENDIX 5: EVIDENCE TAKEN DURING VISIT TO BERLIN

Wednesday 26–Friday 28 November 2014

Seven members of the Committee (accompanied by the Specialist Adviser and the Clerk) visited Berlin. The aims of the visit were to take evidence from relevant witnesses in Germany, and to explore German objectives and concerns regarding the EU's relationship with Russia.

Members visiting: Lord Tugendhat (Chairman), Baroness Bonham-Carter of Yarnbury, Baroness Coussins, Baroness Henig, Lord Lamont of Lerwick, Lord Radice, Earl of Sandwich.

In attendance: Dr Samuel Greene (Specialist Adviser) and Miss Sarah Jones (Clerk).

Day One: Wednesday 26 November

Committee on Eastern European Economic Relations

The Committee held a private discussion with Dr Eckhard Cordes, President of the Committee on Eastern European Economic Relations.

Day Two: Thursday 27 November

German-Russian Forum

The Committee took evidence from Mr Martin Hoffman, Executive Director, German-Russian Forum.

Mr Hoffman began by outlining the work of the German-Russian Forum, which was established 20 years ago to promote social initiatives between Germany and Russia. Members of the Forum included companies and individuals from all areas of public life, including scientists, civil society organisations and academics. The Forum did not represent the interests of business, though its activities were partly financed by businesses.

The German-Russian Forum also played a role in the Petersburg Dialogue. The annual Petersburg Dialogue forum was established in 2001 at the initiative of the Russian President Vladimir Putin and the then-Chancellor of Germany Gerhard Schroeder. The Petersburg Dialogue forum was aimed at increasing mutual understanding between Russia and Germany, to broaden bilateral co-operation between the two countries.

Mr Hoffman noted that in recent months there had been much debate in Germany regarding the stance that should be taken towards Russia. While many advocated taking a hard line, many others urged political leaders to take a more understanding approach towards Russia.

In Mr Hoffman's view, relations with Russia were now worse than during the Cold War. This was because, during the Cold War, Russia did at least have respect for the US. However, there was now much less dialogue between Russia and the West, and many Russian people had a general dislike for the West. This was partly due to a difference in approach. Mr Hoffman suggested that countries such as Germany were more inclined to focus on the details of agreements, such as the Petersburg Dialogue, whereas Russia attached more importance to signs and

gestures which indicated respect for Russia. In recent years there had been a series of incidents whereby the West had caused offence to Russia. One example of this had been the Olympic Games held in Sochi, which had been a big event for Russia, but which Western media had criticised and some Western leaders had shunned.

In terms of the membership of the German-Russian Forum, Mr Hoffman noted that most of its members were young leaders. Although the Forum tried to enhance understanding between the two countries, there was often a lack of understanding and frustration at the approaches taken by the other nation. For example, some German non-governmental organisations working in Russia often wanted to promote democracy and proactively encourage change in Russia. However, young leaders in Russia were often less concerned about democracy and more worried about being able to access an open and unmonitored internet.

In terms of building a constructive relationship for the future, Mr Hoffman suggested that the EU needed to change its approach to Russia and focus more on the signs and gestures made towards Russia. As an example, Russian people felt that Russia made a great sacrifice during World War II in order to help Europe, but that this was not often recognised. Mr Hoffman suggested that politicians should, where possible, continue to include Russia in wider, cultural events, such as commemorations to mark World War II in 2015.

Mr Hoffman also felt that the EU needed to make a greater effort to separate the political conflict from the EU's relationship with Russian people. For the recent celebrations in Berlin to mark the falling of the Berlin wall, Mikhail Gorbachev had been invited. Mr Hoffman suggested that it would have been a sign of unity, and of respect for Russia's shared interest in Berlin's history, to have invited President Putin to those celebrations as well.

Mr Hoffman noted that Germany used to be thought of well by the Russian people, but that recent polls had shown that support for Germany was declining among Russian people and that, in Russia, there was a general feeling of disappointment with Germany. He recognised that there was significant pressure on Chancellor Merkel to be outspoken and to take a tough line towards Russia. However, Germany was still the best placed EU Member State to reach out to Russia and should try to use its shared history and past understanding to continue to engage with Russia.

Federal Chancellery

The Committee took evidence from Dr Christoph Heusgen, Foreign Policy and Security Adviser to Chancellor Merkel, Federal Chancellery.

Dr Heusgen outlined the ways in which he thought the EU should approach its relationship with Russia, and the actions that EU Member States should take in response to the current crisis.

First, he felt that the EU had a moral obligation to support countries under pressure from Russia. This included helping the citizens of Ukraine, who should have a sovereign right to choose the future path of their country.

Second, Dr Heusgen noted that if Russia did not follow international laws, then EU Member States had to remain unified and continue to impose sanctions that had an impact on Russia.

Third, he felt that the EU also needed to remain ready to talk to President Putin. Chancellor Merkel had spent many hours speaking to President Putin about the current crisis and the implementation of the Minsk Protocol. He added that there was always the offer of dialogue with President Putin.

Committee on Foreign Affairs, German Bundestag

The Committee held a private discussion with members of the Committee on Foreign Affairs of the German Bundestag.

Federal Foreign Office

The Committee took evidence from Dr Hans-Dieter Lucas, Political Director, Federal Foreign Office.

Dr Lucas began by noting that the Federal Foreign Office was exploring ways in which to resolve the current crisis in relations between the EU and Russia. The priority was to ensure that the criteria set out in the Minsk Protocol were met and that there was a ceasefire in Ukraine. Dr Lucas felt that Russia's annexation of Crimea was a reaction to events in Ukraine, rather than a pre-prepared plan. The possibilities for the future were unclear and it was possible that Crimea could end up as a frozen conflict.

Sanctions were not an end in themselves, but were a tool to achieve a change in Russia's behaviour. Dr Lucas felt there were signs that the sanctions targeted at particular people, and at the financial sector, were beginning to have an impact. Sanctions would only be eased if there was a change in Russia's behaviour.

There were two types of sanctions regimes. First, there were sanctions relating to the annexation of Crimea. There was no progress on Crimea and so the Federal Foreign Office was now considering whether tougher sanctions should be developed in this area. Second, there were sanctions regarding eastern Ukraine. There was also room for more positive progress in this area too.

Discussing the Eastern Partnership, Dr Lucas felt it was clear that the policy did not constitute an EU accession agreement. The European Neighbourhood Policy, and the Eastern Partnership, brought countries closer to the EU and offered the potential for those countries to integrate their economies with the EU through DCFTAs, but that was as far as the policies extended and they did not offer future membership of the EU.

Dr Lucas recognised that Russia was concerned about countries in the shared neighbourhood joining NATO. He noted that NATO had three main criteria for accession: the accession must enhance the security of the acceding country; the accession must enhance the security of existing members of NATO; and the accession must enhance the security of Europe as a whole. At the moment, Dr Lucas did not think that Ukraine would meet those criteria in order to join NATO.

Turning to the Eurasian Union, Dr Lucas felt that the Eurasian Union was a tool to restore Russia to greatness as a global power. However, he did not think that Russia planned further territorial expansions.

Both the Chancellor and the Foreign Ministry were working along a dual-track policy, which involved enforcing economic and financial sanctions, while also continuing to communicate with Russia. However, the amount of contact between

the German and Russian governments had been reduced. In the past, there had been joint meetings of the German and Russian cabinets, which had been suspended. Apart from the Chancellor and Foreign Minister, most other ministerial meetings had also been cancelled, though meetings regarding sports and culture had continued.

According to Dr Lucas, the German government was convinced that Germany's position towards Russia could only be effective if supported by a broader EU consensus. It could sometimes be hard to achieve this consensus, but Member States had come together remarkably quickly to agree the sanctions regimes, which were also broadly in line with sanctions imposed by the US. The EU would need to consider whether to continue the sanctions in 2015 and the EU was working with the US to ensure that the sanctions policies of both were broadly in line.

Federation of German Industries

The Committee took evidence from Dr Markus Kerber, Director General, Federation of German Industries (BDI).

Dr Kerber began by noting that the crisis in Ukraine was the biggest external threat to central Europe at the moment, with the crisis affecting countries across Europe, whether or not they were members of the EU. According to the BDI, German exports to Russia had decreased by 17% in the period January–August 2014, compared to the same period the previous year. In monetary terms, this meant that exports had decreased from approximately €24bn to approximately €20bn.

In general, the BDI fully supported the political course of the German government and the economic sanctions against Russia. In its view, the EU had a strong role to play in the crisis and could not let Russia's breaches of international law go unanswered. Sanctions imposed by the EU were having a variable effect on different types of businesses in different countries. Some German companies were heavily dependent on business with Russia and were being hurt by the current sanctions regime. BDI knew from its partners that the sanctions had also brought the Russian economy under pressure.

There was some legal uncertainty regarding the sanctions regimes as some of the regulations lacked clarity in the text. The BDI was therefore lobbying for greater clarity in the sanctions. There was also the risk of an uneven enforcement of sanctions across EU Member States, as the enforcement lay within each Member State's competence. In some areas, it was felt that Germany had enforced the sanctions more stringently than other EU Member States. Alongside Germany, the UK and the Netherlands also tended to enforce the sanctions strictly, meaning that businesses in those countries suffered more. Dr Kerber felt that a lot of energy had been spent discussing which countries had been affected the most, which meant that the overall goal of the sanctions had sometimes been lost.

However, despite these concerns, remarkably there was still a lot of support for the sanctions among the German population and the German business community. In Dr Kerber's view, in some Member States there tended to be the view that if Russia's behaviour had not worsened then the sanctions should be lifted. However, the German position was that if Russia's behaviour had not improved, then the sanctions should continue. Dr Kerber noted that some Russian people felt as though Russia was encircled by the West, and that Germany was keen not to exacerbate those fears. However, those threat perceptions were not an excuse

for Russia's actions in Ukraine and the sanctions were therefore necessary in order to send a strong message to Russia.

In terms of energy, work was underway to develop alternative supplies, but Dr Kerber thought that it would take at least a decade to build a supply chain for natural gas that was independent of Russia. He stressed that this work had been started before the current crisis and that it was not just a response to Russia's recent actions. Dr Kerber felt that it was important to help Russia to overcome its own dependency on fossil fuel exports.

When asked about corruption, Dr Kerber answered that corruption was not the biggest problem when it came to business in Russia. A bigger problem was that Russian businesses did not have freedom in the market. There were some fears that if you had potent consumers then you had potent citizens. Russia was therefore wary of the side effects that an open market economy might have for the stability of the country.

Roundtable discussion

The Committee held a private discussion with His Excellency Sir Simon McDonald KCMG, British Ambassador to the Federal Republic of Germany, Mr Bernhard Müller-Härlin, Program Director International Affairs, Körber Stiftung, Dr Alexander Libman, Associate of Eastern Europe and Eurasia Division, Stiftung Wissenschaft und Politik, Dr Alexander Kallweit, Head of International Dialog, Friedrich Ebert Stiftung and Ms Beate Apelt, Desk Officer for East and Southeast Europe, Friedrich Naumann Stiftung für die Freiheit.

Day Three: Friday 28 November

Committee on the Affairs of the European Union, German Bundestag

The Committee held a private discussion with members of the Committee on the Affairs of the European Union of the German Bundestag.

British Embassy

The Committee held a private discussion with Mr Nick Pickard, Deputy Head of Mission, British Embassy Berlin.

APPENDIX 6: GLOSSARY OF TERMS AND ABBREVIATIONS

AA	Association Agreement
CBI	Confederation of British Industry
CIS	Commonwealth of Independent States
DCFTA	Deep and Comprehensive Free Trade Area
EaP	Eastern Partnership
EBRD	European Bank for Reconstruction and Development
ECHR	European Convention on Human Rights
ECtHR	European Court of Human Rights
EED	European Endowment for Democracy
ENP	European Neighbourhood Policy
FCO	Foreign and Commonwealth Office
IMF	International Monetary Fund
NATO	North Atlantic Treaty Organization
OSCE	Organization for Security and Co-operation in Europe
PCA	Partnership and Cooperation Agreement
TI	Transparency International
WTO	World Trade Organization