

THURSDAY 20 NOVEMBER 2008

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Present

Anderson of Swansea, L.  
Crickhowell, L.  
Hamilton of Epsom, L.  
Hannay of Chiswick, L.  
Roper, L. (Chairman)  
Selkirk of Douglas, L.  
Swinfen, L.  
Truscott, L.

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Lord Teverson

Witnesses: **Sir Mark Lyall Grant KCMG**, Director General Political, **Mr Michael Davenport**, Director of Russia, South Caucasus and Central Asia Directorate (RuSCCAD), and **Ms Katherine Fox**, Deputy Team Leader, Russia Section (RuSCCAD), Foreign and Commonwealth Office, gave evidence.

**Q31 Chairman:** Sir Mark, thank you very much indeed for coming to see us this morning. We know it has been quite a sacrifice as you came across the Atlantic overnight. This is a public meeting. A transcript will be taken and you will be provided with a copy of it in a few days' time. I wonder whether you could introduce yourself for the record and ask your colleagues to do the same.

**Sir Mark Lyall Grant:** I am Mark Lyall Grant. I am the director general political at the Foreign Office. On my left is Michael Davenport, who is director for the Russia, South Caucasus and Central Asia Directorate. Katherine Fox is the deputy head of the Russia section.

**Q32 Chairman:** Thank you very much indeed. We are carrying out a follow-up inquiry on Russian/EU relations and we would be very grateful if you or your colleagues could say

something about your assessment of the current state of EU/Russian relations and in particular the outcome of the summit held in Nice last week.

**Sir Mark Lyall Grant:** I think it is fair to say that relations between the EU and Russia are still somewhat strained as the recent EU/Russia review made clear. It talked about a serious shadow being on that relationship as a result of the events of the summer. On the one hand, it is quite clear that both the EU and Russia share a lot of common interests, a lot of shared challenges. There are a lot of things that we want and need to do in common on issues as wide ranging as counterterrorism, climate change, trade, peace in the Middle East, non-proliferation as regards Iran, etc. On the other hand, it clearly is difficult to conduct business as usual following the events in Georgia in August. The latest position as a result of the EU/Russia summit in Nice earlier this week is that the negotiations for the mandate of the PCA, the new Partnership and Co-operation Agreement, will resume and there will be a high level meeting on 2 December following an experts' meeting today to take that forward. That is a resumption of the interrupted negotiations following events in Georgia. That is part of re-engagement between the EU and Russia. On the other hand, the EU audit which drew up a review of all the different elements of the relationship between the EU and Russia will be examined by the European Union to see whether there are areas within that review which would need to be affected by the fact that the relationship is currently strained.

**Q33 Lord Anderson of Swansea:** The consensus appears to be that there was a certain recklessness of calculation on the part of President Saakashvili. There was an excessive response on the part of Russia. Is this the Foreign Office view?

**Sir Mark Lyall Grant:** I think that is our view. Clearly, there was some recklessness on the part of President Saakashvili in Georgia but, on the other hand, we think that the Russian response was both disproportionate and unnecessary in the sense that it was harsher than was required in order to stop what they saw as an attack on the South Ossetians and on indeed the

Russian peace keepers; and went much further than was required in terms of moving Russian forces into Georgia, attacking installations, bombing towns, etc. We do think that the response was disproportionate.

**Q34 Lord Anderson of Swansea:** Russia has clearly sought to redraw internationally recognised boundaries by force in spite of the apparent contradiction in what they are now saying about the European Security Treaty and so on. What is their motive?

*Sir Mark Lyall Grant:* People have different views on what Russia's motivation was. I think if one looks at the five principles of foreign policy that President Medvedev set out publicly a few months ago, one of those principles was the assertion of a special interest in the "near abroad". I think Russia felt that they had the right to interfere in some of the countries on their immediate borders if their citizens or their interests were attacked. I think they felt that their interests were being attacked by President Saakashvili's military action in South Ossetia and they responded accordingly. I think it was a combination of a long history of bad relationships between Moscow and Tbilisi and an opportunistic response to some recklessness on the part of the President of Georgia and a wider assertion of that principle of: this is our backyard and we shall act in accordance with our interests within it.

**Q35 Lord Anderson of Swansea:** South Ossetia is never likely to become independent in any way. Is it the Foreign Office view that there is a danger that this is a step on the way to annexation?

*Sir Mark Lyall Grant:* I do not think so. Certainly Russia has said, both privately and publicly, that there is no intention to absorb either South Ossetia or Abkhazia into the Russian Federation. On the other hand, they have recognised those territories, with one other country, and that was clearly a decision which many in Moscow are regretting because it has exposed the isolation of Russia in taking the action that it has. I think they have left themselves with

quite an awkward, complicated problem in this sort of frozen conflict, because they say that they will not go back on the recognition of the two territories. No one else is going to recognise them, so they are clearly not going to be valid, independent states. On the other hand, they have said that they do not want to absorb them into Russia.

**Q36 Lord Anderson of Swansea:** It will be hanging in the air in terms of their independence and a continued source of instability in the future.

*Sir Mark Lyall Grant:* It will certainly be a continuing source of instability in the region. One of the reasons why, as part of the August and September agreements, there was an insistence that there should be some sort of diplomatic process in Geneva starting in October, the second meeting of which was held yesterday in Geneva, was precisely to try not to let this situation be frozen indefinitely. There needs to be an international, diplomatic process to resolve not only the security and stability issues and the refugee and humanitarian issues, but also in due course status issues.

**Q37 Chairman:** The October meeting in Geneva was notoriously unsuccessful. Is there any information from yesterday's meeting as to whether it was more useful?

*Sir Mark Lyall Grant:* The briefing that we have had from one of the co-chairs was that it was more successful than the first meeting. There was no standing on ceremony in the sense of people walking out. They dispensed with name plates and status issues so all of the relevant parties did sit around both at a dinner session and then moving into two separate working groups that had been set up, the one on security and stability and the other on IDPs and refugees. In that sense, I think a threshold was passed and a precedent has been set. I do not get the impression that a huge amount of substance was discussed at this meeting but they have agreed to meet again on 17 and 18 December.

**Q38 Lord Hannay of Chiswick:** I wonder if I could take up a point that you mentioned, which was this latest tool in the Russian diplomatic toolbox, which is giving passports to large numbers of people, some I imagine of whom may never have been Russians as opposed to Soviet citizens at all; and then claiming that any military action outside their own borders is to exercise their “responsibility to protect”, in the words of Minister Lavrov, which is of course an abuse of the United Nations agreement of 2005. Does the British government take a position about this latest tool in the toolbox which does seem to have some fairly dangerous potential implications?

*Sir Mark Lyall Grant:* Indeed. The Foreign Secretary raised that with Minister Lavrov when they met in New York in September and I raised it with my opposite number only last week when he visited London, to try and get clarification of exactly what these principles mean. Some of the five principles in terms of non-confrontation and these sorts of things are understandable and acceptable, but asserting that you will protect by implication wherever they are and by any means, Russian passport holders, particularly given as you rightly say, Lord Hannay, the fact that they have been rather liberal in their issuing of passports to many in the region, does strike us as particularly dangerous. It goes potentially beyond protection, to asserting the right to dispose of those citizens in any way they wish, as we have seen in London. It does have quite far reaching implications and we have therefore tried to seek clarification on it. Their response was that this was perfectly normal and in line with the normal diplomatic conventions in international law and they rejected the assertion that they were giving away Russian passports that were not justified.

**Q39 Lord Hamilton of Epsom:** Is the reality of South Ossetia not really parallel to that of Turkey and Northern Cyprus? In 30 years' time, nothing much will have changed and they will still remain satellites of the Russian Federation.

*Sir Mark Lyall Grant:* I think there is a risk of that. If Russia insists on its current position, which is a question of recognition, saying that that is irreversible, given that other international countries are not going to recognise, depending on what happens in the Geneva negotiations, it looks as though it is going to be very difficult for there to be a complete re-integration of the two enclaves into Georgia. Our position is that we have recognised the territorial integrity and sovereignty of the internationally recognised borders of Georgia and obviously that includes both South Ossetia and Abkhazia. Russia itself has signed up to UN Security Council resolutions to that effect so we do hope that it will be possible to tackle those status issues rather than, as you say, my Lord, leave it as an unresolved issue more or less indefinitely, rather as northern Cyprus has been.

**Q40 Lord Hamilton of Epsom:** On the question of the implementation of the Sarkozy agreement, how far do you think that has been completed in terms of the implementation of its commitments?

*Sir Mark Lyall Grant:* I think there has been a very large compliance in terms of the ceasefire and a large withdrawal of the Russian troops from the rest of Georgia and engagement in the Geneva talks. All of these things have been achieved and also the deployment of the EU monitoring mission. However, our position is that there is still work for Russia to do to be fully compliant, in two senses in particular. One is that in the August agreement they undertook to withdraw to their pre-August positions and, in three areas in particular, in Akhagori, which is a part of South Ossetia, in the village of Perevi which is outside South Ossetia, and in the upper Kodori Valley, which is on the borders with Abkhazia but was previously administered and run by the Georgians, Russian troops are still there and have not withdrawn. In a second sense, also the Russian troops are in the enclaves in much larger numbers than they were before, I think a total of 7,500 troops between the two enclaves, whereas before they were probably fewer than 3,000. In those two respects, I think

there has not been a full compliance. A third area I would just mention is the facilitation of the monitors into South Ossetia and that has not happened fully yet. It is very patchy. EU monitors have been able to get across into South Ossetia on an *ad hoc* basis but at other checkpoints and crossing points have encountered difficulties from the Russians.

**Q41 Lord Hamilton of Epsom:** Is there a Russian rationale for keeping those little enclaves that you have referred to? What is in their minds? Why should they value them?

*Sir Mark Lyall Grant:* I am not sure I can answer that, my Lord. South Ossetia I do not think has many attractions in a sense for Russia.

**Q42 Lord Hamilton of Epsom:** I am talking about the areas on the margin.

*Sir Mark Lyall Grant:* There are slightly different reasons for all three but Akhagori is the part of South Ossetia that is closest to Tbilisi and therefore does give the Russians a little bit of a stranglehold on the centre of Georgia. Perevi is a village the edge of which is in South Ossetia and the village itself is outside, but is a crossing point between two different parts of South Ossetia, and therefore I think they would argue it is better to control that particular crossroads than to try and do it in a more scattered way. I guess that would be the justification for it.

**Q43 Lord Hannay of Chiswick:** You have described the Partnership and Co-operation agreement and the negotiations are about to resume. To what extent do we think this agreement that is now going to be negotiated is really a full umbrella for the EU's relationship with Russia, or is it just more a technical, partial covering of certain sectors but not really covering the whole relationship? Do you think that these negotiations are going to be a useful way to engage the Russian Government at the highest level, or are they going to just go along on a very technical course?

*Sir Mark Lyall Grant:* The negotiations themselves will probably take, if the precedent of the current agreement is any guide, 18 months to two years and there may then be a further year of ratification by all the EU Member States. Last time, it was about a three year process from the opening of the negotiations to ratification. The existing agreement will be in force for at least, I would think, two to three years, but the new agreement is more comprehensive than the current one. It does cover a number of areas in some detail which are not covered by the existing agreement, for instance, counter-terrorism, counter proliferation, judicial co-operation, crisis management, climate change, migration. These are either completely absent from the current agreement or only touched on very lightly in the current agreement. There is also a stronger dispute resolution mechanism. I think it is fair to say that this is quite a comprehensive agreement compared to the current one and will be probably the main focus of the relationship between the EU and Russia when it fully comes into force.

**Q44 Lord Truscott:** How have events in Georgia affected the prospects for progress in EU/Russia relations on energy and pipeline politics as well impacting on Europe? Is progress more likely to be made in your view on the resumption of negotiations on a successor to the Partnership and Co-operation Agreement?

*Sir Mark Lyall Grant:* This is not my particular area of expertise but energy security, diversification, security of supply etc., are issues that are of very significant importance obviously for the European Union. The energy relationship between the European Union and Russia is very strong, more so for some other Member States than for the UK at the moment, but some Member States rely almost entirely on the Russian supply of energy. Likewise, Russia depends very heavily on the EU to sell its energy. It is a co-operative relationship and a very important one. A number of factors have come into play recently. One is obviously the economic crisis which Russia originally thought it might be immune from but that has of course not turned out to be the case. The growth rate forecasts have come right down to two

to three per cent. The rouble has come under very severe pressure. Foreign reserves have been depleted to protect the rouble. The stock exchange has collapsed, not unfamiliar symptoms of course elsewhere, but it shows that, if you put that together with the lower oil price at only just over \$50 a barrel, that is having quite a severe impact on the Russian economy. That in turn affects the whole energy sector.

**Mr Davenport:** On the Georgia crisis, the close proximity of the conflict to key transit routes in the Caucasus has certainly served to highlight the fragility of those transit routes and the supply routes for both oil and gas and has perhaps focused political attention on the need to provide support in this area, and particularly for the European Union to be more proactive in bolstering the prospects for these supply routes to be improved upon and enhanced and infrastructure to be put in place etc. The Georgian Government recently signed a memorandum of understanding with the Azeri Government over the supply of gas to Georgia from the Caspian which in due course should have the effect of making Georgia much less dependent on Russia, which is the main source of gas at the moment, and probably pretty heavily dependent on Azerbaijan.

**Q45 Lord Truscott:** In your view, the current crisis has bolstered the proposals for saving Nabucco rather than undermined them. Secondly, if that is the case, do you think Member States should put money behind it?

**Mr Davenport:** It has certainly bolstered the focus on the need for transit routes to the west from the Caspian and from central Asia. The question of Nabucco is of course very closely linked. Ultimately Nabucco will only work if it is economically, commercially viable and if there are the sources of gas to put through Nabucco. That is a question that is still unclear but I think there is greater energy now in investigating all the aspects of that problem, including solutions pending Nabucco, including using transit routes through Turkey, for example.

**Q46 Lord Crickhowell:** I would like to come back to the economic crisis separately but, on the energy point, surely the issue is not just a matter of transit routes? That is probably not the central problem or solution. We have a very interesting paper in front of us which I referred last week to Sir Roderic Lyne which points out that the Russian contribution to the total EU energy consumption is only 6.5 per cent and, of the gas coming to Europe, Russia now only provides about 40 per cent. There has been enormous diversification, but of course there are a number of countries in the European Union who have huge dependence. Therefore, the real issue, not least because it is a political as well as an economic disruptive force, is to move towards a market integration and an integrated network in Europe. The Commission is trying to move rather tentatively in that direction, but it is absolutely crucial and fundamental that if we had an effective network and a market solution it would no longer be the major political, disruptive force that energy is proving at the moment. It would be possible to provide gas and so on to those countries that are heavily dependent. The trouble is that particularly Germany and France are crucial players in moving to such an integrated situation. The Commission may want to but unless Germany and France support such a move and go for it – we know why Germany has not done so up to now – it is not going to happen. There is an argument surely that this is an absolutely central issue for the European Community which it ought to be addressing and I wonder what the British position is. I am not so much concerned with the pipelines and so on. Yes, of course there are arguments for Caspian and other pipelines, but I think it is a much more central issue, whether Europe can devise and agree an energy policy that can speak as one to Russia and remove the political, disruptive force into a simple, economic price adjusting mechanism.

**Sir Mark Lyall Grant:** I can only agree with you. The British Government does agree that we want a completely liberalised internal market in energy. That would resolve some of the issues of security of supply and diversification. We need that combined with a more coherent

and coordinated external policy as well. That is where some of the transit routes come into play. It was at our instigation that this issue of energy security was put into the Special European Council conclusions on 1 September. The meeting was held because of the Georgia crisis. I think the British Government is fully behind that. You have identified a couple of countries at least that are less enthusiastic than we are. I think this issue goes back quite a long time, as some of your Lordships will remember.

**Q47 Lord Crickhowell:** Do you have any sense of optimism that perhaps now, faced by the situation that we do face, there is some hope of making real progress on this, or are we simply going to remain deadlocked and therefore exposed to Russia quite unnecessarily for a long time into the future?

**Sir Mark Lyall Grant:** To be honest, my Lord, I have not been involved in the internal EU negotiations on the energy issue, so I would not want to say whether we are in optimistic or pessimistic mode. I think it is fair to say it is an issue that has been around for a very long time. There clearly is some stimulus to move forward and the Commission position is powerful and important. The fact that they have come out very clearly in favour is important in the EU context but, when there are still some very important countries that are resisting for different reasons, it is going to be always difficult to make progress.

**Q48 Lord Hamilton of Epsom:** Could you not argue that when there are very serious national issues at stake in energy there is no way that Europe is going to be united because that reads over to the bailing out of banks as well, where there is no sign of unity there either. My main question is on GDP which you said was going to grow by two to three per cent. I am quite surprised that it is growing at all because, if you look at what the Russian economy must have been 12 months ago, if it is totally dependent as we are told on oil and gas, the prices have halved since then. There must be other parts of the Russian economy that are

actually working to give them that growth rate. Otherwise, if you halve your main driver of the economy, that will put you into recession, I would have thought.

*Sir Mark Lyall Grant:* I think they had been expecting a growth rate prediction of between seven and nine per cent, so the new forecast of two to three per cent is quite a substantial reduction.

**Q49 Lord Hamilton of Epsom:** It does not reflect the halving of prices, does it?

*Sir Mark Lyall Grant:* It does not, although I think I am right in saying that for Russia the price of oil in particular at which the industry breaks even is a slightly lower level than for some suppliers. I do not think they are losing money in that sector. I think the problems are more structural in terms of longer term investment which is an area where Russia does depend very heavily on the European Union. I think 80 per cent of foreign investment into Russia comes from the European Union.

**Q50 Lord Anderson of Swansea:** Mr Davenport said that Nabucco would go ahead only if we could justify it on commercial grounds. I thought the Union, as a result of the shock to confidence caused by the Georgian invasion had gone beyond that and said that, if the market did not provide, there might have to be some public contribution and further that President Barroso has floated this idea of a company to obtain Caspian oil from Turkmenistan and Kazakhstan through the Caspian and Turkey as an alternative, which is much opposed by Russia for its own reasons. Are you saying the situation has not moved on Nabucco beyond that?

*Mr Davenport:* All that you say is right. I think that the rationale for Nabucco essentially would still have to be a commercial and economic one. There are ways in which the European Union and individual Member States potentially could lend political and, in some cases, a degree of financial support, including through institutional lending, to provide some

of the confidence that private sector investors may need in order to make it work. The fundamental point for Nabucco is that the energy supplies have to be there, if not as fast as most of us would like. Certainly in due course there has to be the prospect of the volumes that would make it work.

**Q51 Lord Anderson of Swansea:** That means going beyond Azerbaijan to Turkmenistan and Kazakhstan?

*Mr Davenport:* In due course it would require supplies from beyond Azerbaijan because my understanding is that the Shah Deniz field would not be sufficient to provide those supplies into the medium and longer term, which is why we, through the European Union but also bilaterally, are working particularly with the Turkmen Government initially on confidence building with the Turkmen energy industry in order to increase the prospects for Turkmenistan being a source of energy across the Caspian to the west in the future.

**Q52 Lord Crickhowell:** I asked that we concentrate initially on the energy issue. Can I widen the economic discussion a bit? One sometimes has to remember when one is questioning representatives of the Foreign Office that this is a European Committee and the report we are looking at and the supplement we are now preparing on that report is on the relations of the European Union and Russia. You started by giving a brief comment about the state of the Russian economy and the effect on it of the economic crisis. Sir Roderic last week gave a very vivid account of the weakness of the Russian economy and the potential problems that they were facing longer term – the decline of the working population and all the other issues that we addressed in our report. Also, the fact that they are going to find it increasingly difficult to supply their own gas, let alone European gas. Therefore, they are not in quite the strong position that they might present themselves as being in when they come to negotiate about commercial and other matters. Given the fact that the economic and financial

crisis I see was one of the three agenda items for last Friday's Nice meeting, how do you see the present economic and financial crisis impacting on Europe/Russia relations in the immediate future?

*Sir Mark Lyall Grant:* I think it is still quite early to make firm predictions about the impact that it will have on a range of relationships that the European Union will have with other countries. I do not see it affecting the fact that energy will continue to be a central part of that relationship. It may affect Russia's own view of itself and its influence within the world community but I have seen no evidence of that so far at all. What I have seen is a shift over the last three months from a view that Russia would be immune from this and that this was a crisis made in America, affecting American allies but not touching Russia, to a recognition that it is having a very damaging effect, not only in financial markets and financial business, but also on the real economy in Russia. That could have quite important implications domestically in Russia. There are one or two signs one picks up of tension between Prime Minister Putin and President Medvedev about who might be to blame for the economic crisis and there is the question of who the Russian public might blame for that economic crisis. I think there are some quite interesting dynamics there which will have an impact in the longer term. What I have not seen as yet is any recognition by Russia in terms of its actions and indeed what it says of it affecting its outward perspective and its view of itself. Russia, as I think we have discussed before in this Committee, my Lords, does crave respect as a major, global power. There is a certain nostalgia for the Cold War certainties of the status of Russia and I think the Russian leadership is looking to be treated rather as the Soviet Union was treated in pre-1980 days. They have a number of inherent assets: the size of the country, the P5 membership, its historical role, its influence in the region, etc. On the other hand, it has a number of vulnerabilities which you have set out, which are important in terms of the declining population and potential difficulties with Muslim minorities in particular. There are

difficult relations with China. There is a whole range of vulnerabilities going forward for Russia, but I have not myself detected any sense that those vulnerabilities are admitted by the Russian leadership and they are not allowing them to affect their external behaviour yet.

**Q53 Lord Crickhowell:** One of the things Putin has tried to convey is that Russia is still a very powerful military force. We have had talk about ships being sent towards Venezuela but the truth of the matter is that the Russian military setup is extremely weak and has been neglected in the past. Is it not likely that, if they are facing the economic difficulties that we think they may be facing, it may be less and less convincing to posture themselves as rebuilding a great, strong military presence which can threaten the world in the way that the world used to think it was threatened by Russia. It may become a little exposed as a slightly false pretence.

*Sir Mark Lyall Grant:* That is a fair point, my Lord. We should not forget that the Russian economy, although it has been growing very fast and will still grow in the future, we anticipate – the GDP is about the same size as Spain’s – indeed, I think I am right in saying that the military spending is less than the United Kingdom’s. One has to keep a sense of proportion, but it is still a nuclear power and has a hell of a lot more nuclear warheads than the United Kingdom. That is a factor one has to take into account.

**Q54 Lord Truscott:** Given the growing size of protectionism in Russia, is it still the view of HMG and Member States generally that we should be supporting Russia’s rapid accession to the WTO? I think we probably should but has there been any alteration in that view?

*Sir Mark Lyall Grant:* No. We are still enthusiastic supporters of Russian accession to the WTO. In general terms we believe that we should try to bring Russia into rules based organisations and the WTO is a rules based sort of structure which we think would be very good to have Russia a member of. The danger is that the longer Russia stays outside the

WTO the more protectionist it might become. The Russian Government did take a promising step just before the EU/Russia summit in terms of suspending increases of the timber tariffs which were of growing concern to Finland in particular, but also to the EU more generally. I think there must be a danger that if the economic crisis gets worse in Russia, if they do not have the disciplines of the WTO, they will drift even faster into a sort of protectionist mode. I do not think that would be good for Russia in the long term. It would not be good for Russia's trading partners either.

**Q55 Lord Hamilton of Epsom:** One of the things that Russia has which no western economy has is a sovereign wealth fund which is quite substantial. Do we have any visibility on whether it will be used and what it could be used for? It could be used to counteract a recession.

*Sir Mark Lyall Grant:* It certainly could, my Lord, and indeed has been. I do not know how accurate the figures are, but the figures I have seen show that there are potential foreign reserves of 500 billion dollars. At least 100 billion has already been used to try and support the currency which is presumably lost forever. There is a depletion of those reserves, but they are still very substantial compared to most countries in the world. They can be used for a number of things. There was the suggestion at one point of a loan to Iceland for instance. I think that particular exchange has fallen through. I do not know whether Russia would plan to use those sovereign wealth funds to further their foreign policy objectives, or whether they would be held in reserve to absorb shocks in the domestic economy. I am afraid I cannot answer that question.

**Q56 Lord Swinfen:** What is your assessment of the implications of the war in Georgia and the recognition by Russia of the independence of South Ossetia and Abkhazia for the future of the Ukraine?

*Sir Mark Lyall Grant:* It has made the Ukrainian people more nervous clearly. In some ways, Ukraine is bracketed with Georgia as an important near neighbour of Russia. On the other hand, Ukraine is an independent country, makes its independent choices and is going through a rather different crisis of its own. There is quite a serious political crisis within Ukraine at the moment. What I can say is that Ukraine has expressed an interest in getting closer to the European Union. They want to become members of the European Union and they have also put in an application to join NATO. We support those European vocational aspirations, both in the EU and in NATO and we will be looking to take that forward. One of our responses following the Georgia crisis has been to accelerate consideration of the eastern neighbourhood partnership which would include both Georgia and Ukraine and four other countries in the eastern neighbourhood of the EU. That will be endorsed, I would anticipate, at the European Council in December. That is a proposal which binds those countries closer to the European Union. It promises financial support etc. With Ukraine specifically there was an EU/Ukraine summit very recently, I think on 9 November, which agreed a new association agreement with Ukraine and a free trade area. The relationships between the European Union and Ukraine have probably been accelerated as a result of the Georgian crisis.

**Q57 Lord Swinfen:** Ukraine used to be the bread basket for the Soviet Union. Is it still the bread basket for Russia?

*Mr Davenport:* My understanding is that the Russian domestic production of grain has increased substantially in recent years so that Russia has become a net exporter of grain. There is not that dependence that existed in the Soviet days.

**Q58 Lord Swinfen:** Is Russia encouraging separatist elements in Ukraine as far as you are aware?

*Sir Mark Lyall Grant:* We are not aware of that, my Lord, no. Clearly they have interests in Ukraine and Ukraine is a deeply divided society. There are quite a lot of ethnic Russians, the Black Sea fleet of course is based in Sebastopol, so Russia does have quite extensive interests in Ukraine and no doubt has an interest in the outcome of the current political crisis. We have not seen any evidence of subversive behaviour, no.

**Q59 Lord Swinfen:** They are not giving out quantities of Russian passports?

*Sir Mark Lyall Grant:* They certainly have done that in the past. I do not know whether that is still continuing.

*Mr Davenport:* It is very difficult to get accurate statistics for that. There is clear anecdotal evidence that Russian passports have been issued to citizens in Ukraine but of course Ukrainians have no statistics on the numbers of passports issued by the Russians to their citizens and we have no figures to get at from the Russians on that either. It is certainly something that is happening and something which, for the reasons that were discussed earlier, we need to keep a wary eye on.

**Q60 Chairman:** You referred to the EU/Ukraine summit. After that the Ukrainians were somewhat disappointed that they were not given a rather clearer membership perspective. Indeed, there is a slight contrast between the position that was taken at that summit and the speech of the Foreign Secretary in Kiev where he did give an indication of a membership perspective. Do you think there is some chance of the EU moving towards the position of the British Government in this respect?

*Sir Mark Lyall Grant:* In the medium term, certainly there is. In the short term, the whole issue of enlargement has got a little bit tied up with the ratification of the Lisbon Treaty and the reluctance of some Member States to go forward with the enlargement process until there

is greater clarification on the institutional changes within the European Union. I think it is fair to say that some of the countries in the eastern neighbourhood have been victims of that.

**Q61 Lord Hannay of Chiswick:** Could you just say a quick word about what the implications are for relations with Belarus of the Georgian episode but also of certain modest shifts that seem to have taken place in the last few months? Do we think something really is shifting there?

*Sir Mark Lyall Grant:* Potentially, there is something shifting there. It is interesting that the Russians were very strongly encouraging Belarus to recognise South Ossetia and Abkhazia and they did not do so. There have been suggestions that the Russians would like to site missile bases in Belarus but that has not happened yet. There have been some feelers being put out by Belarus towards the European Union. Belarus would be included in the eastern partnership when it is agreed. Clearly, there are a huge number of concerns about politics in Belarus but also there have been some positive developments. The fact that I think all political prisoners – certainly prominent political prisoners – have been released is promising. On the other hand, the recent elections would not have passed many tests of fairness. I think it is a mixed picture but we recognise that some progress has been made and we want to respond to that in a positive but cautious way. The Prime Minister of Belarus was in the UK recently.

**Q62 Lord Hamilton of Epsom:** I think Ukraine is on the record as saying they will not renew the lease on Sebastopol. Do you think it is going to map out like that or do you think, when push comes to shove, the Russians will ----?

*Sir Mark Lyall Grant:* A lot of water will flow under the bridge before 2017, when the lease runs out, it is difficult to predict accurately what will happen then.. The current government of Ukraine took that position. I do not know whether all future governments would. Quite

what the Russian reaction would be if they tried to implement that commitment I do not know. It is a very sensitive issue for both sides and one that we watch very carefully, but I would not like to predict what will happen.

**Q63 Lord Selkirk of Douglas:** Do you think the EU should strengthen its ties with Ukraine and in what ways? We have heard in evidence recently that the majority of Ukrainian people might not wish to join NATO. Do you have any clear assessment on that particular issue and any views on it?

*Sir Mark Lyall Grant:* On the first, my Lord, we would like to see a very significant deepening in the relationship between Ukraine and the EU. Of the six countries that are part of the eastern partnership, Ukraine is the one that is probably the most able to move closer to the European Union most quickly. We would like to see that happen and to see Ukraine given a membership perspective. We hope that, once some of the reticence of our partners to furthering the enlargement dossier is overcome, we will be able to move in that direction. There is also the question of the NATO track and the foreign ministers of NATO will be looking at both the Ukraine and Georgia applications again in December, in ten days' time, and will be looking to implement the decision that was taken at Bucharest at the summit in April this year. That too is a highly contentious issue and one that Russia has a very strong vested interest in.

**Q64 Lord Selkirk of Douglas:** Sir Mark has not answered the specific question I was asking. We have heard evidence to the effect that the majority in Ukraine might not wish to join NATO. We wonder what your assessment might be on that particular point and what your views on it would be.

*Sir Mark Lyall Grant:* The opinion polls that we have seen have fluctuated quite wildly. As far as the NATO countries are concerned, we have to take seriously the application that is put

forward by the elected government of Ukraine and they did put forward a formal application. Whether that is supported by a majority of the people is, in a sense, a problem for the government of Ukraine rather than a problem for NATO, but it does mean I suppose that a future government of Ukraine might withdraw the application. That is always a possibility, but I have not seen any recent polling evidence to suggest there has been a major shift one way or another on the NATO issue.

*Mr Davenport:* I think that is broadly right. The polling that I have seen has suggested that only a minority of Ukrainians, at least according to the polls, actively support NATO membership. There are a lot of undecideds in the polling results as well and the polling results tend to reflect the regional diversity which you were referring to.

**Q65 Lord Truscott:** My understanding is that the British Government looks favourably on the applications of Ukraine and Georgia to join NATO at some point in the future or at least become candidates and join the road map to membership. Is that understanding correct?

*Sir Mark Lyall Grant:* It is. All NATO heads of government took a decision in April this year that Ukraine and Georgia will become members of NATO. I think it is a question of when rather than if.

**Q66 Lord Anderson of Swansea:** The proposal of President Medvedev at Evian for a European security treaty, when the Russians have sought radically to recast European security structures in the past, we have responded very warily. Is there a way of decoupling Europe from NATO? When the Russians then tried to build up OSCE they rapidly changed their view when the OSCE started giving unfavourable views when monitoring elections and so on. Why the change now when we had the EU/Russia conference? Why did we respond positively by agreeing to hold such a conference next year?

**Sir Mark Lyall Grant:** We look at the proposals that President Medvedev has put forward against a number of principles. One is that it should be inclusive and therefore should include the United States, which originally President Medvedev's idea did not include. Secondly, we believe that it should be considered in existing fora and the OSCE is an obvious one to do so. Thirdly, it should not undermine existing security structures that we think are working perfectly all right. Against those principles, it is encouraging that President Medvedev is coming up with ideas, even if we are wary about the motivations behind them. What happened in Evian was that President Sarkozy suggested that this might be discussed at a special summit in the OSCE in the middle of next year. I think it is fair to say that came as something of a surprise to us and indeed to his own officials.

**Q67 Lord Anderson of Swansea:** It has now been adopted in the summit.

**Sir Mark Lyall Grant:** It was agreed in the summit. That does not have any legally binding value. It may turn out to be rather too early, not least with the new American President, to be having a big summit on future security arrangements as early as the summer. The original idea was maybe towards the end of 2009 or the beginning of 2010 might be a more suitable time.

**Q68 Lord Anderson of Swansea:** What topics in our judgment should be addressed and should they include the frozen conflicts in Moldova and the Caucasus generally?

**Sir Mark Lyall Grant:** I think they should. If we are going to have some discussion of new security arrangements, it has to be clear that they are based on certain principles and some of the principles have already been agreed at Helsinki. They have to be based on the principles of sovereignty and territorial integrity, respect for borders, non-interference etc., and tackling the frozen conflicts. All those issues will come into play, but so also will some of the wider issues that the OSCE does deal with, some of the value based issues in terms of human rights,

democracy, freedom of expression etc. I do not think one could narrow it to a purely security focus as I have the impression the Russians would prefer.

**Q69 Lord Hannay of Chiswick:** Would this include also the other frozen dispute over the conventional forces in Europe?

*Sir Mark Lyall Grant:* One of the advantages of this sort of proposal is that there are certain issues, particularly the CFE issues, but there is also Post Start and a whole range of disarmament issues that are frozen and would usefully restart. That is an issue that will be on the agenda of the new American President. We would like to see the disarmament agenda taken forward with more vigour than it has been over the last few years.

**Q70 Lord Hannay of Chiswick:** The issue of siting missiles in the Czech Republic and Poland which has been endorsed by NATO and thereby by a large number of members of the EU has been greeted with considerable hostility by the Russians in their pretty truculent performance in the state of the union speech that President Medvedev produced. To what extent are those tensions affecting the EU/Russia relationship and do you foresee the EU getting involved in a discussion with the new Obama administration about how each of them should handle their relationship with Russia?

*Sir Mark Lyall Grant:* On the first issue, my Lord, I would not expect it to be a big feature of the internal EU discussions or between the EU and Russia. It is really an issue for NATO and Russia. The siting of the missiles, the BMD concept, has been approved by NATO members as a whole. The deals have been signed but not ratified with Poland and the Czech Republic. President Medvedev recently responded to that by threatening to site Iskander missiles in Kaliningrad and I think that was part of his messaging, if you like, to the newly elected President in the United States. We sense a little bit of rowing back and I think a recognition that some of the messaging that the Russians have greeted President Obama with has been

rather misplaced and an opportunity missed. We do sense that the new signals coming out are slightly more positive on that front, but there is no doubt, as you rightly say, my Lord, that the hostility to the siting of BMD is very strong in Russia and is unlikely to go away. I would not however expect it to directly affect the EU/Russia relationship.

**Q71 Lord Hannay of Chiswick:** Do you expect the EU to discuss with the incoming Obama administration how each of them is going to carry forward their relationships with Russia?

*Sir Mark Lyall Grant:* I think there will be some collective discussion between the EU and the United States about Russia, but as we were hinting earlier, Russia is probably the issue on which the EU finds it most difficult to reach concrete agreement. There is a broad consensus of approach but, when you break that down to individual dossiers, it becomes a lot more difficult to maintain agreement. I would expect it to be more likely to be a subject of discussion between individual EU Member States and the United States.

**Q72 Lord Crickhowell:** In your previous reference to NATO enlargement, you said it was a question of when, not if. Would it not be in everyone's interest that the "when" was a good deal further off? This is a feature which is disturbing relationships rather than helping anyone. We will not elaborate but obviously there is what NATO could do given certain situations in the area. Should we not all be playing this rather long, indeed some would say very long, rather than holding out for the prospect of immediate moves in this direction?

*Sir Mark Lyall Grant:* In practice, it will take a certain amount of time. Clearly there are different difficulties we discussed with Ukraine in terms of the popular support for NATO membership, the political crisis and the relative immaturity of the democratic institutions. That is a big issue in Ukraine, let alone the presence of the Russian Black Sea fleet etc. In Georgia, because of the attacks on its territorial integrity and now these frozen conflicts in

South Ossetia and Abkhazia, clearly NATO is not ready to extend an Article 5 guarantee in those circumstances. In practice, although it is a question of when rather than if, that when will be some way down the track because it is fundamental for NATO, the Article 5 guarantee. I do not think one would want to offer that sort of security guarantee unless one was prepared to back it up. I do not think in the current circumstances that is realistic in Georgia.

**Chairman:** Sir Mark, can I thank you very much indeed for having given us such very clear answers. If this is what you are like when you have flown across the Atlantic, we are terrified to imagine what you are like when you have not. Thank you very much indeed. It really has been extremely helpful and it will be useful for us in preparing our report. The committee which will be set up in the new Parliament will prepare a report on this subject but we feel your evidence, together with the evidence we had last week, will be very helpful in that respect. I would like to thank you and your colleagues again for having come to see us this morning. Thank you very much indeed.