



HOUSE OF LORDS

European Union Committee

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8th Report of Session 2008–09

**Priorities of the  
European Union:  
evidence from the  
Ambassador of the  
Czech Republic and  
the Minister for  
Europe**

Report

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NOTE: References in the text of the report are as follows:  
(Q) refers to a question in oral evidence



# Priorities of the European Union: evidence from the Ambassador of the Czech Republic and the Minister for Europe

## Introduction

1. In recent years it has been our practice to take evidence regularly from the Ambassador of each incoming EU Presidency country. It has also been our recent practice to take evidence from the Minister for Europe after each European Council.
2. Accordingly, in this Report we make available for the information of the House the oral evidence given to us by Caroline Flint MP, Minister for Europe, on 11 November 2008 and 3 February 2009, and by His Excellency Mr Jan Winkler, Ambassador of the Czech Republic, on 20 January 2009. We also make available supplementary evidence provided by the Minister for Europe.
3. The Committee wishes to express its sadness at the untimely death of His Excellency Mr Jan Winkler on 16 February. The Chairman has signed the Czech Embassy's Book of Condolences on behalf of the House.
4. The key topics in the evidence from the Minister for Europe discussing the European Council of 15–16 October 2008 are:
  - Climate change (QQ 3–4)
  - Russia (QQ 5, 7–9, 13–14)
  - Middle East Quartet (QQ 6, 10–11)
  - Georgian Situation (Q 12)
  - Ukraine (Q 15)
  - Eastern Partnership (Q 16)
  - Enlargement and the Balkans (Q 17)
  - Financial crisis (QQ 18–19)
  - Financial regulation (Q 20)
  - Stability and Growth Pact (QQ 21–22)
  - Eurozone membership (QQ 23, 25)
  - G20 (Q 24)
  - Communicating the role of the EU (QQ 26–27)
5. The key topics in the evidence from the Ambassador of the Czech Republic discussing the priorities of the Czech Presidency are:
  - Regulation of the banking sector (Q 2)

- Gaza (Q 3)
  - Hamas (Q 4)
  - Energy security (Q 5)
  - Eastern Partnership (Q 6)
  - Working Time Directive (Q 7)
  - EU Social Policy (QQ 8–9)
  - Copenhagen Climate Change Conference (QQ 10–12, 14)
  - Kyoto Agreement (Q 13)
  - Common Agricultural Policy (Q 15)
  - Better Regulation (QQ 16–17)
  - Pesticides Directive (QQ 18–21)
6. The key topics in the evidence from the Minister for Europe discussing the European Council of 11–12 December 2008 are:
- Budgetary Stimulus Measures (Q 1)
  - European Investment Bank loan package (Q 2)
  - Doha Development Round (QQ 3–6)
  - G20 (Q 7)
  - Northern Rock (QQ 8–10, 14–16)
  - State Aid Rules (QQ 11–13)
  - Copenhagen Climate Change Conference (QQ 17, 31–33)
  - Technological Assistance in tackling Climate Change (Q 18)
  - 30% reduction in carbon emissions (QQ 19–26)
  - Eastern Partnership (QQ 27–28, 34, 37)
  - Human rights (QQ 29–30)
  - Russia (QQ 35–36)
  - Ukraine (QQ 38–39)
  - Energy security (Q 40)

## **APPENDIX: RECENT REPORTS FROM THE SELECT COMMITTEE**

### *Session 2008–09*

Enhanced scrutiny of EU Legislation with a United Kingdom opt-in (2nd Report, Session 2008–09, HL Paper 25)

### *Session 2007–08*

Government and Commission responses Session 2006–07 (34th Report, Session 2007–08, HL Paper 199)

Annual Report 2008 (32nd Report, Session 2007–08, HL Paper 191)

Correspondence with Ministers October 2006–April 2007 (30th Report, Session 2007–08, HL Paper 184)

Priorities of the European Union: evidence from the Minister for Europe on the June European Council (28th Report, Session 2007–08, HL Paper 176)

Priorities of the European Union: evidence from the Ambassador of France and the Minister for Europe (24th Report, Session 2007–08, HL Paper 155)

The Commission's Annual Policy Strategy for 2009 (23rd Report, Session 2007–08, HL Paper 151)

Priorities of the European Union: evidence from the Minister for Europe and the Ambassador of Slovenia (11th Report, Session 2007–08, HL Paper 73)

The Treaty of Lisbon: an impact assessment (10th Report, Session 2007–08, HL Paper 62)

# Minutes of Evidence

Taken before the Select Committee on the European Union

TUESDAY 11 NOVEMBER 2008

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Present	Cohen of Pimlico, B	Roper, L
	Dykes, L	Sewel, L
	Grenfell, L (Chairman)	Symons of Vernham Dean, B
	Harrison, L	Wade of Chorlton, L
	Howarth of Breckland, B	Wright of Richmond, L
	Jopling, L	

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## Examination of Witnesses

Witnesses: RT HON CAROLINE FLINT, a Member of the House of Commons, Minister for Europe, and MR ANDREW DALGLEISH, Head Europe Strategy Group, examined.

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**Q1 Chairman:** Minister, it is a pleasure to see you here and I begin by saying to an old friend from your Home Office days, congratulations on the appointment, we are delighted to see you in this role. You are very welcome to this Committee. We have one hour with you and I know you would like to make an opening statement which suits us very well. One of the key members of our Committee, Baroness Cohen, who chairs the sub-committee dealing with economic and financial affairs and is therefore very interested in the financial crisis is delayed and will not be here maybe for another 20 minutes or so. Would it be alright with you—and I leave it entirely up to you—if we were to begin with energy and climate change and then put the financial crisis after that.

*Caroline Flint:* That is fine.

**Q2 Chairman:** That is very kind of you. We will start with your opening statement.

*Caroline Flint:* Thank you very much and thank you for your warm welcome. I do think we have had a lot of correspondence over the years and what is very interesting in my present job of course is that I am also visiting some countries—Bulgaria for example just last week—which I happened to visit as a Home Office minister a few years ago and obviously some of the issues around justice and home affairs are still keenly on the agenda, particularly in terms of the enlargement process. I am seeing some new faces but also seeing some older faces as well both in the Foreign and Commonwealth Office and also UKRep and also on my travels around Europe. I am looking forward to the celebration of your tenure on this Committee in the not too distant future and I hope some of your colleagues will be able to attend and support that as well. If people do not know about that I will make sure my colleagues behind me alert

you all to that. You have asked me to come along and talk about the October European Council. It took decisions on a number of the most pressing issues facing the Union today. In many respects I feel I have come into my present job at a time when the European Union is really being seen to tackle some of the issues that are of most concern to people. I always believe very strongly that the European Union is at its best when in the discussions it is having and the actions it takes we really can see its added value in terms of what national governments can provide. Nowhere is that clearer in terms of the international financial and economic crisis we are dealing with at the moment. I think we have seen strong leadership from the Presidency resulting in good conclusions with all Member States signing up for a concrete action to ensure a coherent European Union response. Of course I am very proud that our prime minister has played such a leading role. More recently, on top of a UK paper that we provided on strengthening the global financial system EU leaders reaffirmed the value of this coordinated response and that was added to in terms of the informal council that took place last week on 7 November. This will help prepare an EU position ahead of the G20 summit in Washington on 15 November. Climate change was the other dominant issue and it remains vital that the Council maintains its focus on reaching a deal on the 2020 package this year. We believe it is the only way to get others to negotiate towards the right agreement at Copenhagen next December. It is especially important, we believe, that we are able to show the new US administration that Europe is really serious about its low carbon commitment and that does mean agreeing an ambitious package by the end of the year. Delaying action will only increase the costs of tackling climate change down the road. On

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Russia it was clear at the October Council that we cannot return to business as usual while Russia continues to fail to meet commitments but at the same time it is not in our interests to isolate Russia. We will continue to engage in a hard-headed and systematic way on important issues like energy. Clearly matters have moved on since the Council. The Presidency statement following yesterday's General Affairs and External Relations Council made clear that resumption of PCA negotiations was not a return to business as usual. It set out a unified EU position. There was deep concern that Russia has not yet withdrawn to its pre-7 August position. There was concern that the OSCE as well as EU monitors have still been prevented from entering South Ossetia and continue to support Georgia's territorial integrity. On all these issues we once again saw the importance under sometimes challenging and difficult circumstances for individual Member States the importance of EU collective action and I look forward to discussing many of these in more detail with you.

**Chairman:** Thank you very much indeed, Minister. That covers that very succinctly. Let us begin with Lord Sewel and energy and climate change.

**Q3 Lord Sewel:** You mentioned the importance of the climate change issue in your statement, Minister, but in fact what comes out from the conclusions (it is one paragraph and it is fairly sparse whereas many of us had been expecting that we would see a pretty clear strategic signal and orientation coming from the meeting on the way forward) is an instruction for the Commission and the Presidency to do some intensive work between now and December. Are there doubts entering the debate? Are there doubts that perhaps in the context of the financial crisis that some of the costs of the climate change and energy package may be just too high for some Member States and some industries within Member States to support? Is there a little bit of concern coming through? There is this wonderful phrase in the conclusions that the package should be applied "in a cost-effective manner to all sectors of the European economy and all Member States, having regard to each Member State's specific situation". Having regard to each Member State's specific situation could be the biggest get-out clause of all time. What is your interpretation of it?

**Caroline Flint:** You are correct to allude to the fact that there are some challenging issues here about how we can arrive at a united position at the December Council whilst taking into account the very different energy needs of different countries in the way in which they supply their energy already and certainly in my visits that I have undertaken so far climate change has been on my agenda in terms of bilaterals I have had with a number of countries. So there are some challenging issues and that was highlighted at

the Council but I think really regardless of the point you make about the paragraph in the document we are pretty satisfied and content with the outcome. I think we should not take just a paragraph from the document as the only reference point in terms of the discussion that has been continuing since the Spring Council of 2007. The 2020 package represents an ambitious and far reaching set of proposals but I would think to yourselves and to other colleagues in the European Union who at the present time are worried as we all are about the financial situation, the cost of not doing anything now and arriving at a clear position in December is far outweighed by the cost of not doing these things down the road in the future. I think the Stern report has indicated that quite clearly if we do not bite the bullet on this and take some serious decisions we are putting off until tomorrow something we can ill afford to do. When I did a climate change lunch in Prague recently I was struck by one of the facts that I was provided with in my briefing that of something like two and a quarter million if you like climate jobs worldwide 600,000 of them are already in China. That sort of thing really alerts me to the need that if the EU wants to be in a leadership position in regards to our discussions with our American colleagues but also China, India and other countries as well, then we falter at this point at the expense of families across the European Union. I believe that there is a focus that we do need to meet a package and I think the French are very clear on doing that. Clearly there is no detail to be worked through in terms of individual Member States but that was always going to be the case I feel. I think at this point in a cycle this is where things do become much more intense and of course Member States are discussing with the Commission and the Presidency about how the package will affect them, how different issues around carbon leakage, that people are worried about understanding these and also the issues about the auctioning and so forth. The negotiations are firmly on track. The Council did reach the commitment to this agenda and the Council also endorsed the President's call for more intensive work on this which I think was going to happen anyway but obviously we have the financial situation at the moment that maybe some feel that that is a reason not to do anything. I think that the financial situation at the moment gives us all the more reason to look at this agenda because actually it is about jobs in the future, re-skilling people for a place, if you like, in terms of future jobs and industry where the EU can be a world leader.

**Q4 Lord Sewel:** I think we would all agree with your general view that it is important to move now and it makes sense to move now because delay has to cost. Do you have evidence that that view is shared by, say, the Poles, the Bulgarians and the Romanians?

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Ultimately is the test going to be whether there is an effective emissions trading scheme by the end of the year?

*Caroline Flint:* I do think that countries can be energised and focused in terms of their present situation in terms of their energy sources and the impact of these proposals but at the same time sign up to a principled agreement of the way forward. I think that is where we are at the moment. I do think that the work was put in train by the Council in spring 2007; this is not a new topic of discussion. We are at that point now where, if you like, the devil is in the detail of working through with countries about how the different targets are going to affect them, but they always knew about these targets and actually from what I understand—of course my colleagues in other departments lead on this in terms of policy—consideration has already been taken into account in the targets of where different Member States are and that is also something that is taken into account in terms of compensation too. Again this is not about assuming that everyone is in the same place. We are not in the same place as our French colleagues and we have very challenging targets to meet in relation to this package. I believe that we will work to an agreement in December and clearly the negotiations between now and then and beyond then will continue. I think, as I said, for us it is an opportunity we just cannot afford to miss.

**Q5 Lord Roper:** Minister, you have already said something about the discussions which took place both in September and October and yesterday in the General Affairs Council. I wonder whether you would like to say a little more about the way in which those have developed and in particular whether this has been reported in the press. The foreign secretary and the Swedish foreign minister did make a particular position yesterday particularly referring to the hard headed nature of any further negotiations. I also wonder whether, if one goes back to the document which was published last week by the Commission, it appears reading that that the Commission considers that they have authority to review the negotiations on the PCA without there being a further decision in the Council.

*Caroline Flint:* Firstly I was with the Foreign Secretary, David Milliband, in Brussels yesterday. I think the joint statement between him and his Swedish colleague was to very much promote the point that whilst we recognise that actually on many different fronts bilateral relations with Russia are important but also EU relationships are important—climate change and energy for example is key to that and I think we have the energy review being published in the next week—but at the same time this could not be business as usual. I think, given the complexities of the situation, the fact that after the

meeting yesterday a press statement was issued supported by all 27 members, that really did indicate that the context of resuming PCA negotiations was against wanting to see progress on the agreements made over the summer in relation to the package around Georgia, South Ossetia and Russia. That is going to continue and again, in terms of the PCA, my understanding is, looking at the last time this went through, it took some years of negotiations to continue and of course during that time and presently we will continue to look at the progress mainly in terms of Georgia and that will be there. My colleague, the foreign secretary, spoke to the president of Georgia last night. I met with the foreign minister of Georgia last time I was in Brussels as well and I think they understood the position that the EU took and I am glad that we can continue to go forward on this particular issue in a united way. On the comment about the review, I think I would like to have another look more closely at the wording on that because I would hope the Commission would not be too presumptuous on that matter. I think what is interesting, having looked at the review (which I think is available on the website) is that it does, if you like, set out the very many different ways in which the EU needs to engage with Russia, but I would say importantly it is a two-way street, the needs of Russia to engage with the EU too.

**Q6 Lord Wright of Richmond:** Minister, have the events in Georgia had any effect on Russian participation in the Middle East Quartet?

*Caroline Flint:* I think I would have to ask my colleague.

*Mr Dalglish:* I think we will have to come back to you on that.

**Q7 Lord Roper:** As well as preparing for the PCA there will be at the end of this week a meeting at summit level with Russia, how far were the topics which ought to be on the agenda for that meeting discussed?

*Caroline Flint:* Sorry, I did not hear the last part of the question.

**Q8 Lord Roper:** The EU-Russia summit which is taking place on Friday, how far was consideration given yesterday in the Council or informally as to the topics which ought to be the high priority for those discussions and would you be able to say anything about that?

*Caroline Flint:* I think I would have to get back to you on the detail of what they are going to discuss on Friday but the background of this was that we do have to engage and in the same way as we would be looking to the resumption of the Geneva talks following the first meeting, we will also be looking at those talks as to progress on the conditions that were

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set earlier in the summer. As part of my role I have been looking at some of the issues around energy and security and I want to take a closer look at that in light of the energy review that is coming forward as well which again will impact on Russia too. I think again whether it is climate change, the economy, energy supplies or a whole number of other issues in terms of security too are outlined in the in the EU-Russia review. There are many, many issues that we need to be talking about with Russia. The key to the issue here is that it is not the UK or the EU that are isolating Russia, it is Russia who isolate themselves if they are not willing to work in a rules based framework with the EU and other organisations too.

**Q9 Chairman:** It seems to me that what prevents a return to business as usual can in fact turn out to be a very long term problem. Who decides when we have got to the point where it can be business as usual again? We may have to live with the fact that Russia is doing things that the European Union does not like but at some stage we have to declare that we can co-operate with them on a regular basis.

*Caroline Flint:* I note the point you make. Part of all this engagement is to demonstrate that there is as much in the interests of Russian families in terms of closer cooperation with the EU as for the EU itself and many, many different fronts. That is part and parcel of why we try to get these opportunities for discussion together so we clearly can see how important this is, in other areas as well in terms of, for example, Nato; the Russian Council has been suspended but actually there still needs to be on-going discussions with Russian representatives on some of the issues of concern, for example Afghanistan and other matters too. So all the time this is about how we keep the talking going whilst trying to get some progress and movement. We can only hope that there is enough there for people to realise how important this is to make some changes and to effect some change but I do not think it is easy and I do not think it is easy to have a timetable against it per se.

**Q10 Lord Dykes:** Referring to previous comments on the Quartet meeting at the weekend, in a way it was the other way round that Russia did seem to be somewhat more engaged than it had been on this particular issue; they tended to be standing back a little bit from it and leaving the lead to be taken by the US and other entities in the Quartet. They sounded more enthusiastic this time about progress being made and a direct part of the negotiation did confirm both the Palestinian President's office and the Prime Minister designate of Israel that their indirect talks have been going pretty positively and pretty well in recent times. Russia did extend the invitation to them in three months time for the next meeting of the

Quartet. Was there not some sense of impatience amongst member governments, including the UK, about the slowness of this process? The original target of President Bush was 2005 for a Palestinian statement. Then we have been talking about the end of this year. Now it is going well into next year and even if the direct parties in the talks are pleased with progress, obviously significant concessions have to be made including by the established government of Israel in terms of settlements and that kind of thing. Surely a much more accelerated sense of impatience should now be directed towards this process to get the Palestinian state that they deserve.

*Caroline Flint:* I think we can just support and encourage the Quartet to work. I think as David Milliband was asked earlier today in Foreign Commonwealth Office questions, President Elect Barack Obama's focus in this area again hopefully might give a new impetus. I am certainly happy to write to the Committee on our thoughts arising out of the meeting at the weekend. On so many different levels we try to support progress on these issues but as you know probably better than I this is a task that many have set themselves and has been difficult for many, many years, but there may be an opportunity for fresh impetus as the President Elect Barack Obama comes into office next year.

**Q11 Chairman:** Clearly we are going to have to wait to see the outcome of the Israeli general election too and the colour of the government.

*Caroline Flint:* It was not discussed at the European Council I have to say.

**Q12 Baroness Symons of Vernham Dean:** Minister, you have been very emphatic that the EU is not going back to business as usual with Russia but at the same time you are also very emphatic that there are still discussions and engagements and in some ways what comes over is actually an even more concentrated focus on Russia which, in more practical senses, could look like almost business as usual plus rather than business as usual minus. What I really wanted to ask you about was the question of the support of Georgia's territorial integrity. Of course we support that but what does it mean in a practical sense other than saying to the Russians, "We really do not like any form of military engagement in Georgia and we believe in the territorial integrity of Georgia. How does this have real nature and substance as a policy as opposed to just re-stating a position?"

*Caroline Flint:* First of all I think what is clear by the statement issued by the General Affairs Council yesterday is that the pace and tone of negotiations are going to be dictated by the review that was undertaken but also by the on-going Russian actions in Georgia as well. I think it is important that that was made very clear in the press statement. I think it

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is about us engaging with Russia but still being able to express the severest concern about how they work with us but also in relation to Georgia as well, whether or not some of the agreements that were made over the summer both in August and September led by President Sarkozy are going to be met. As far as I am aware while some aspects of that package of agreements have been met there are others that have not. Again we have monitors out in the field. We are getting reports back from those. There are about 200 EU monitors. We will use that I think to guide our discussions, again all the time pressing the case whether it is with the EU discussions and forums or within the Geneva talks to see some evidence of some progress being made. I agree, this is not easy and we would also, alongside this, have supported an independent investigation into actions taken by both sides in relation to human rights too and deaths and injuries that occurred as a result of the activities in the summer. I think on all these different points we have enough to look at to really test what is happening, whether there is compliance. As far as I understand OSCE and EU monitors have not been allowed into South Ossetia so that is one of the issues that is outstanding. We are obviously watching and hopefully encouraging these conditions to be met. That would be our barometer I suppose.

**Q13 Lord Wade of Chorlton:** You use the word engagement, how does engagement between Europe and Russia take place from a practical point of view? It is one thing for the President to make statements and to meet leaders, but clearly if there is going to be proper engagement there needs to be very regular meetings between parties to discuss things. I agree entirely with the point made by the Lord Chairman that good engagement with Russia for the future is important from everybody's point of view. How do we actually achieve that within the European context?

*Caroline Flint:* I think it happens on many different layers. At this point I am not able to detail all of them but clearly the Geneva talks are one forum in which we will be able to clearly see whether progress is being made given that that was in particular established for all parties in the conflict to meet and hopefully resolve the situation. You can see from the audit review how many different subject areas the EU is engaged in and therefore there are many different forums there. I think what will be interesting is how, having done the review and PCA discussions reconvening, we take stock of how the individual subject areas—whether it is the economy or climate change—are moved forward but also the fact that the pace and tone of those discussions and those issues will be influenced by progress on the Georgia-Russia situation. I think what we will be looking for in terms of the UK Government is to not lose sight of that

whilst these other important discussions need to take place in many, many, different forums. I think that is something the Council has to come back to.

**Q14 Lord Wade of Chorlton:** Is the British Government satisfied that those engagements are carried out in the way they describe? Are they carried out in a satisfactory way? Are you satisfied that the right systems are in place to make it happen properly, that is what I am really asking you? Could improvements be made?

*Caroline Flint:* Coming relatively new to this I suppose to a certain extent for me it will be interesting to see how those discussions on all those other areas of interest with Russia from the EU perspective will sit alongside the situation in Georgia. I might have to come back to you on that at a later date. Clearly this is not a precise science and many, many different officials in the EU will be involved on a—dare I say it—more mundane level of discussion against this sort of international action that was taken over the summer. We are very clear and I think the meeting of the GAERC yesterday was very clear that it is not business as usual; the pace and tone of discussions in terms of cooperation of Russia will be set against what they agreed over the summer and progress on the Georgian conflict situation. That is something we will continue to make sure that we do not lose sight of. I think at this point that is probably the best I can say.

**Q15 Lord Roper:** The paragraph in the conclusions of the meeting of October which deals with Russia also deals with the question of relations with Ukraine. I wonder if I could stray to that issue for a moment. I think we were interested in the speech of the foreign secretary in Kiev on 27 August where he stated the British Government position on the long term goal of Ukraine was, “once Ukraine fulfils the criteria, it should be accepted as a full member, and we should help you get there . . . the goal is a good one”. On the other hand there was not very much other membership perspective shown in the agreement which was reached between the European Union and Ukraine when they met a couple of weeks later in September. I wonder whether this gap between the collective EU position and the position which the foreign secretary enunciated is one which the British Government hopes they will be able to narrow in the near future.

*Caroline Flint:* I am hoping to visit the Ukraine in the not too distant future myself so I think that will give me more of an insight of the situation there. Clearly in terms of EU enlargement there is no one set blue print because every country is in a somewhat different situation and the timeline varies enormously. I am heartened, I have to say, from the last few weeks where I have been learning more about how we can

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support the Eastern Partnership and make that much more of a practical way in which we can support countries like the Ukraine and others in terms of their European Union ambitions. I think if we can get that into such a place that it really can work but also within the area, countries work together and learn from each other I think that would be a very positive step forward. Certainly in terms of my role one of my priorities is to spend some considerable time both in the Caucasus and in the Western Balkans to see what more we can do practically to move people forward. However, as I say, there is not one set blue print I think on this and it is only when we really get down to some of the challenges that different countries face can we have a better understanding about just how much is necessary in terms of support to arrive at their final destination. Again, I am a practical person; for me the words are one thing but until you actually see things and how they are working on the ground and therefore can input into it, it is a very different matter indeed but I think we should all be pleased actually that countries like Ukraine are wanting to face westwards and see their future for Ukrainian families as being very tied up with potentially a member down the road of a prosperous EU.

**Q16 Chairman:** What is the current state of the original Polish-Swedish proposal for the Eastern Partnership? They came up with this about four months ago and said that they wanted to establish a particular EU relationship with some of the Eastern neighbouring states. I recall that Ukraine at the time was rather hostile to the idea because they thought that that was, as it were, shoving them to one side and it was a substitute for a roadmap towards EU membership et cetera, et cetera. I was just wondering whether you have picked up anything about where we stand on this. It still seems to be on quite a lot of countries' agendas and does not seem to be crystallised yet.

*Caroline Flint:* The Council actually agreed that there should be initial examination of the proposals for the future Eastern Partnership of the European Union which I understand the Commission intends to submit in November. I think, if you like, a practical output of this aspiration, I suppose, is to see if that sort of partnership can provide added value to individual discussions with countries. As I said before, it is not a one size fits all. I think we will be looking to see what the Commission come back with. I think actually looking at this both in terms of individual countries but a partnership within an area or region is actually a good thing to do because it gives some focus but also a better look at how the EU aligns some of its projects and support in a particular area, again not in the Caucasus per se but certainly in the Balkans where I visited a few countries in the last few weeks. There clearly are some issues that overlap

between the borders—crime being one of them, I have to say and tackling organised crime and so on—which demonstrate that partnership work looking at that may not be a bad thing at all. At the end of the day if it works individual countries can only be winners and if it helps to enhance their journey and make some accelerated progress that can only help as well. Of course we will continue to have individual arrangements, agreements and road maps for countries as they develop and are able to meet the requirements that we have set, maybe more than we did some years ago, much higher requirements and clearer requirements on those countries who want to be part of the EU.

**Q17 Chairman:** You mentioned enlargement and the Balkans. There seems to be a bit of a divide—maybe a growing divide now between what Commissioner Rehn is saying and being very positive about Croatia while there are some Member States that are still insisting that there can be no enlargement until the Treaty of Lisbon is ratified, if it ever is, and that therefore there seems to be a two speed approach to this between the Commission and some important members of the Council. Has the UK taken a position on this and if so what is it?

*Caroline Flint:* Our position is that whilst we are absolutely delighted that we have ratified the Lisbon Treaty and obviously want to work to a successful conclusion on that, we do not believe that the Lisbon Treaty in and of itself is necessary in terms of enlargement. We feel that there are other legal arguments for accession treaties in other ways. That is our position and will continue to be our position. I do know that there are other Member States which take a different view, but I think what I am pleased about actually is that progress on enlargement, regardless of particular views of some of our colleagues, has continued and the fact that Olli Rehn produced the reports last week I think is good. I happened to be in Zagreb last week and saw for myself how, by the fact that those reports are published, it had created an opportunity for more debate about how they can now use the next 12 months particularly given that Croatia was given an indicative, if you like, timeline for 2009 of what more they could do. I think that is helpful. I also know, having met my Czech colleague and knowing from our Swedish colleagues as well that there are plans for an enlargement summit I think in March/April of 2009 under the Czech Presidency. So again I think we are making progress. I do think that we do sometimes have to make sure we reassert why enlargement is important. I think it is important here in the UK but also in the European Union as well because I think on so many different fronts that I hope the Committee would support we have gained so much from enlargement already in so many different ways. We

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should never rest on our laurels that everyone out there knows that and we need to be better at putting that across. I would feel that to have a situation where we slowed down in terms of our engagement with countries and looking at how better we can support them whether through the Commission or through the sometimes specialist or technical support that individual members can give would be a wasted opportunity and given how long these things take—for many the journey will be many, many years down the road—let us not lose these months we have over the next year whilst we await the outcome of the Lisbon ratification. I think that is something that is widely supported within the membership of the EU whilst I appreciate there are some individual countries which have maybe not as strong a view as the UK on this matter.

**Q18 Chairman:** I think we should turn now to the financial crisis and investigate a few of your thoughts on this. I do not know whether you have yet had a chance to meet Commissioner Neelie Kroes, she is one tough lady and she is defending competition policy with tooth and nail but obviously, given the circumstances in which we are now, she is making what I regard to be some very sensible noises about how you deal with state aid in a time of financial crisis. I notice that she has made a very clear statement that as far as aid to banks is concerned the rules still apply to the extent that if a government is a shareholder in a financial institution she wants to ensure that there are no assaults on competitiveness through state channelling. On the broader question of state aid to industries clearly she has quite an open mind on that but again there has to be a very, very good reason for doing it. What, in your view, should be the degree to which one might be able to relax state aid rules in certain circumstances?

*Caroline Flint:* I think the banking measures which both the UK and other EU Member States have already put in place have demonstrated that you can take action but you can still be within the boundaries of the state aid and competition policy because I think, as you inferred, state aid rules do allow for exceptional measures particularly when it is trying to remedy a serious disturbance to the entire economy of a Member State. I think we are all pretty clear that is what we have been facing and other countries in the EU have as well. That is very important. The state aid framework does continue to provide other flexibilities in key areas such as small and medium enterprises and rescue and restructuring aid. I think the position of the UK Government is given that there is no fundamental need for a change to the rules. I actually asked about some examples of where aid can be given to domestic businesses and industry which is not in contravention of state aid rules and some of the examples officials provided are, for

example, SMEs are covered by the SME framework which allows the government to provide up to 20% of eligible costs for small enterprises and up to ten% of eligible costs for medium sized enterprises; larger industries are covered by a different set of rules but with a set of get out clauses which, for example, have allowed the UK to write cash for its bank but also to help the Post Office and provide emergency funds I understand for MG Rover. Government support was temporary and therefore allowed. As far as I can see there is a certain amount of flexibility within the system but I think as the Prime Minister reiterated in comments he made yesterday we have to be really cautious and mindful of falling back on some short term protectionist measures which in the medium and long term will prove to be not as positive down the road. That is why we believe that a pro-active competition framework is important and why at this stage we think the measures under state aid rules in terms of banking are right and in line with the framework. We would have to be very clear about needing other discussions about the proposals from other colleagues in the EU to change that. I think at this present time quite rightly national governments and the EU are asking a lot of questions about how we take action and the right and appropriate point to intervene. As I said, our view is that we think the system works rightly at the moment; any other changes would be subject to debate and you would probably have to get someone from HMT here to talk to you about that.

**Q19 Baroness Cohen:** We do not seem to have a common financial or economic policy within the EU and we have seen Member States acting unilaterally to protect citizens and domestic banks. Is it your view that we should all try to work together from now on? *Caroline Flint:* I actually believe that in the last few weeks, just over a month, the EU has actually done a good job. Coming into this position as Minister for Europe I think out of adversity has come a very practical opportunity to demonstrate that whilst national governments need to take action the role of the EU in terms of added value to, for example, prevent the situation where Member States went off to do their own thing and that created huge problems in the banking systems in other countries—I think at some point a few weeks ago there was some concern about that, quite serious concern—has proved that if we had not got the EU we might have had to invent it. That does not take away from what national governments need to do but I think the set of principles that have been arrived at both in terms of how we operate within the EU but I think also in working through what sort of role and what sort of ideas we should take forward in terms of discussions on a more global financial state has been very positive in the last few weeks. Clearly Member States are

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always working closely together. At the October European Council everyone agreed to a common approach which is guaranteeing bank funding, recapitalisation of banks if necessary. They also agreed a series of key actions, national guarantees, bank deposits protecting tax payers' investments as well. I think those principles and actions have shown the EU at its best, coordinated, focussed and clearly delivering for individual businesses and families which is something I hope I will be able to communicate here in the UK over the months ahead. So I think it has been actually pretty good and we will continue to engage with the EU heads of government. The Prime Minister has taken a huge lead in this role and I think it is good to see this happening. It is sad that it has maybe taken this to have something that so clearly shows the added value of the EU but I think sometimes in a crisis that is when these things emerge and are very clear.

**Q20 *Chairman:*** I have one question on this and that is to do with regulation. Many people have, probably justly, blamed what has happened on what they call the 20 year frenzy of deregulation. There is a lot of finger-pointing going on about that at the moment. I notice that the EU is going to the November 15 summit with a set of proposals to improve regulations such as supervisory colleges for cross-border financial companies, to strengthen risk control mechanisms, codes of conduct on excessive risk taking, tighter rules for credit rating agencies, harmonised definitions of banks capital, et cetera, et cetera. That is a pretty ambitious set of proposals. At the end of the day the question to pose I suppose is: are we or are we not in favour of a Europe-wide regulator or are we going to settle on parameters for regulation for the whole of Europe and leave it to the national regulators to do the job? At the weekend in Paris I ran into Jacques de Larosière, former head of the IMF, and he told me that President Barroso had just asked him to take on the job of trying to come up with a Europe-wide set of proposals on this and clearly the European Union would appear to be moving towards the idea of a Europe-wide regulator. You could write to us later about this if you do not want to answer it now, but I am very interested to know whether or not our position has changed. It used to be, if I am right, that we were not in favour of a Europe-wide regulator but under the changed circumstances it seems to me that maybe the argument for one is beginning to gain some credence in the EU. Do you have any views on this?

*Caroline Flint:* There are people raising this issue but of course again some of the financial challenges we are facing and when you start looking in terms of regulation they are not just European they are global and again part of getting a coherent EU voice on this is also to assist us in some of those discussions that

need to happen on that level as well, something that the Prime Minister for some years has been arguing for discussion on. I would be happy to write to the Committee on this. I think again a lot of questions are being asked at the present time. I do not think necessarily that all the answers have been found, but I think the fact that the right questions are being asked for us to debate these issues is important and I am happy to write to the Committee on that particular issue.

*Chairman:* That would be very helpful for our colleagues on our sub-committee dealing with economic and financial affairs because they are getting into this area right now.

**Q21 *Lord Harrison:*** Minister, a very warm welcome to one of the best jobs in government. I want to talk about the Stability and Growth Pact which I always thought should have been the Growth and Stability Pact because the Treaty quite clearly says that once stability has been established then growth can be contemplated and should be contemplated. We now live in very different times because of the financial crisis and suddenly everybody is interested in getting the European economy going again, giving it a kick start, so concentration comes on growth. What is your view and the view of our government about the overall debt criteria and the budget deficit criteria? Should these be ignored and overturned in the need to concentrate and focus on growth or should they be maintained? Or should we turn a blind eye for a period whilst we try to kick start the economy?

*Caroline Flint:* The Stability and Growth Pact has and continues to have the full support of the UK Government. We continue to believe that it does provide a flexible and strong framework for competition policy. At both the October European Council and the 7 October ECOFIN meeting heads of government and finance ministers indicated that the pact should continue to be fully applied. I understand that the Commission will bring forward an EU economic recovery strategy in advance of the December European Council which will be based on the Lisbon Strategy and the Stability and Growth Pact and will look at what that paper brings forward in terms of any changes at that point. As I say, I think there is a sort of consensual view that the Pact is appropriate today. The fact is that having the Pact has not proved an obstacle to measures that have been taken in terms of recapitalisation or any other forms of proportionate intervention, but obviously we will look at the Commission document with interest when it is produced.

**Q22 *Lord Harrison:*** Say the current budget extends beyond three% or the overall longer debt ratio extends beyond 60% (these are the targets that have been observed over the years or attempted to be

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observed) there may be a justification. People may say that for a period you do need to do that if you truly want to begin to develop opportunities.

*Caroline Flint:* I think that the Council has indicated that there may be exceptional circumstances where a temporary deficit above should be provided for and I think that has been acknowledged in discussions and again I think we are dealing with exceptional times and people are engaging on these issues. However, I think again what might be required on a temporary basis as opposed to changing the fundamentals of the Pact is a different discussion.

*Lord Harrison:* I think if you have a close reading of the original Treaty they mention those exceptional times so I think there is latitude there. I hope your advisors do point you that way.

*Chairman:* I think that is absolutely right. It is implicit in the Pact under those circumstances. The test is whether a country is prepared to do anything to try and correct it. If they just say, "Well we'll float along now we're above the ceiling, we'll go along with it because these are unusual times" then the Pact comes down with force but if they show that they are making every effort to get back down under the limit then that appears to be okay.

**Q23 *Lord Roper:*** The Prime Minister's visit to Paris at the time of the meeting of the Eurogroup was rather useful and helpful in moving towards a common policy. Do you think that could be a precedent for future meetings between British representatives and the meetings with the Eurozone?

*Caroline Flint:* I think that our Prime Minister being invited to attend that meeting was a positive one. I think it is also about demonstrating that the issues we are facing are not a Eurozone problem in and of itself. We will of course continue to cooperate totally with Eurogroup representatives but I think it is also very important that we are cooperating and working with all the EU Member States and that the EU as a block group is coordinated and coherent in terms of its approach. I think that is something we would support. As I say, there is nothing to be gained in terms of some sort of division within the group itself. From January again, in another forum, we will be assuming presidency of the G20 and again I have been talking to Czech colleagues about their place on that in terms of the EU Presidency. I think it is about obviously where it is important and where it makes sense. Of course the UK is going to take part in forums but let us not let those forums overshadow or get in the way of the collectivity that we need to continue to be supportive on this. I think there were a few concerns in the last couple of weeks that somehow some of the countries felt left out of some of these forums and we certainly want to make sure that everybody feels they are included in different ways. I think what has been interesting for me on this

is that I suppose in some of my visits over the last couple weeks I have become aware of some of our colleagues in the EU who do not necessarily face the same banking problems as we in other states but who are very concerned about what will happen in terms of the economy where, as a result of a credit crunch, tourism is affected, exports of goods are affected because people are not spending the money. They are very interested in what is happening too and want to feel that they are being fully engaged and actively encouraged to be part of any discussions on anything to do with the financial crisis.

**Q24 *Lord Roper:*** I had not realised we were going to get the presidency of the G20 in the New Year. If that is the case will we be attempting to make it a G21 so that Spain will be able to attend?

*Caroline Flint:* I think there are some arrangements at the moment for Spain to actually attend the next meeting, but I will write to you on that. I am meeting my Spanish counterpart later this afternoon so I might glean something from that.

**Q25 *Chairman:*** We were going to ask you as a last question whether the government has any plans to revisit the five economic tests for Eurozone membership. We left it to last because you can give a one word reply and I know what it is going to be. So I therefore see little need to ask that question.

*Caroline Flint:* We have a schedule for later and I am happy to get HMT to write to the Committee. The five tests still apply and we are still where we are in terms of next year's budget.

*Chairman:* If I may be so bold as to give government a piece of advice which I am not at all used to doing as you well know, that is that they read the excellent article by Willem Buiter, the former member of the Monetary Policy Committee headed "There is no excuse for Britain not to join the Euro". It is a very, very well articulated piece, particularly in light of the current crisis.

**Q26 *Baroness Howarth of Breckland:*** During your evidence on several occasions you talked about being a practical person, you talked about the effect of policy on ordinary families and you talked about how the EU can add value to ordinary families. One of the things that certainly vexes me is how we convey to ordinary families exactly what that added value is because as far as they are concerned many of them simply see it as an added cost and added bureaucracy. I just wondered how you see this communication problem that we have which we came across very much in Lisbon and in Ireland where the Irish did not understand the issues because of the way they were portrayed. What else can we do to help ordinary families, as you put it, to really understand these rather complex issues?

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*Caroline Flint:* If I set myself the task of the British public to love the EU I think I might be having a bit of a problem but if I can maybe make some progress in trying to be clearer and communicate better the added value I will try to do that. I think one example is the financial situation at the moment. I think many families in the UK and probably across the whole of the EU have been on a huge learning curve about how these different banking systems work and how it does have an impact on them and why it is important to stabilise it. I think sometimes, whether it is European politics or national politics, we can sometimes end up not seeing the wood for the trees. We also I think sometimes underestimate—or overestimate maybe I should say—how much people know given that they are running busy lives and are not immersed in the detail of policy that many of us are in this place. I think it is looking for those things that really make a difference and if, for example, over the months ahead, through national actions and EU actions and global actions we can show there is a critical line for how that is helping people but also not in terms of the crisis but also as the economy recovers getting out of it. We have some big debates next year in terms of jobs and skills and the role the EU can play. I will do my best to get that across. However I think there are other issues as well. As a former Home Office minister I know only too well that actually our cooperation across the European Union has been key in terms of thwarting some of the most serious criminals on our continent and again I am looking forward over the months ahead to working with ministers in our domestic departments to have a look at just what has been the output of our engagement. There are thousands of things we can do and, as I said, I do not want to get lost in that, but I think actually there are some things like cheaper mobile phones, access to health treatment when you are in the European Union, justice as well as, let us not forget, 10% of the workforce in the UK owe their job to inward or export opportunities as a result of being part of the European Union. I know as a constituency MP when I say to people, “Don’t you

know this?” and they say “Of course we know it, we’re bored of you telling us”, it is only when we get that reaction on some of these very positive outputs of being a member of the EU will we feel a little bit more comforted that our communication job is done. I do not claim to have all the answers but I will do my best.

**Q27 Chairman:** That is a very encouraging reply and music to the ears of this Committee. I do hope that government will take on board the fact that somehow we have to revive interest in European Parliament elections. It is a curious paradox and a very sad one that as the European Parliament accumulates more power, interest in the elections goes down and participation in the European Parliament elections has been sliding down ever since they began which is very distressing. Maybe the answer is that we have to get national parliamentarians more involved in the campaign for the European Parliament because they are closer to the people. People will ask their member of Parliament about the European Union but they do not seem to ask their member of the European Parliament, and do not even know who he or she is. That is a fault that must be corrected. Minister, I think I can speak on behalf of the whole Committee when I say that we are delighted to have spent this hour with you. It has been a steep learning curve for you; you must have the best climbing boots in Parliament because you have gone up it very, very rapidly indeed and we have been very well informed by you and are very pleased with what you have to say. On behalf of the Committee and on behalf of my successor, John Roper, may I say that when he takes over I am sure he will benefit enormously from your future visits to the Committee after European Councils or on any other occasion when the Committee feels it would like your views and your advice. Thank you very much and thank you to Andrew as well. We all wish you very, very well in this extremely challenging time in that job. We hope you enjoy it too.

*Caroline Flint:* Thank you very much.

### **Memorandum by the Rt Hon Caroline Flint MP, Minister for Europe**

#### **UPDATE ON DEVELOPMENTS CONCERNING THE LISBON TREATY**

Following my appointment as Minister for Europe earlier this month, I wanted to take an early opportunity to update your Committee on developments around the Lisbon Treaty following the Irish referendum.

As you know, the Government ratified the Lisbon Treaty on 16 July following Parliamentary approval of and Royal Assent to what is now the EU (Amendment) Act which implements the Lisbon Treaty in UK law. 24 Member States have now completed their Parliamentary processes to ratify the Lisbon Treaty.

The Irish view on Lisbon was given in their referendum on 12 June. As the Foreign Secretary said in the House of Commons on 16 June, there is no question of “bullying” or “bulldozing” the Irish. Ireland has asked for time and the Foreign Secretary has made clear the Government’s view that we should respect that.

This issue was discussed at 19–20 June European Council and the Conclusions recorded that:

“The European Council agreed to Ireland’s suggestion to come back to this issue at its meeting of 15 October 2008 in order to consider the way forward. It underlined the importance in the meantime of continuing to deliver concrete results in the various policy areas of concern to the citizens.”

On 10 September the Irish government published an independent survey as to why Irish citizens voted as they did in the referendum. The survey found that the main concern was lack of knowledge about the Treaty. Other concerns related to:

- the future composition of the Commission;
- corporate tax base;
- social and ethical matters, including Irish abortion law; and
- Irish neutrality.

The survey is publicly available on the website of the Irish Department for Foreign Affairs: [www.dfa.ie](http://www.dfa.ie).

An Irish Parliamentary Committee on Ireland’s future in the Union has also been established. This Committee will examine the issues that arose during the Irish referendum campaign, including the concerns highlighted by the survey, and how they sit in the broader context of Ireland’s EU membership. It is due to report by the end of November.

At the European Council on 15–16 October, Taoiseach Brian Cowen set out the Irish government’s analysis of the survey; the European Council took note of the concerns raised. As the Conclusions record, EU Heads agreed with the Irish government’s proposal that it:

“will continue its consultations with a view to contributing to finding a way to resolve the situation. On that basis, the European Council agreed to return to this matter at its meeting in December 2008 with a view to defining the elements of a solution and a common path to be followed.”

The Government believes that this is the right way to move forward. It is for the Irish to decide what they will do next and, on that basis, for the EU as a whole to agree the way forward. We look forward to the Irish proposals in December and will keep the Committees informed of further progress. The full text of the Taoiseach’s statement at the October European Council has been placed in the Libraries of both Houses.

I can also confirm that the technical discussions on detailed Lisbon Treaty implementation issues continue to be suspended. You will recall that under the Slovenian Presidency in the first half of 2008 a series of technical issues were identified for implementation work—as has happened on every EU amending treaty to date. We will continue to keep the Committees updated if and when a Presidency proposes to restart any such discussions.

On the implementation of the yellow and orange card system and enhanced scrutiny of the JHA opt-ins, we are currently studying the House of Commons European Scrutiny Committee’s recent report on “Subsidiarity, National Parliaments and the Lisbon Treaty” and will respond on these points in good time. It remains the Government’s position, as we set out during passage of the EU (Amendment) Bill that we will work with both EU Scrutiny Committees and the authorities in both Houses, to ensure that processes are in place to ensure that each House can implement these new powers before the Lisbon Treaty enters into force.

I look forward to working closely with you across the range of EU business and to continuing the open and productive relationship between the Government and the Committee. I also look forward to appearing before your committee on 11 November to discuss the October European Council.

*30 October 2008*

### **Supplementary memorandum by the Rt Hon Caroline Flint MP, Minister for Europe**

#### **EU-RUSSIA SUMMIT, NICE, 14 NOVEMBER**

When I gave evidence to your Committee on Tuesday I promised to let you have details of the agenda for the EU-Russia Summit, which will take place in Nice on Friday 14 November. The EU, as host, has proposed the following draft agenda for the summit:

1. EU-Russia relations: state of play and future.
2. Economic and financial crisis.
3. International and regional issues.

I hope that this is helpful.

*13 November 2008*

**Further supplementary memorandum by the Rt Hon Caroline Flint MP, Minister for Europe****SPANISH PARTICIPATION AT THE G20 SUMMIT**

When I gave evidence to your Committee on 11 November, I undertook to write to confirm the position on Spanish participation at the G20 Summit on 15 November.

A Spanish delegation will be attending the G20 summit in Washington this weekend. The Spanish Minister for Europe, Diego Lopez Garrido, confirmed this to me personally when we met just after my evidence session with you. It is my understanding that Spain will be occupying the French national seat (France holds two seats at this summit, one as a member of the G7 and other as the current holder of the rotating EU Presidency).

The UK has supported Spanish attendance at G20 and the Prime Minister has told his Spanish counterpart that when the UK became Chairman of G20, we would ensure Spain attended.

Aside from this issue, we are very close to the Spanish in our approach to the downturn. Spain has been very positive about the UK rescue package, and has acted swiftly to implement the actions agreed at the October European Council based on the UK plan. Like the UK, Spain wants the EU to work closely with the US to come up with a global solution to the economic crisis.

*13 November 2008*

**Further supplementary memorandum by the Rt Hon Caroline Flint MP, Minister for Europe**

When I gave evidence before your Committee on 11 November, I undertook to write to you about the future direction of EU level financial supervision and regulation.

Recent events have highlighted some of the challenges facing the supervision of financial institutions and markets, and at the October European Council, EU Heads re-committed to urgent implementation of the autumn 2007 ECOFIN Roadmaps, including to improve cross-border cooperation. As part of this Ecofin has endorsed the UK's proposal for the creation of supervisory colleges to improve supervisory cooperation and cooperation, facilitate information sharing, and improve the cross-border supervision of international groups.

The UK does not favour a single European supervisor for financial services. While recent events show the need to improve supervisory cooperation internationally, they have also highlighted the role of national government and crisis management arrangements, showing that national accountability remains a critical part of both ongoing and crisis supervision. The UK's proposals allow for national accountability to remain, whilst encouraging greater cross-border cooperation and convergence.

As you noted, a high-level group has been set up under the leadership of Jacques de Larosière to look at supervision, financial stability oversight cooperation, early warning mechanisms and crisis management, and how supervisors in the EU should cooperate globally. The UK looks forward to discussing its conclusions at the Spring European Council 2009.

The OEC conclusions also called for acceleration of work on the Capital Requirements Directive, a European system to register Credit Rating Agencies, and further rules on the protection of deposits, all of which the UK supports.

*November 2008*

**Further supplementary memorandum from Rt Hon Caroline Flint MP, Minister for Europe**

When I gave evidence before your Committee on 11 November, I undertook to write to you regarding Russian participation in the Quartet, to let you know whether events in Georgia had impacted upon Russian participation in the Quartet, and what the outcomes of the recent Quartet meeting had been.

The Quartet is an important mechanism for coordinating the international community's support for the ongoing Israeli-Palestinian negotiations. It also plays a key role in galvanising support for the Annapolis process and the foundation of a viable Palestinian state. We continue to fully support its efforts.

Russia remains fully engaged in the Middle East Quartet (alongside the UN, US, and EU). Russian Foreign Minister Sergei Lavrov attended the Quartet meeting in Sharm el-Sheikh on 9 November. The Quartet issued a statement outlining the key areas of discussions and reiterated their support for the negotiations between the Israelis and the Palestinians and commitment to a two-state solution. Foreign Minister Lavrov offered Moscow as the venue for an international MEPP meeting, and the Quartet agreed in its statement that spring 2009 could be an appropriate time for a Moscow meeting. I have attached a copy of the Quartet's statement.

The Foreign Secretary discussed MEPP issues with Russian Foreign Minister Lavrov on 31 October and underlined the importance of sustaining momentum on the MEPP into 2009. Lavrov agreed and highlighted the need for a comprehensive approach to peace in the region—an approach that we strongly agree with. He and the Foreign Secretary agreed to stay in close touch on the MEPP in the months ahead.

The MEPP remains a critical issue for wider Middle East stability, and a key priority for the whole of the international community, including for the UK and for Russia.

This should not be affected by other concerns. We remain convinced that this is an area where we can work very constructively with Russia, particularly given Russia's key role in driving forward progress through the Quartet.

*November 2008*

### **Quartet Press Statement**

Sharm el Sheikh, Egypt  
9 November 2008

The following statement was issued today by the Middle East Quartet (United Nations, European Union, Russian Federation, and the United States):

Representatives of the Quartet—U.N. Secretary General Ban Ki-Moon, Russian Foreign Minister Sergei Lavrov, U.S. Secretary of State Condoleezza Rice, High Representative for Common Foreign and Security Policy of the European Union Javier Solana, European Commissioner for External Relations Benita Ferrero-Waldner, and French Foreign Minister Bernard Kouchner—met today, and heard from Palestinian Authority President Mahmoud Abbas and Israeli Foreign Minister Tzipi Livni at their request. They were joined by Quartet Representative Tony Blair. President Abbas and Minister Livni briefed the Quartet on Palestinian-Israeli negotiating efforts since the 27 November 2007 international conference in Annapolis, Maryland that formally launched bilateral negotiations to bring an end to the conflict by achieving the goal of two states, Israel and Palestine, living side by side in peace and security. The Palestinian and Israeli representatives reaffirmed their commitment, as stated in the Annapolis “Joint Understanding”, to vigorous, ongoing and continuous negotiations in order to conclude a peace treaty resolving all outstanding issues, including all core issues, without exception, as specified in previous agreements.

The parties' representatives affirmed that, over the last year, they have engaged in direct, sustained, and intensive bilateral negotiations, based on a joint work plan that included the establishment of more than ten committees. They described how the parties have been actively engaged not only on core issues but on an array of other topics necessary to turn the two-state solution into a reality. Without minimizing the gaps and obstacles that remain, the representatives of the parties shared their assessment that the present negotiations are substantial and promising and they have succeeded in putting in place a solid negotiating structure for continued progress in the future.

President Abbas and Foreign Minister Livni stated the parties had reached a number of mutual understandings on the principles governing their negotiating process. These include:

- The need for continuous, uninterrupted, direct, bilateral negotiations.
- The principle that nothing would be considered agreed until everything is agreed.
- The need to reach a comprehensive agreement addressing all issues, as agreed at Annapolis, rather than just announce agreement on selected items in isolation.

The parties' representatives also confirmed that, as stated in the Annapolis Joint Understanding, the parties remained committed to implementation of their respective obligations under the Performance-Based Roadmap to a Permanent Two-State Solution to the Israeli-Palestinian Conflict and to the agreed mechanism for monitoring and judging Roadmap implementation and that, unless otherwise agreed by the parties, implementation of the future peace treaty will be subject to implementation of the Roadmap, as judged by the United States.

In addition to describing the structure of the negotiations and indicating areas in which progress has been achieved, President Abbas and Minister Livni expressed gratitude for international support provided during the last year and requested continued support from the Quartet and all members of the international community. First, they asked that the international community support the parties' sustained efforts in the framework of the Annapolis process and that it respect the agreed principles for their negotiations as described to the Quartet. Second, they asked that all States promote an environment conducive to peace, non-violence, and the two-state solution. In this regard, they urged political and economic assistance, especially in relation to institutional and security reform, capacity building, economic development and the fulfillment of pledges, to the legitimate Palestinian government which has accepted the Quartet principles and respects the PLO

commitments. They asked the international community to redouble efforts to confront and deny support for extremism, incitement, terrorism, and intolerance. Finally, the representatives stressed that, absent the joint request of the parties, third parties should not intervene in the bilateral negotiations. At the same time, they confirmed that international support and assistance will be vital once an agreement is reached, and that they intend to jointly consult members of the international community on this issue at the appropriate time.

The Quartet expressed its appreciation for the description by the parties of their joint efforts, which confirmed the seriousness of the Annapolis process and underscored the determination of the parties to reach a comprehensive agreement. The Quartet reiterated its commitment to supporting the parties' efforts, underlined its commitment to the irreversibility of the bilateral negotiations, pledged to respect the bilateral and confidential nature of the negotiations, and called on all states to adhere to these same commitments. The Quartet endorsed the goals set out by the parties and called on all states to lend their diplomatic and political support to that end, including by encouraging and recognizing progress to date.

The Quartet renewed its call on relevant states and international organizations to assist in the development of the Palestinian economy, to maximize the resources available to the Palestinian Authority, and to contribute to the Palestinian institution-building program in preparation for statehood, as decided during the Paris, Bethlehem, and Berlin Conferences. The Quartet cited Jenin as an example of the success of reforms instituted by the Palestinian government and of cooperation between the two sides, made possible in the context of the Annapolis process. The Quartet further welcomed the recent deployment of Palestinian security services in the Hebron governorate as a sign of the progress that has resulted from increased security cooperation. The Quartet emphasized its determination to continue to work with Israel and the Palestinian government to facilitate access and movement and an improvement in conditions on the ground in order to address urgent humanitarian needs, foster economic activity, and improve the atmosphere for the negotiations. The Quartet reiterated its call to the parties to fully implement their obligations under phase one of the Roadmap, including in relation to freezing settlement activity and the dismantlement of the infrastructure of terrorism.

The Quartet emphasized the importance of continuity of the peace process. The Quartet agreed that the spring of 2009 could be an appropriate time for an international meeting in Moscow.

The Quartet reaffirmed its previous statements, including the 26 September 2008 statement issued in New York. Further, welcoming the recent calls for a broader peace, the Quartet offered its support for the expansion of ongoing diplomatic efforts toward regional peace, noted the importance of the Arab Peace Initiative, and reaffirmed its commitment to a just, lasting, and comprehensive peace in the Middle East based on United Nations Security Council Resolutions 242, 338, 1397 and 1515.

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TUESDAY 20 JANUARY 2009

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Present	Cohen of Pimlico, B Dykes, L Kerr of Kinlochard, L Hannay of Chiswick, L Howarth of Breckland, B Jopling, L Mance, L Maclennan of Rogart, L Paul, L	Plumb, L Powell of Bayswater, L Richard, L Roper, L (Chairman) Sewel, L Teverson, L Trimble, L Wade of Chorlton, L
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**Examination of Witnesses**

Witnesses: HIS EXCELLENCY MR JAN WINKLER, Ambassador of the Czech Republic, and MR MIROSLAV KOLATEK, Deputy Head of Mission, examined.

**Q1 Chairman:** Ambassador, a very warm welcome to this meeting of the Select Committee. We are very pleased to see with you Mr Kolatek who is the Deputy Head of Mission. We are also pleased to see that a number of your colleagues from other Member States are here. I think I should perhaps begin by making an apology. I have been chided by various of my colleagues by saying the one thing a good chairman should do is remember that there is something that does happen once every four years on 20 January at 5.00 pm and that one should not overlook these things, and I apologise to you as well. This session is on the record and it will be webcast as we go on. You will receive a transcript of what you have said in the questions and you will have an opportunity to propose any corrections to that transcript. I wonder whether you would like to make an opening statement?

*His Excellency Mr Winkler:* My Lord Chairman, my Lords, I would like to make a statement. Thank you very much for giving me the opportunity to stand, or rather sit, among you today and to inform the esteemed EU Select Committee about the Czech Presidency of the European Union Council. As you have mentioned, many other important events are taking place today: the inauguration of the 44th American President; also an ECOFIN meeting; and also our Foreign Secretary addressed the Foreign Affairs Committee of the European Parliament today. In addition, I was reminded by my colleagues that today is also payday at the Czech Embassy so another pleasure!

I would like to stress that the year 2009 is special for us Czechs in two ways. Firstly, we have been given the opportunity to represent the European Union and also we are going to commemorate an event of great importance in Czech and European history, the 20th anniversary of the fall of the Iron Curtain and the victory of the Velvet Revolution in the former

Czechoslovakia. If I go back briefly in my memory exactly 20 years, I remember the enthusiasm of hearing about President Mitterrand having breakfast in Prague with Václav Havel and other dissidents and then Human Rights Day on 20 December 1988 which was celebrated by the first official free gathering of Czech citizens addressed by Havel. Our hopes flew high but then in January, when we spontaneously commemorated the 20th anniversary of student Jan Palach's death in Wenceslas Square, we were again beaten by riot police using tear gas and water cannons. This happened repeatedly every day for more than a week, and Havel and many others were arrested again. We were depressed and humiliated so you will probably believe me when I say that I would never have imagined that my country would chair the European Union 20 years later and that I would be invited to introduce the Czech Presidency in the House of Lords.

As you are well aware, the Czech Presidency was preceded by a successful French one. France had an ambitious programme which she managed to implement very well. At the very beginning however the French Presidency was confronted with such events as the crisis in Georgia and the global financial crisis. France, and President Sarkozy himself, showed an admirable determination in solving those crisis situations. We are especially delighted that the French Presidency succeeded in the facilitation of key documents that we can now build on. Since we took over the Presidency we have found ourselves in a similar position. We faced a crisis in Gaza and the collapse of gas supplies into the EU Member States. As far as the latter is concerned, the Czech Presidency succeeded in concluding an agreement on the deployment of monitors in the Ukraine. I am also glad to announce that due to the enormous pressure coming from European leaders and EU institutions an agreement and settlement of the gas dispute between

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Ukraine and Russia was reached and gas supplies to Europe via the Ukraine were resumed. A Slovak official has confirmed today that at noon the gas reached Slovak borders. We still remain on alert though. The Czech Presidency was also working hard to facilitate a solution to the current conflict in Gaza. Arriving at a solution is a long-term process. Our priority at the moment is to strengthen the achieved ceasefire as a pre-condition for alleviating the humanitarian crisis. The two-state solution remains the best hope for a lasting peace. With regard to this, the EU will work with other international partners to resume peace talks. In this respect, it also underlines the need to see tangible progress in Palestinian reconciliation, supported by the efforts of Egypt and the Arab League. The Czech Presidency is going to host two separate meetings, tomorrow a dinner of 27 foreign ministers with Tzipi Livni, and on the eve of GAERC on Sunday there will be another dinner with representatives of Egypt, Turkey, Palestine and Jordan.

These ad hoc activities are fully complementary to the original Czech priorities, the three Es, which stand for Economy, Energy/Climate and Europe in the world. The work programme of the Czech Presidency is based on the continuity of EU policies and on co-operation with France and Sweden as stated in the joint 18-month programme of the Council. Let me say a few words about the first E which stands for Economy. The global economic crisis has once again proven that in the global market no-one is protected from the consequences of mistakes. Undoubtedly the primary task during the coming weeks is to prevent a further deepening of the crisis. We believe that the European Economic Recovery Plan approved by the Commission during the French Presidency is a good framework for the co-ordinated effort of the European Union and its Member States. Implementation of this plan should be effective, targeted and time-limited. Reflecting the specific conditions of the Member States, it should respect the principles of the Stability and Growth Pact as well as the competition rules. It is necessary to prevent excessive regulation and to avoid protectionism as well as the irresponsible infusion of financial funds into the economy. Just today ECOFIN is discussing its preparation for the G20 Summit in London in order to co-ordinate a new contribution for a solution on the global level. Chairman, my Lords, the recent developments fully justify the emphasis of the Czech Presidency on strengthening the competitiveness of the European Union by building a strong and technologically developed European economy. The focus has to remain on the goals of the Lisbon Strategy. Our task will be to minimise the administrative burden, which will be of most help to small and medium businesses, and also to make sure that EU agencies will be justly allocated in the

Member States. These premises are all expressed in the motto of the Czech Presidency: "Europe without barriers" but it should also be a Europe of rules at the same time. This year also marks five years since the historically largest expansion of the European Union in 2004. The Czech Presidency intends to host an international conference to commemorate this event and at that conference a study prepared by the European Commission will be released about the benefits of this enlargement for European countries in the years that have followed.

The second E stands for Energy. As I have mentioned at the very beginning, the recent developments connected with the disruption of supplies of Russian gas have proven again that energy is another Europe-wide and global topic. The recent Extraordinary Energy Council organised by the Czech Presidency opened a new discussion on energy security in order to make efforts to diversify the energy mix, including the rehabilitation of nuclear power and investments in new technologies, to reduce the dependence of the European Union on Russian gas. The Nabucco natural gas pipeline is an issue of the highest priority and so is the support for the construction of new oil pipelines. In the area of energy security we would like to focus on three dimensions to the problem, firstly the completion of the second Strategic Energy Review with an analysis of medium-term demand and supply of energy in the European Union, and the identification of appropriate infrastructure projects; secondly, the completion of the Directive on the maintenance of minimum stocks of crude oil and/or petroleum products, because the implementation of this Directive, at least partly, saved some European countries from the worst of the current crisis; thirdly, a review of trans-European energy networks to make them more flexible and able to support countries in reaction to the development of supplies. At the end of January a Ministerial Conference on the prospects of the internal market for electricity is going to take place in Ostrava, a city in Moravia. The Czech Presidency legislative priorities in this area intends to conclude a third package for the internal energy market, to complete the review of two Directives and two Regulations for electricity and natural gas, and to implement the Regulation establishing an agency for co-operation of energy regulators. As I have mentioned, energy is directly connected to climate change. Consensus on a worldwide scale should be achieved at the global UN Conference on Climate Change to be held in Copenhagen in December this year. The Czech Presidency will take up the excellent job done by the French Presidency and launch a systematic preparation for this conference. Of course, this will be a job for Sweden, but in these days the seminar on climate change is taking place in Prague in order to pave the way from Poznan to Copenhagen. The third E is for Europe in the world. The position of Europe as a global player depends above all on the quality of the trans-Atlantic partnership. The Czech

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Presidency will put an emphasis on intensive dialogue with representatives of the new US administration in the key areas of the economy, climate and energy as well as co-operation with third countries. We are ready to work on setting up such relations with the United States during the first visit of American President Barack Obama in Europe this April. We would also like to host on that occasion an EU/USA Summit. The EU's position in the world is going to depend on the stance the Member States are going to take during the talks regarding the new agreement on strategic partnership with Russia. The events of recent years, and especially of recent months, have raised a number of questions and have emphasised the necessity of a common approach by the entire EU. The Czech Presidency is coming forward with a programme for the Eastern Partnership which is equally as important to us as the Union for the Mediterranean was to the French. Its expedited preparation is needed because of the growing importance of co-operation with the regions of Eastern Europe, especially with the Ukraine, as well as the countries of the Caucasus and the Caspian regions. The Eastern Partnership Summit is scheduled for May and will be followed by an international conference on energy security, a Southern Corridor Summit, bringing together both those countries which produce gas and oil and countries which are important for its transport to Europe. The last point on that area is that the historic unification and stabilisation of the European continent would be left incomplete without the gradual integration of the Western Balkans into the European Union. Therefore, under our Presidency talks will also continue on enlargement, covering the countries of the Western Balkans and Turkey. The Presidency will make efforts to maintain the dynamics of EU enlargement. We will do our best to achieve the progress of the Western Balkan countries within the framework of the Stabilisation and Association Process.

*Chairman*, my Lords, the Czech Republic is leading the European Union in rather difficult times and, to make things even worse, elections to the European Parliament will take place in June 2009. Therefore, we are aware that the Parliament's legislative activity will slow down and all negotiated agendas will be more politicised than usual. Following the European elections, the Czech Presidency will have to start a process of appointing the new European Commission. We believe that the institutional framework of the Union, particularly the Lisbon Treaty, will be another important issue. Recent talks with our British partners have proved that our priorities are of equal importance to them. In other words, the main Czech priorities are also priorities for the United Kingdom. There are many other topics in the work programme of the Czech Presidency that I could talk about but I

would like to give the floor to you and your questions. Thank you for your attention.

*Chairman*: Thank you, Ambassador. I am going to turn to Baroness Cohen.

**Q2 Baroness Cohen of Pimlico**: Ambassador, you have justly said that the Czech Presidency comes at a difficult time, particularly in the teeth of a major financial crisis. Will the legislation that was proposed during the French Presidency remain a priority or does the Czech Republic intend to bring forward further reform or different reform and regulation of the banking sector?

*His Excellency Mr Winkler*: We can divide our legislative efforts into areas. The first one regards financial markets, and there is a very important review of the Directive on the capital adequacy of investment firms and credit institutions in the programme. There is also a Directive regulating the insurance sector, regulation of credit rating agencies and the E-Money Directive. This is for markets. The second important area is taxation. Our key priority is regulation on tax fraud and tax evasion—and I do not believe it is only a Czech priority—and then regulation on modernised and simplified systems of tax recovery and tax administration. We believe that new technologies can help a lot in decreasing administration. Our next priority is to avoid or to reduce tax avoidance. There is a review of the Directive on taxation of income from savings. We want to close loopholes in the existing Savings Directive. Then we would like to continue the work on the Code of Conduct and on business taxation rules. As I have said, we are working on documents which were prepared by the French Presidency and we believe that in this particular area this is basically what was decided even before the crisis came and hit hard. The important thing we stress, and I mentioned it in my opening speech, is that we very much believe that after these short-term steps Europe should return back to balanced budgets to keep its finances, not in individual countries but in the European Union as a whole, in good shape.

**Q3 Lord Hannay of Chiswick**: Ambassador, you referred to the Middle East in your opening statement and the problems in Gaza. I wonder if I could ask you a question in two parts really. The first is: what actions is the European Union now taking to make this extremely fragile ceasefire more sustainable and durable? The second part: you may have seen or you may not have seen that in this Committee's report on the Middle East peace process 18 months ago we said that the EU's objectives should be "to attempt to maintain a peace process that is as inclusive as possible, while firmly rejecting attempts by outsiders and extremists to derail it." I wonder if that is an objective which is shared by the Czech

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Presidency and whether the Czech Presidency will take the opportunity of the EU/US Summit that will fall at some stage during the first half of the year to press upon the United States the importance for the future of the region of its new administration sustaining an active, balanced and consistent interest and engagement in the peace process.

*His Excellency Mr Winkler:* My Lord, if I may start with the final part of your question. We very much hope that the first visit of President Obama to Europe in April will cover all three of these very important issues. We understand that President Obama will come to London for the G20 Summit where the focus will be on the economy. Then he will take part in the NATO Summit where Afghanistan will probably be the key issue. We believe that also on that occasion President Obama will meet representatives of the 27 EU countries to discuss the Middle East because it is obvious, that in April there will still be a lot to do and to discuss. In the short term of course we want to achieve well-functioning international control, especially in relation to smuggling weapons into Gaza, monitoring borders, and making use of the proposed naval operations by Britain, France and Germany. On Israel's part we would like to reach an agreement on opening of border crossings and a removal of the current blockade. We have already on 9 January called on Israel to fully open the crossings and express its readiness to re-deploy the EU BA mission in Rafah. Our immediate step is to strengthen the achieved ceasefire and to make it robust. As I have mentioned, we are now preparing those two separate meetings, one with the Israeli Foreign Minister and then on Sunday with Egypt, the Palestinian Authority, Jordan and Turkey in order to discuss how to proceed. The Czech Presidency came up with a proposal for a humanitarian conference or a donors' conference. We understand that this idea should reflect the merits of Egypt on the outcome of the situation, and so we would support Egypt in their intention to host a humanitarian conference. We are also aware of a recent proposal coming from the French President to host a major peace conference. Of course it is clear that there is a lot to be discussed. We shall see if there is a space for this peace conference but a humanitarian conference is very important because coping with the humanitarian crisis in the Gaza Strip is a key priority.

**Q4 Lord Teverson:** Ambassador, you have mentioned the conference that you wished to bring together and the parties that will be there. One of the parties that was missing from your list was what some people would describe as the elected Government of Palestine at the elections, Hamas, and I wonder whether you felt that the European Union and the Presidency should reconsider its decision not to talk directly to Hamas?

*His Excellency Mr Winkler:* We agree that Hamas was the winner of the elections in the Gaza Strip; on the other hand, we feel that reconciliation on the Palestinian side is of key importance. Hamas can become a partner in negotiations under two conditions: if they renounce violence as a legitimate method of the political fight; and secondly, they recognise the right of Israel to exist. Under such circumstances then Hamas can probably change into a political party. I have heard a lot of comparison with Northern Ireland on how important it is to negotiate with Hamas, but we all remember that there were conditions for Northern Ireland's parties to be involved in those negotiations, so this is our position.

**Q5 Lord Teverson:** Ambassador, you gave some time, I think quite rightly, to the gas dispute which has been one of the most recent challenges for the EU. We were going to ask you what the latest developments are but obviously you have just told us and we have read it in the news, still I am sure we would be interested to know whether you think this is at last a solution and one which will last for some time. I would be particularly interested in your views on how we make this a more permanent solution given that a similar thing happened a couple of years ago, and I think one would say that the fact that this problem has happened again has meant that the EU response then was not very successful. How do we make this a more permanent solution that works for eastern and central Europe and how do we make a framework by which this threat is removed? I would like to understand particularly how the Czech Presidency will make this a better solution than we had after the first crisis two years ago.

*His Excellency Mr Winkler:* Lord Teverson, I am afraid that this is not something which can be solved during one Presidency. As we have heard, there were new agreements signed between Russia and Ukraine for ten years and they agreed on a price for gas for the Ukraine and a price for transit. From the very beginning the parties involved stressed that this is a commercial dispute. Yes, it is a commercial dispute but later it appeared to have political consequences, and for a certain moment we got the impression that it is rather a technological disaster than anything else. As it is now, we see that there is some solution between the Ukraine and Russia, but of course we have to look for a long-term, legally binding framework. That is one thing. The idea of upgrading the level of agreement to government level is not possible at this moment because the contracts at the company level last for about 30 years. However, what we can do, as I have mentioned already in the energy security part, is to diversify our supplies in both geographical and technological sense. We have to decrease our dependence and this will bring more competition. It is most unfortunate that there are, in

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particular, eastern European countries which were traditionally fully dependent on supplies from Russia. Not all of these countries are lucky enough, like the Czech Republic to have easily built a new pipeline to Germany, and now we are able not only to be supplied by gas from Norway but we can also supply Slovakia. Through the diversification and the improvement of our infrastructure, the pipelines and the networks, will be able to supply from south to north and north to south and east to west and the other way round according to the situation of the moment. When I mentioned this diversification, in a technology sense, it is not only the issue of nuclear energy but it is also the issue of liquid gas, and to build and invest in storage facilities which can really supply all parts of Europe from independent sources. As I have said at the beginning, I do not think this is something that we can solve within six months, but definitely we would like to go this way and to create the best possible conditions for that diversification.

**Q6 Chairman:** Ambassador, in your introduction you talked about the importance which you gave to the Eastern Partnership and the plans for a meeting to be held in May. We read the proposals which the Commission published in December on the Eastern Partnership with the six Eastern European partners of the European Union. I wonder whether you would like to say a little bit more about how you intend to take forward these proposals and what are the main aspects on which you feel further work needs to be done by the Council?

*His Excellency Mr Winkler:* We consider the proposals of the Commission to be an excellent basis for redefining the framework relations with our eastern partners. Chairman, if you permit, I would like to start by saying a little bit about what the Eastern Partnership is not because there are some basic fears and I would describe four basic fears. The first point is that the Eastern Partnership is not anti-Russian. It is a positive policy for 27 EU Member States and six countries of eastern Europe. It is not a negative policy for anyone. Secondly, we do not attempt to redistribute existing financial resources. The Eastern Partnership is not going to compete with the southern or other dimensions of the European Neighbourhood Policy. We do not want to compete with current existing regional policies and projects. Fourthly, this is not an enlargement policy; this is not just an alternative to the enlargement process that is well established in EU practice. It is just a tailor-made way towards ensuring stability and prosperity in our neighbourhood and simply prosperity for all of us. We believe that this Eastern Partnership will be a flagship of our Presidency. That is why we are thinking about a summit. There is a date—and of course all dates are not yet confirmed—in May. Also, as I say, a specific part, I would say a sub-part to the

Eastern Partnership is the Southern Corridor Summit which is supposed to bring together five countries of different groupings which should also include Turkey as an important transit country. This Southern Corridor Summit is planned for the eve of the Spring Summit. I believe that this Eastern Partnership will be perceived as an important complementary project to other dimensions. When speaking about substance we believe that this will deepen co-operation on energy, on economic matters, on trade and environment partnership but also respect for fundamental rights and freedoms, and support for the transformation process in those countries.

*Chairman:* Thank you very much. Lord Wade?

**Q7 Lord Wade of Chorlton:** Ambassador, we have taken a great deal of interest in the negotiation of the Working Time Directive and a report on this matter from the Committee has supported the view of the British Government. Further to the European Parliament's rejection of the Council's common position on the Directive, how does the Czech Presidency intend to handle this important matter as it heads towards conciliation between the Council and the Parliament?

*His Excellency Mr Winkler:* Thank you, Lord Wade. I should start by saying that the Czech Presidency deeply regrets that the negative position of the European Parliament remains unchanged. It was not easy to reach a common position in the Council and find a working solution for all 27 Member States and all economic sectors. The Council is aware of the European Parliament's unchanged position and is fully aware of the fact that a compromise between the Council and the European Parliament has to be achieved. We are prepared to launch new consultations among the Member States on one side and the European Parliament on the other. We believe that the appropriate opportunity for this will be the informal Employment, Social Policy, Health and Consumer Affairs Council which takes place later this week on 22 to 24 January. In March the conciliation procedure will start with the European Parliament, I think after the March EPSCO. Today the Czech Minister of Labour and Social Affairs and the Chairman of the Council had a presentation of the work programme of the Czech Presidency in the Committee on Employment and Social Affairs of the European Parliament. Should the esteemed Committee be interested then it will be a pleasure for the Embassy to provide you with more information on what arose out of the presentation, discussion and debate in today's meeting of the Minister in the Committee.

*Chairman:* Thank you.

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**Q8 Baroness Howarth of Breckland:** Ambassador, thank you for a wonderful concert which I thoroughly enjoyed and it showed me that you have a pretty marvellous cultural background in your country. I notice from the document that you gave us that you talked to us about a “Europe without barriers”. I am concerned that the barriers amongst people are to do with culture and to do with deprivation and discrimination. It has been reported that the Czech Presidency has no focus on social policy as a key issue. That would give us some cause for concern, particularly with some of the Directives that at the moment are moving through, particularly with some of the health issues. I wondered if you would explain your approach to social policy.

*His Excellency Mr Winkler:* Thank you for your question. I am pleased to explain. Probably this feeling or this impression that the Czech Presidency does not pay much attention to social policy is based on the importance that we attach to the competitiveness. We wanted to focus on making Europe competitive (having the feeling that other Presidencies focused on social matters more) because we believe that a strong and competitive Europe will generate new and better working places as well as additional social benefits. I think I should mention at least four priority subjects which I think refer well to your comments. Firstly, we believe that the most important thing is labour force mobility in the EU labour market. It is one of the greatest achievements of enlargement. We are very happy that countries like Britain responded at the very beginning and sent an important signal to employees and workers in our part of Europe. Then we pay a lot of attention to flexicurity principles. We believe that employment and labour market flexibility should be increased. Another important priority is horizontal support for families within EU policies, not just selective but really horizontal support, and social services as a tool for active, social inclusion of the most disadvantaged persons and as an employment opportunity. I would not agree that social policy will be neglected during the Czech Presidency. Rather, we are trying to focus on the areas which were not fully covered in the previous periods.

**Q9 Baroness Howarth of Breckland:** Are you in fact saying that some of the social policies are embedded and intrinsic to some of your other programmes?

*His Excellency Mr Winkler:* Very much so, yes.

**Q10 Lord Kerr of Kinlochard:** Ambassador, in your initial presentation you explained the three priorities of the Presidency, one of which was energy/climate change, and that you would be ensuring systematic preparation for the Copenhagen Climate Change Conference in December. Can you expand on that a bit? How do you think the EU can best prepare itself

and how do you think it can best influence other players at Copenhagen?

*His Excellency Mr Winkler:* The international agreement on adopting commitments for the reduction of greenhouse gas emissions beyond 2012 has become the ultimate priority for the Czech Presidency in the area of climate change. We are going to conduct the necessary preparatory negotiations to achieve a worldwide agreement on setting obligations in terms of the reduction of greenhouse gases after 2012. There is a series of meetings; some of them are traditional and they are called the Bonn talks. Two of those intercessional meetings will be held in Bonn in Germany in March and June this year, and those talks will undoubtedly represent another positive move forward within the negotiations conducted by the contracting parties to the United Nations Convention on Climate Change regarding how global agreement at the Copenhagen Conference could be achieved. As I have mentioned before, this will be a job for the Swedish Presidency, but of course we will act in that period on behalf of the EU in these talks and at the same time the Presidency will also prepare an EU common position for the Copenhagen Conference in December. Just today there is a seminar/workshop on climate change which started on 18 January and at the end of the workshop the European Commission presented a communication on the direction of negotiations prior to the Copenhagen Conference. There are five thematic areas being covered: financial aspects relating to the implementation of both reduction and adaptation measures; the legal form of future agreement on climate change; the issue of measurable and verifiable criteria for activities in support of climate protection; EU international negotiation strategy during 2009; and to minimise the adverse impact of climate change on developing countries. I would like to stress one important point which appeared quite recently. According to statistics published lately, foreign direct investment outside Europe decreased by 41% and therefore we see that some countries will really suffer a lot in this global economic crisis. We believe that climate change should not become a victim of this. We should really work hard to firstly make the EU able to set a good example for other important players like China, India, Brazil, and the United States of course, to accept our position. We also see environmentally friendly technologies as one of the great opportunities in how we cope with the economic crisis.

**Q11 Lord Sewel:** Just to follow that up, I suppose nothing would be worse than a weak and ineffective international agreement which would just amount to a bit of cynical window dressing really. After all the EU's climate change and energy package is not put

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together with total ease and concord. What do you see as the main challenges that face the putting in place of a robust package and specifically do you see any role for enforcement?

*His Excellency Mr Winkler:* First of all, we are very pleased that again we can build on the energy/climate package agreed during the French Presidency in December which agreed those 2020 goals. No, your question on enforcement is very tempting but—

**Q12 Lord Sewel:** Go on, give way to temptation!

*His Excellency Mr Winkler:* I cannot say I see any space for enforcement. I very much believe that those commitments should be driven firstly by a good example and secondly by market principles, so we should try to come up with proposals which will make it attractive to implement environmentally friendly technologies. Enforcement—can you imagine?

**Q13 Lord Sewel:** We know that the problem with Kyoto was that there was no enforcement. We have got Canada saying recently that it has just given up on reaching its targets and putting policies in place that would make that possible. There is a great temptation to sign up to an agreement that has wonderful sounding targets and then to bin it further down the road, is there not?

*His Excellency Mr Winkler:* I am also accredited to the International Maritime Organization and recently I had a discussion with the Secretary General. I argued exactly about this issue because they have their experience with enforcement measures on shipping. As you know, there is a tendency to leave shipping and also air traffic out of the legally binding structure. It was the Secretary General who confirmed that they receive much better results through incentives to introduce new technologies than through enforcement. I agree that some legally binding structure has to be in place but this is something that will be widely discussed and might even have a discouraging impact at the moment. I think as Europe in particular we should rather demonstrate that this is something which we do for us, not something we do in order to generate new advantages for us.

**Q14 Lord Hannay of Chiswick:** Just following this up, perhaps the word ‘enforcement’ is grating on your ears a bit, but implementation of any package agreed at Copenhagen is surely going to be essential, and for that you are going to need a structure in the UN which is much more robust than currently exists. You will not, I would have thought, and you might like to comment, get the US on board in any package if they do not believe that there is any likelihood that other parties to it will actually be brought to fulfil and honour the obligations they have entered into. That

is what Congress will be on about. I think that if the Europeans take too relaxed a view about enforcement, the result will be that we will not get an agreement and so it would be better I would have thought if the Europeans could work up rather carefully ideas in which the UN agency or body which had a responsibility for implementation could be shaped up for part of the Copenhagen agreement. Burden-sharing between the developed and developing countries is going to be at the heart of this negotiation, but nobody is going to accept it if they do not think it is going to be honoured.

*His Excellency Mr Winkler:* Thank you for that comment. If I may, Swedish colleagues are here so I am sure they have listened carefully!

*Chairman:* In that case, Lord Plumb?

**Q15 Lord Plumb:** Ambassador, I am almost tempted to ask whether you see any space for enforcement on the Common Agricultural Policy as one that has been with us for a long time as you well know. This Committee gave its opinion on the Health Check and it had views on the longer term effects. The French Presidency of course did try to take it further than the Health Check but whilst there was not even unanimous agreement on the Health Check it was impossible to take it further past 2013. We are encouraged to note that the Czech Presidency has already said that it is willing to try to take this further. I would like your opinion on that and I would particularly like to hear your comments on the views that some member countries have of the possibility of switching money from pillar one to pillar two. The environmental area of course is one of great concern and great importance which can be applied in so many different ways in different countries, for obvious reasons. It is an important issue and we would like your general comments on where we go after 2013 in particular.

*His Excellency Mr Winkler:* Lord Plumb, I think we are quite happy that on both the CAP and the budget review are still waiting for the key documents from the Commission—the Health Check and the White Paper on the budget review—because I am sure that we all agree that CAP reform is connected with the EU budget report as it is an important part. The activities of the Czech Presidency in this sphere of EU budgets will depend on the publication date of the White Paper on the budget review by the European Commission. I am afraid that the present financial crisis, and also uncertainty about the outcome of the Lisbon Treaty ratification could have a significant impact on the timing and discussion of the budget review. The outcomes of the budget review discussion, which will take place during the Czech Presidency if the White Paper is published, will be summarised in the Progress Report. The Presidency will then submit that report at a meeting of the

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General Affairs and External Relations Council, and then after that the dimension of the CAP would be specified and the discussion on CAP reform will start, but I am very sceptical that this will happen during the Czech Presidency. Good for us!

**Q16 Lord Paul:** Ambassador, you indicate in your statement and in answer to the first question that you are fully committed to achieving better regulation and that you will recommend that the better regulation agenda should continue into the new Commission. In which areas are you particularly keen to see more effective initiatives for achieving better regulation, and how will you achieve this? How important do you consider the proper use of impact assessments in ensuring better regulation, and at what stages in the legislative process would you like them to be used more extensively, and how will you achieve this? Also will you see that better regulation is also simpler regulation? How are you going to make sure that the older regulations are deleted because sometimes old regulation remains and new regulation is done for the same thing and it ends up confusing the regulators as well as the regulated.

*His Excellency Mr Winkler:* My Lord, better regulation appeared as an important chapter in our work programme as a part of our competitiveness priority. We believe that the improvement of regulation, including the reduction of the regulatory burden, is an important factor for improving competitiveness and making it easier to engage in business, in particular for small and medium-sized enterprises, which as we all know generate a substantial part of GDP. I was told that 99% of businesses are small and medium-sized enterprises. The Presidency is interested in the fastest possible implementation of the initiatives submitted on the basis of the outcome of the evaluation of the administration burden on businesses and in approving further steps in the action programme for reducing administrative burdens at the Spring European Council. Furthermore, the Presidency will support the exchange of experience and best practice examples in the public administration systems of EU countries, primarily in the area of the introduction of electronic devices into administrative processes and electronic public administration, e-government, as a tool for reducing the administrative burden. Our Presidency will insist on carrying out an impact assessment on newly submitted policies because often the first step is to increase the administrative burden, so we believe that there should always be an impact assessment of any newly submitted policies, including assessment of alternative solutions and a comprehensive presentation of the main findings and data obtained through consultations and impact assessment to the public. We will also focus on timely and more intensive use of impact studies on the EU

decision-making process. We will lead the preparation of the Council's positions on the third strategic review of the Better Regulation initiative and we aim to recommend the continuation of its agenda when the new Commission takes office. Furthermore, the Presidency will strive for consolidation and support for the use of instruments improving the implementation of EU legislation, so a combination of these three factors should deliver.

**Q17 Baroness Howarth of Breckland:** We all want to see better and more streamlined regulation and we all want to see less regulation very often, but I just want to ask you that when you look at this in your Presidency you will also bear in mind that sometimes for some people that means looser regulation and not necessarily the protection of the consumer. I wondered how your Presidency would balance better regulation, which means not just less but stronger legislation in relation to protecting consumers, particularly as we are going to have a Consumer Credit Directive coming forward?

*His Excellency Mr Winkler:* I know that this is an important issue which is always raised of how to keep the balance because consumer protection needs regulation to set standards to protect the public health. I am not sure if in our work programme there is any clear advice or any clear decision on how to keep that balance. I promise, I will have a look to see if we can answer this question on how to keep this balance. My answer right here would probably be based on common sense.

**Q18 Lord Sewel:** Ambassador, one of the areas that has caused recent concern, particularly to the UK agriculture industry, is the Pesticides Directive where the Commission basically refused to carry out an impact assessment. Do you think that can be avoided in the future?

*His Excellency Mr Winkler:* The issue of pesticides is of course an issue of the productivity of agriculture and in the end the price of food. So we share the concern that the Pesticides Directive could lead to an increase in the price of basic essential food. Because this is quite a new thing, again, this did not appear in our work programme but we will supply you with a written statement if you wish.

**Q19 Lord Sewel:** I think, Ambassador, there are two things. There is the substantive issue of whether it is a good or a bad thing to do what the EU did on pesticides but there is a worrying business on process which was the actual refusal by the Commissioner to produce an impact assessment.

*His Excellency Mr Winkler:* Thank you.

**Q20 Lord Sewel:** Could that be avoided, do you think?

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*His Excellency Mr Winkler:* Thank you.

**Q21 Lord Jopling:** Following that, there is a long tradition in the Commission of withholding evidence which would, if published, materially improve the opportunity for the Council—I am thinking of a particular case—to carry out certain policies. There is a long tradition of this policy in the Commission of trying to inhibit agricultural practices in order to suit political ends. I am thinking of a very similar case to Lord Sewel's years ago when there was the introduction of a proposed ban on growth-promoting hormones. The use of growth-promoting hormones led to cheaper food and the ban led to more expensive costs in producing that food, and this was introduced at a time when the Commission failed to publish a scientific analysis of this. This is one of the really very bad records that the Commission has had over the years in inhibiting methods of food production by political devices. I would like to think that the Czech Presidency would stamp on the

Commission very hard when it was attempting anything of this sort.

*His Excellency Mr Winkler:* Lord Jopling, thank you very much for that comment and for reminding us all. If you say this is an old established practice in the Commission, we cannot confirm that as a relatively new member, but we will definitely take this as an inspiration and recommendation to pay attention to it and we will work on it.

**Chairman:** Ambassador, thank you very much indeed for having given us such a wide range of answers to our questions this afternoon. It has been useful for us at the beginning of the Czech Presidency to have had this opportunity to meet you, to put the questions to you, and to have had such very helpful answers. Can we wish the Presidency well for the remaining five and a bit months and hope that it goes forward and that you have a very successful Presidency. Again, thank you very much indeed for coming together with your colleague and we are very impressed by how many of your other colleagues have been here in solidarity with you today. Thank you all very much indeed.

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TUESDAY 3 FEBRUARY 2009

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Present	Cohen of Pimlico, B Dykes, L Freeman, L Hannay of Chiswick, L Howarth of Breckland, B Kerr of Kinlochard, L Mance, L Paul, L	Plumb, L Powell of Bayswater, L Richard, L Roper, L (Chairman) Sewel, L Teverson, L Trimble, L
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### Examination of Witnesses

Witnesses: RT HON CAROLINE FLINT, a Member of the House of Commons, Minister for Europe, and MR ANANDA GUHA, Deputy Head, Europe Strategy Group on the December European Council, examined.

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**Chairman:** Minister, thank you very much indeed for coming to see us again. I think you have with you today Ananda Guha who is the Deputy Head of the Europe Strategy Group. The session is of course on the record and will be web cast. You will receive a transcript and will have the opportunity to propose corrections. I understand that you do not want to make an opening statement today so I am going to turn to Baroness Cohen to ask the first question.

**Q1 Baroness Cohen of Pimlico:** Minister, I wonder if you could tell us which Member States have so far announced a budgetary stimulus along the lines of that outlines in the European Recovery Plan? When does the Government expect that the target of 1.5% of EU GDP will be reached?

*Caroline Flint:* What I understand, according to the Commission, is that most Member States have adopted or announced fiscal stimulus. I think 19 Member States have already taken action or have packages in the pipeline with the largest fiscal stimuluses coming from Germany which is 3.4% of German GDP over the next two years. Eleven other countries, including the UK and Spain, have implemented measures of over 1% of their national GDPs

**Q2 Lord Dykes:** Can you indicate to us what proportion of the European Investment Bank's 30 billion Euro loan package for small and medium sized enterprises the Government expect UK businesses to receive?

*Caroline Flint:* My understanding on that is that there is something like £4 billion should be available and I think it is £1 billion EIB funds available in the UK by the end of 2008. Clearly this is very helpful, I hope, in addition to other measures the Government is taking and there has been work since the announcement

with four UK banks involved in helping to draw this money down and provide these loan guarantees.

**Q3 Lord Plumb:** Minister, what progress has been made, if any, towards the conclusion of the Doha Development Round subsequent to the commitment made towards the end of the December Council? I declare an interest as one who has been involved in all of the rounds up to Doha leading a group of agri-business people and of course that, in relation to developing countries, has been extremely important. *Caroline Flint:* We still believe that it is important to try to secure a successful conclusion to the WTO Round. It remains a priority for us. I think it is clear that we were disappointed that the G20 was unable to fill the commitment made by leaders in Washington last November. However, recent ministerial discussions seem to suggest that there is some appetite within the G20 and the WTO more broadly to see how we might pursue this with more vigour in 2009. Ministers recently discussed the WTO Round at the World Economic Forum I understand in Davos and with their Chinese counterparts at the UK-China summit. EU trade ministers have also expressed their continued commitment to the WTO Round at their informal meeting in January. We are going to continue to support the director general, Pascal Lamy, in his efforts to secure this deal. We will look to continue working with our EU partners and the European Commission to move negotiation forwards and clearly the G20 summit here in London will be important to that end because of course there are individual European countries represented round that table but of course the EU is represented in the form of the Czech Presidency at the table as well. We will continue to make the case that the issues we face at the moment in terms of the international financial crisis are obviously focussing everybody's mind and attention but actually recognising what is in it for the

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countries in the developing world but also what is in it for us in terms of open trade agreements is still an important priority both in the short term and the long term.

**Q4 Lord Kerr of Kinlochard:** The press reports suggest that the meeting in Davos was not a 100% successful. Are you worried, Minister, that recessions normally breed protectionism? This seems to be quite a sharp recession, and we seem to have a President of the United States who has not said a great deal on the record about the virtues of free trade, has voted against the Central American Free Trade agreement, has been critical of NAFTA, has not said anything about bringing Doha to a successful conclusion, except that it would be necessary to attach labour and environmental conditions if it were to be concluded at all. How worried are you about that?

*Caroline Flint:* I think it is fair to say that on one level it is understandable that with difficulties individual countries are facing they are very concerned about what is happening at home. I think the danger is to lose sight of the fact that open opportunities to trade are very important in terms of recovery. I think I heard a sound bite last week about not wanting to turn a recession into a depression and I think that is where the international context of this really counts. I think that is sometimes quite difficult to explain to the media and also to businesses and families who, understandably, in our home communities, feel that drawing in is a necessity. We have to get clearer and better at explaining why narrowing down our role in terms of these international agreements but also protectionism does not help. I think we can do that but I think we have to be clearer and do it in language that people understand. When I am out and about I often talk about the ten% of British jobs that are directly connected to our opportunities to trade and gain investment from the European Union. I often say to employers that it would be great if they could explain to the workers that they have managed to take on as a result of this why the European Union is important. Only the other week when I was in Cornwall meeting some apprentices in the marine industry they were delighted to have this opportunity; it was partly EU funded but when I asked these young men about whether they were aware of that they were not and these should be our advocates and businesses should make it their business to let their workforce know. On the question of America I think it is a little bit early to tell. Our aim ahead of the London summit will be to impress upon President Obama the importance of reaching a deal and why it is in our interest, looking into this area, it has been on-going for a number of years. Obviously the difficulties in trying to get unanimity across the piece is important on this but it makes the job very difficult, but we will still carry on with that work. I

think the other aspect of this where there is an EU dimension also plays into our relationships with America. We should also be demonstrating to our American friends what the EU can offer. If the EU can actually work out its approach to this agreement—as in other areas on climate change—and show that we are willing to take a lead, maybe that will help influence not just America but other countries as well—China and India—in terms of hopefully nudging them towards a successful conclusion.

**Q5 Lord Trimble:** One welcomes the Government's commitment to a successful outcome of the Doha Round and notes the positive statements that were mentioned. However, there was a ministerial meeting in Doha in the early summer which failed and I wondered whether the obstacles that prevented agreement then have become less or have they become greater since last July?

*Caroline Flint:* I think it is quite difficult to pin that down in that way. As I said, I think the financial situation that countries are facing themselves in has focussed people's minds and attention and I think it would be naïve not to acknowledge that. On the other hand, I think in terms of the EU we have managed to move forward in a positive spirit both in terms of the economy but I have to say before the December Council on Climate Change people thought we would not reach an agreement of that. In that spirit, working together, we feel we can make some movement forward in terms of Doha. How that impacts, as I have said, on other countries that are important to this I do not think I am necessarily in a position to say but, as I said before, if the EU can show it can lead in this area I hope that will bring some pressure to bear on getting people around the table to agree. I do not know whether Ananda, who was in the Department at the time of that meeting, might be able to offer something more.

*Mr Guha:* The Minister is right in suggesting that the economic climate has changed substantially since the ministerial meeting last summer, but there have been subsequent ministerial meetings where ministers have reaffirmed their commitment to reaching a conclusion to the Doha Round and the UK's position remains constant, which is that we want to seek fair and open markets at this difficult time, as in the point the prime minister made with Premier Wen a day or so ago.

**Q6 Lord Trimble:** I was just thinking that there were some specific problems that prevented agreement last year and I appreciate comments made by the overall economic climate but I am not aware of anything of a positive nature that has happened with regard to the specific problems that prevented agreement last year.

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*Caroline Flint:* As far as I am aware at that time there were some issues blocking agreement on agriculture and non-agricultural market areas. I think there are still problems.

**Q7 Lord Hannay of Chiswick:** Was the lesson of the G20 in November that the leaders were much too specific on the process and said that there was going to be a ministerial meeting before Christmas which then did not take place, and were much too vague on the commitment not to introduce protectionist measures which several people present in Washington then went off and did. As you say it is very important that they commit themselves to the success of Doha and avoiding protectionism but also—since we are in the chair perhaps we can have some say over this—the meeting should be less starry eyed about the future meeting of ministers which may or may not be right and much, much more precise about the not taking of protectionist measures by all those represented there.

*Caroline Flint:* That is exactly what the G20 in London offers and obviously being in the chair I am sure that the prime minister will want to make sure that this has an opportunity to be aired and to inform both in terms of open markets and against protectionism but also to secure some public signals and commitment particularly, I think, from President Obama. I think whilst it is too early to say at this stage just how much detail will happen at that summit, certainly as we look towards June and July it should give the direction of travel and I think that is what we want to see, a meaningful end point that people think they are working towards.

**Q8 Lord Powell of Bayswater:** Minister, continuing down that same broad path but trying to apply it more specifically to a UK interest, protectionism takes many forms, not just tariffs; it is an attempt to reserve jobs for specific nationalities; it is an attempt to limit purchases to a particular country as there seems to be some risk the Americans will do with iron and steel under their stimulus programme. Of course it does apply to state aid where Britain has traditionally been a very strong proponent of strict regulation of state aid. Can we expect EU state aid rules to be applied to the proposed expansion of Northern Rock's mortgage portfolio?

*Caroline Flint:* The Government is still considering the most appropriate way forward in relation to Northern Rock and obviously there has been some discussion in the public domain about the speed at which the support through the taxpayers provides to Northern Rock coming back which might be slowed down to enable their business to expand. I think what I would say on this and in relation to all other matters pertaining to the state aid issue in Europe is that we are in constant discussion, particularly at the

Treasury, about the rules and how they apply. I think I remember when I was present for a committee earlier last year some of the discussion about what flexibilities there are within the rules. The Commission has made clear that as long as activities are temporary targeted towards supporting economies then there is some flexibility within the system but we are very clear that we do not want to rewrite the state aid rules and we want to keep within the framework of them but use the flexibility that is there appropriately.

**Q9 Lord Powell of Bayswater:** Does that mean that we will or will not be seeking a waiver?

*Caroline Flint:* I do not think that that is a matter that has come up. I think we are working at the moment, as I say, in the public domain which was about looking at how much we are asking back from them in terms of what money was lent to them because there was a concern that that was restricting their activity. At this stage we are just looking at options for Northern Rock and the strategy for that as we move ahead. The broader point is that we have just kept in constant contact with the Commission about how the state aid rules should apply and how we can use them.

**Q10 Baroness Cohen of Pimlico:** The Northern Rock deal was agreed as a deal with the Commission inasmuch as it constitutes a state aid. If the Government makes changes that extend further credits to Northern Rock or do not ask for the money back at the same speed then that will presumably require another waiver.

*Caroline Flint:* I do not think we are at all looking for a generalised waiver of the state aid rules. What we have always looked for is working with the Commission within the framework and also that the Commission can continue to be flexible and expedient on state aid rules where it is appropriate. I think that is something all members of the EU are looking at. I think it has been agreed that we are facing exceptional circumstances and therefore the flexibilities in there should be used. That is what we are working within; we are not asking for any change to the state aid rules. Anything the Government might want to do where we felt we needed to seek the permission of the Commission that is part of the deal, we would go back to them and make sure it was appropriate in this temporary situation we find ourselves in.

**Q11 Lord Kerr of Kinlochard:** If they chose to interpret the state aid rules in a particular way they could require us to repay what they could declare was illegal aid. We were quite enthusiastic when they applied competition policy quite strictly to the Irish banks at the start of the Irish banking crisis when

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there was apparent intended discrimination by nationality of depositor. Presumably we have to have a view about what is a conflict between everybody's wish to see banks recapitalised and the rules of the game of the single market as laid down in competition and state aids policy; there is a balance to be struck surely?

*Caroline Flint:* I think that is why, not just in the United Kingdom but every other member of the EU, there is constant discussion between departments here and their officials with the Commission because obviously within the state aid rules, as I understand it, there are these flexibilities. The Commission has said that as long as it is timely, targeted and temporary there is some scope. The banks was one example because of the impact of banks going under and the knock-on effect throughout the economy but also where there are other situations of difficulty too. I think there is a case by case situation being made by Member States on this issue as matters evolve. What is clear is that we do not believe that the situation requires a new framework or a different framework; we want to work within the existing framework but obviously we want to be clear about the rules about the flexibility in all this. There was a lot of talk about various ideas coming up from different Member States about how they might like the rules to apply and some of them were more quietly said than others and then disappeared because people realised it would not be appropriate. I think that is the situation; it is, as I say, an on-going discussion that we are continuing to have with the Commission and their officials on this matter.

**Q12 Lord Richard:** Can I ask you about the Commission, are they being difficult or are they being helpful?

*Caroline Flint:* I think the Commission is being really helpful actually. In terms of the economic recovery package they have been very helpful. I do think they are looking for positive outcomes in these times and not only politicians in the form of ministers but also the Commission were able to respond to the situation and be seen to be acting in the here and now and what they could do to use what instruments they have at their disposal and how they could get help with a more coordinated response across Europe. That is when the European Union is at its best when it is looking outwards, it is focussed and actually can be seen to be tangibly delivering something. Of course the dominance at the Council in December was on the fiscal package but down the road with the G20 summit coming up there will be other issues around what transparency there needs to be in the international banking sector, what reforms might be needed down the road as well as looking at the jobs and opportunities packages that the EU might focus on as an aid to recovery as and when that happens.

**Q13 Lord Richard:** To put it in a sentence, you are not expecting trouble from the Commission on this.  
*Caroline Flint:* We have had no trouble so far so I hope that will continue.

**Q14 Baroness Cohen of Pimlico:** Northern Rock was a fairly early collapse, the canary, if you like, for the rest of the sector and therefore the whole state aid package might have been more strictly interpreted than now when the whole thing has blown up and therefore there might be a little more flexibility on Northern Rock than there would have been, say, a year ago.

*Caroline Flint:* Possibly. We also should remind ourselves that apart from the recapitalisation packages that the Government has offered to various banks we have also initiated in more recent times a number of other activities by Government to support increased lending, underwriting risk as well. We are constantly looking at where there are matters where we need the support of the European Union and we work within their rules but also there are other areas where we are acting to ensure that we can stop the banks going under but also support the banks lending again. The package that was announced in the last few weeks, hopefully as we see that actually working through the system, we might see some movement which is what we all want because that in itself is going to be the biggest driver, particularly reaching out into the real economy and getting things happening again.

**Q15 Lord Powell of Bayswater:** Is flexibility simply a polite word for a waiver?

*Caroline Flint:* I think it was part of the framework and I think a very wise part of the framework to allow for exceptional circumstances to be dealt with and we are all pleased about that in terms of the present situation we find ourselves in. However, I think it is not just a blank cheque to do what we want. It is very clear that the flexibility is within tight controls: is it targeted? Is it timely, ie it is needed at the present moment but also will it be temporary as well? The idea is certainly not, given this flexibility, for that to be the rule of thumb for any future opportunities. I think in this case we have a framework that has actually been able to respond to this exceptional situation which is good because I do not think we would all like to go back to a committee and have to negotiate from scratch the sorts of things we might need at this present time.

**Q16 Lord Richard:** So we will be asking the Commission to show flexibility by giving us a waiver.

*Caroline Flint:* No, we will continue to work with the Commission on a case by case basis in terms of things we are doing to make sure they are in line with the framework and meet their flexibilities in the

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framework they have outlined about how those flexibilities should be applied.

**Q17 Lord Freeman:** Minister, my question is about climate change. I declare an interest as Chairman of the Advisory Board of PricewaterhouseCoopers, consultants on the Severn Barrage. I have no involvement in that work except admiration for the complexity of work that has to be undertaken. Given the agreement in December within the European Union on climate change, a successful agreement on emissions, renewables and the prospect of the UK Government reaching some kind of statement or agreement on reduction in use through efficiency measures of energy, what should the EU be doing and how confident are you that the EU will influence the Copenhagen summit in December on climate change for an equally satisfactory outcome?

*Caroline Flint:* I am glad you welcome the decision. I have to say, in the months running up to the Council there was quite a lot of doom and gloom out there about whether a package would be agreed and it got incredibly tense, I think, in the final stages. However, we have got an agreement; I think it is a positive one. It does demonstrate how we can lead on these issues and use that in other international forums. I think the next milestone for the European Union is going to be the Spring European Council when heads will agree the EU's position ahead of Copenhagen so we really need to see a very concrete and substantive outcome of that Council because it is going to be crucial if the EU is to be taken seriously this year and to move negotiations forward. Without an EU proposal on finance in relation to supporting developing countries we will leave ourselves rather bare really in terms of moving forward. That is something we are working to. An EU offer, conditional on the right number of ambitions from developing countries I think would also help encourage other developed nations to step up to the plate and do their bit too. So we will be working through this. There is a ministers' meeting tomorrow to discuss our response to the Commission's recent communication and particularly to agree a position on climate financing. I am happy to keep this Committee and the House of Commons' counterpart informed about where that is going, and how our position is firming up proceeding towards the Spring Council.

**Q18 Lord Freeman:** Will the Spring Council also consider what I think many members of this Committee who are interested in climate change believe should be included and that is technological assistance? It is not just finance coming from this country and from the European Union, but technical assistance.

*Caroline Flint:* I agree, yes. Part of the debate within the EU has been around the technology that we need for example in carbon capture and storage and to invest there. Again I think that would certainly be part of our discussions; financial support as well as the means to make a difference as well as the technology that is associated with that.

**Q19 Lord Teverson:** Minister, I see in the Presidency conclusions that the 30%—which is, I think, the preferred target if certain circumstances are met—are described as long as the—and it is a rather new term—“advanced developing countries make a contribution commensurate with their respective responsibilities”. I presume that means basically that the BRIC countries come in and actually make some commitment to reductions as well. Is that not rather moving back to the Bush regime philosophy and surely is it not going to fail?

*Caroline Flint:* We set the 20% target reduction for the European Union by 2020 which, I have to say, was a major step forward but I think we wanted to leave the door open to stretching beyond that and again I think it was one of those situations where, having got everyone on the table and in the right mood, we wanted to open up the opportunity to agree something in advance so that we could act and have that door open. Obviously in discussions that will take place later this year there will be negotiations happening and I think to give EU negotiators the ability to go beyond what was set was important to that. I do not really see it as going back; I think this is all about moving forward and, again maybe this is the language of councils but I think it is very positive. As I say, what we wanted to do with this formulation was leave the door open to further stretch and not hamper the hands of EU negotiators thinking they would have to come back to the table with all 27 Member States and get permission to negotiate upwards. I think that is pretty good actually.

*Mr Guha:* Just to say, the 20% figure is commensurate with all the things that have been coming out of the Stern Review on the economics of climate change, the Government's commitment to the 80% reduction by 2050. If we can front load that to 30% that is great, but the EU has definitely demonstrated leadership even with the 20% figure.

**Q20 Lord Teverson:** What I was suggesting was that by tying 30% up now with a new condition that has always been refused by those countries, are you not shutting the door when you are appearing to open it?

*Caroline Flint:* Even though it has been shut in the past that does not mean it cannot be opened in the future. I think climate change has moved up the agenda. I think we have had some positive statements from the new president in America and also, I think importantly, it has been trying to get across the

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economic impact and cost of not doing anything. I am all for saving the planet—of course we all are—but actually the Stern reports clearly show that the costs of not acting now will get bigger and bigger down the road. That was very much part of our discussions, certainly where I had bilaterals in the lead up to December with my counterparts in the European Union. Within the European Union we had to configure into that some countries with particular problems and their energy supply and what have you, and I think we got a really good deal. I think it is a case of just keeping it alive along with, I have to say, more and more thinking about how technologies of the future can play into our jobs and opportunities and recovery: changing the way industry operates, changing the nature of jobs that currently exist and the training behind them but also thinking about the jobs that have not even been invented yet and what they might offer. I think there is a very plausible and real economic argument behind that and that is the sort of message we want to get across as well as saving the planet.

**Q21 Lord Trimble:** Could you not simply say that the more ambitious target is not capable of achievement unless the BRIC countries are in there trying to achieve it too.

*Mr Guha:* China is now the biggest emitter of carbon. If we want to have a viable carbon deal at Copenhagen we will need China to come on board and that was part of the discussions the prime minister had with the Chinese premier earlier this week. By setting the agenda at 20% we have set a benchmark which we are challenging others to come up with whether it be the US or the BRIC countries and this will be a tough negotiation but it is a negotiation which I think we have all agreed is one that will have to conclude and conclude soon.

**Q22 Lord Trimble:** I would interpret the Council's conclusions in the same way as Lord Teverson in that the Council was saying that 30% is conditional on BRIC coming in.

*Mr Guha:* It was a difficult deal to get to 20%. A number of other Member States, particularly the new Member States, would not have signed up to a 30% deal without some sort of quid pro quo from other major emitters.

**Q23 Lord Trimble:** it is not just a matter of getting the other Member States on board; we need to get BRIC on board to have any hope achieving that 30%. Without BRIC you will never achieve 30%.

*Mr Guha:* That is correct but essentially by giving the 20% benchmark we set a challenge and it is important that the EU as a whole did that to demonstrate quite good leadership.

**Q24 Lord Hannay of Chiswick:** On the same points that have been covered in recent questions I welcome very much that the March European Council is going to make progress on these issues of technology transfer to developing countries and finance for them, but surely the heart of this negotiation in Copenhagen is actually going to be the articulation of the relative obligations being entered into by the developed countries and the developing countries. They will not be the same—that is what Bali says—but if they are so different as to be meaningless we will end up at Copenhagen with a deal which does not actually reverse climate change. Is it not time that the European Union started to firm up a negotiating position for the different obligations that ought to be entered into by the two groups of countries because that is going to be at the heart of the future negotiation? Certainly what the Chinese prime minister said to the *Financial Times* was not particularly encouraging. The present intention for March seems to be to deal with part of the problems of developing countries but not the key one which is the relative obligations.

*Mr Guha:* I think we have already had a similar debate within the European Union whereas new Member States were arguing that they could reduce their carbon emissions massively from 1990. We had discussions on burden sharing and no doubt there will be a repeat of that when it comes to the wider international negotiations. I think it is a perfectly valid point.

**Q25 Lord Hannay of Chiswick:** Yes, but I observed in the House last Thursday that we cannot afford many more victories like the one in December if we want to reverse climate change.

*Mr Guha:* I am not sure I understand—

**Q26 Lord Hannay of Chiswick:** December is claimed to have been a great success for the European Union and I would go along with that, but it was a very close run thing and quite a lot of water was poured into the wine in the process. If we have the same approach in the run up to Copenhagen we risk having an outcome at Copenhagen which looks good on paper but does not actually achieve the only thing we need to achieve which is to slow down and eventually to reverse climate change. That is the point I am making, which is why at the heart of this negotiation will be this issue of the relative obligations of developed and developing countries. It would help, Minister, also if you could assure us that you will not be going off down the road of threatening trade protective measures against anyone who does not do what we want in this negotiation which has been talked about from time to time and which is, I think, a very dangerous course.

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*Caroline Flint:* As I said earlier, I think part of addressing some of the aspects around the finance package is about being able to provide something to developing countries but also at the same time have some expectation about what they should deliver as well. I certainly noted what you said, Lord Hannay, and I will make sure that my colleagues in other departments who lead on this are made aware of the Committee's views. As I said, there is a meeting of ministers tomorrow who are most involved in this situation and they will be deciding the UK's strategy. I will make them aware of the Committee's views and your views in particular.

**Q27 Lord Kerr of Kinlochard:** Thinking about Eastern Europe, the European Council liked the concept of the Eastern Partnership and I think there is going to be a summit meeting in May. The European Council wants to look again at the concept and has asked the Council to flesh it out. How is that work coming on? Can you describe the flesh that has been put on the bones? I admit that I do not really understand how detailed this new framework is to be. Can you tell us which are the areas where the Member States are divided about how much flesh to put on the bones, and what kind of flesh?

*Caroline Flint:* I think there is a pretty successful conclusion to this. The discussions are developing and there have been a number of discussions at official level that have had wide support. We are now going through other working groups dealing with trade, justice and home affairs issues and the Presidency will meet eastern partners this month. There are some key issues outstanding, financing being one of them. How the eastern partnership will complement the Black Sea Synergy and also involvement of third countries as well. As I detail in my notes to Lord Roper they have identified some money—I think something like 600 million euros—and what I understand will happen now is that during the course of this year and next year they will be using that budget line, if you like, as a way to incentivise bids and ideas to come forward and money can be provided. I understand it can take up to two years from the ideas going, getting partners who can help in these different areas but also making sure that there is the capacity there. There will be a launch summit on 7 May. That will actually also be followed on 8 May with an energy summit with the eastern partnership invited to be part of that as well which seems to me a good idea because obviously these countries are very important to the issues around energy security and supply. Again I think the way the Czech Presidency has put that together is a welcome initiative.

**Q28 Lord Kerr of Kinlochard:** The six countries are quite a disparate group; is there any qualification or hurdle they have to pass to become members of this club?

*Caroline Flint:* In different ways, looking at the list of countries, yourself and others will be aware about different levels of engagement and work within the European Union. Some countries in the group have got some EU sanctions being applied to them in different ways. It will be interesting to see, particularly in the next few months, for example whether Belarus are able to take some actions in order to have a good report which I think is due in April. There are different levels of engagement and cooperation already in these countries, but I think what holds them together is their location and the geographic position and those particular aspects. They are different in different ways and there is not necessarily a one-size fits all in terms of EU's relationship with them or, for that matter, their relationship with the EU. Some are clearly ambitious about a much closer relationship and even to be part of the EU family; others are looking westwards in terms of potential opportunities for their country in the future.

**Q29 Baroness Howarth of Breckland:** One of the issues that comes up quite often in this is the question of human rights in these countries. I am very interested in the agenda setting for the March and the May discussions because when we interviewed the Czech ambassador he was quite clear that the Czechs were not interested in the social issues that relate to the EU and I think we are aware that some of the directives relating to women's rights have been questioned in relation to their implementation in some of our EU partner countries, never mind those in the eastern partnership. How are those kinds of questions going to be raised at a time when economics and climate change crowd the agenda, and yet these are the issues that will affect individuals on the ground?

*Caroline Flint:* I think they are ever present and one aspect of rule of law and the way in which countries tackle corruption is very important in terms of individual human rights but they are also about the backdrop to businesses wanting to work in those countries, particularly if they are going to have their own staff placed there over a period of time. It is one of the issues that many businesses say puts them off investing because of lack of confidence in the courts, the way in which social society is organised and the impact that can have particularly if there is a British company employing a local workforce as well. It is not about trade versus human rights; we believe the

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two absolutely have to go together. Governance, democracy and rule of law are absolutely key to that as well as the transparency within which these systems operate. We think that is important. What we believe is that the benefits that the closer collaboration with the EU can offer can incentivise, we hope, these countries to make some changes and I think we have some evidence of that with countries that have joined the EU—I am not talking just about the last round but going back even further—so that is something we will continue to work on. It does mean that it is something that the EU does but we also do in our bilateral relationships as well. Certainly in relation to Belarus I was very clear about this when I met them.

**Q30 Baroness Howarth of Breckland:** While you say it is implicit, that is what the Czech ambassador was saying and we were saying it needs to be made explicit. I assume our government will make these issues explicit as well as implicit.

*Caroline Flint:* I think we always do make it explicit and do not shirk the opportunity to do so.

**Q31 Lord Sewell:** Coming back to climate change, I think there is every likelihood that whatever comes out of Copenhagen will be declared as a great agreement that has the potential to save the world. If it is going to save the world it needs to be implemented quickly. Would you like to say something about the framework to ensure implementation, that whatever comes out is actually delivered. Also would you say something about financial assistance to developing countries? I certainly detect within the Commission a growing concern that the developing countries themselves would prefer to see that financial assistance in terms of general development aid rather than specifically focussed policy assistance to enable them to reduce emissions. Finally, if you look at the BRIC countries in terms of human and physical assets at risk they are going to be the greatest beneficiaries of a successful attempt to control climate change, but the rhetoric is not particularly helpful. Certainly last year the Indian Government seemed to be somewhat detached from reality. Do you detect any change in rhetoric from the BRIC countries?

*Caroline Flint:* Dealing with the first point, as I mentioned earlier the Commission has published a document in which it has outlined two mechanisms (without recommending one over the other) to provide new sources of finance. As I said, the relevant ministers here in the UK are meeting tomorrow when they will be looking at that document and thinking about what position we feel would be most useful to this. You will forgive me if I do not pre-empt their discussions tomorrow on that.

**Q32 Lord Sewell:** Would you agree that implementation is vital.

*Caroline Flint:* I absolutely agree with you and that is why getting the right package around incentivising these countries to be part of a package is very important. We are also looking at another aspect of the communication which recognises domestic cap and trade systems and an effective way for countries to reduce their greenhouse gas emissions. Again the EU could assist developing countries over time in adopting systems similar to this. Ananda, did you want to add something?

*Mr Guha:* I was going to make a couple of points actually. Firstly, on the clean development mechanism those are very specifically projects that will benefit developing countries. China, where I was posted for three years, is the principle beneficiary of the clean development mechanism. Even while I was there between 2005 and 2008 as to the question you asked about whether we have seen a change in rhetoric, I think the answer is very firmly that we have. The Chinese have published their national climate change plan, for instance, and I think they recognise it and reports like the Stern Review—commissioned by the Chancellor as was—have been very influential in changing their thinking on it and that has to be a positive development ahead of Copenhagen.

**Q33 Lord Sewel:** What about India?

*Mr Guha:* In India there has been a very similar debate and I know the Stern team have been out there and have had very productive discussions.

**Q34 Lord Richard:** Coming back to the eastern partnership concept because I share some of the concerns that Lord Kerr has expressed. I suppose the trick with these countries is how do we encourage better relations in the EU and this group of countries without upsetting the Russians too much. If you alarm the bear no doubt he would retaliate. There is a balance to be struck there. It seems to me that there is a danger that the EU is perhaps displaying too much enthusiasm for relations with eastern partnership countries and perhaps we should treat it more circumspectly and take it slowly and calmly. Do you share that view?

*Caroline Flint:* I hope we are taking it calmly. As I said before, the relationships with these countries—the six in the eastern partnership—vary enormously I think in many respects in terms of the existing cooperation and agreements that we have with them. Some are very keen to have a journey towards membership of the EU; others are not in that situation. What I do think is important is where we have countries who wish to work more productively with the European Union that is up to them to decide. I do not think that should be seen as a threat to historical culture and

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other links with Russia. Many of these countries will continue, whatever their relationship with the EU, to have constructive relationships with Russia as a near neighbour and the interlinking of their existing trade with that country is likely to continue for the foreseeable future. Likewise, Russia's relationship with the EU is very important as well; Russia I think has benefited much from that relationship and should continue to do so. I think this is about the 21<sup>st</sup> century and living in a modern world where countries want to look at what is best for their citizens and part of that is about looking westwards towards the EU and I do not think that is a bad thing. Of course concerns have been expressed but I think we just need to deal with some of those concerns head on and say what this is about. This is about opportunities for our system to prosper from association but also for these countries as well. This is not about a threat to anyone. Some people might not read it like that but I think that is the case and we have to keep making that case, what it is about rather than what it is not about.

**Q35 Lord Hannay of Chiswick:** Is it not the case that the excess of zeal really lies in Moscow, in the Russian Government which has an excessive amount of zeal for re-incorporating these countries in what they call a sphere of influence, which is something which would be against our interests and certainly against the interests of these countries. Are we making any progress at all in getting into a situation where the EU really does have a properly articulated and unified policy towards Russia or are we still living in a world in which, whenever the Russians want to, they can divide and rule?

*Caroline Flint:* In terms of your first remark I do not believe there is a post-Soviet space that Russia has the right to dominate. Secondly, I think that in relation to the EU, as the Committee will be aware, it was agreed to re-start discussions with the Russians in terms of a partnership or cooperation agreement. That covers a multiple number of areas and what was very clear when the decision was made to re-start those discussions was that the tone and pace of them would be determined by Russia's engagement and involvement but also the outstanding issue of Georgia. We want to have, as they say, a rules based engagement with Russia and one in which we can work openly and productively and also one in which we have to set the pace of those against how Russia acts in a constructive way as well. As you will all be aware the Ukraine/Russia gas dispute I think focussed everybody's mind and attention about energy supply more than anything that had been written on paper before. I was in Prague for the Czech Presidency foreign ministers informal meeting and it dominated our day of discussions. Parallel to our discussions the Commissioner responsible for energy and the energy minister from the Czech Presidency

were having meetings with both Russian representatives bilaterally and Ukrainian representatives. I think it would be fair to say that around the table people were very concerned about what had happened. Now I think equally people are concerned about Ukraine's involvement in this. It really drew into stark attention the need to look at the issue productively and speed up our approach to energy security and supply. That is why I think discussions later this year about the package around investment in these areas and looking at all the pipeline issues and interconnection issues has been very important.

**Q36 Lord Dykes:** Sometimes it can be a question of personalities and in view of the two or three encouraging interviews you gave to the western TV media do you think there has been a significant psychological change with President Medvedev instead of President Putin?

*Caroline Flint:* I would like to think that the international reactions to what happened in Georgia gave our Russian colleagues some pause for thought. I think the continuing relationship with the EU has been caveated by wanting to see a more positive engagement by Russia as well and we will continue to work with Russia. However, when we feel that Russia is not acting appropriately we will say so as well; whether it is the Georgia situation or the gas supply situation the EU showed it was ready to do so even though we have 27 Member States round the table who obviously have different types of relationships with Russia as well. I think it was a pretty good result.

**Q37 Lord Teverson:** The Commission has proposed biennial summits of heads of state and government of EU Member States and the six eastern partner countries. How valuable do you think these summits will be in comparison to bilateral summits between the UK and individual countries? Is there going to be room for these in the diplomatic heads of government merry-go-round given the fact that we already have a Mediterranean Partnership, a Nordic Council and no doubt you could name many more than I could.

*Caroline Flint:* I might come back on that answer after we have seen how they are working in practice. I think they offer value to individual bilateral summits. What is important about them is that where they take place they should be well prepared and the agenda should be something that has some outcome from it. To that end I think they are quite useful. They will be a demonstration of high level political support for these countries and working with them but I think the proof will be in terms of when they take place what actually happens and we will watch that with interest. I have some sympathy with your point of view about summit-itis and how packed the diary is. I say that, sharing my angst with you about the calls on my time

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to spend in various meetings. I do not mind meetings as long as they are meetings with a purpose and we get some added value out of them. I think they are helpful and if we can see how our bilateral summits feed into them and help complement them and create momentum they will be great but we need to see them working in practice and see if they are working well or if they need to be thought through again.

**Q38 Lord Richard:** Can I come back again to the Ukraine? How reliable a partner do you think the Ukraine will make for the UK? Indeed, how reliable a partner would they make for the EU given the gas dispute troubles and the economic troubles? How should we approach them?

*Caroline Flint:* I visited the Ukraine not so long ago; I went down to the Crimea and got a flavour for the different parts of the country. It is clear to me from that visit that Ukraine really does want to be part of the European Union and among its public it is very popular. They want to be a reliable partner; I think they do want to become a normal European country but it is not easy. I think it is part of our role to see how we can assist them to attain that goal. We are working in different ways with them. I think the energy situation in one sense shows how much work needs to happen in the Ukraine as well. As a constructive friend of Ukraine it is important to say that the actions that happened did cause a lot of disquiet amongst EU partners, equally so Russia as well. Again I think they have to demonstrate this year following previous EU reports about the country how they are going to get down track and part of that I think is about political unity in the country to deal with some of the areas that it has to deal with to be shown to be making a difference. There is a lot of support for Ukraine and I think within Ukraine there is definitely the will. It is making that happen that I think is going to be key. As I said, I am glad the initial situation was resolved. If it is resolved to an extent as well in terms of the issues about the gas prices and what Ukraine pays and so on and it does not lead to a repeat of the situation next year then I think that will be good. One of many things that have come out of this dispute is trying to get a contract onto a better basis, the sort of commercial basis that needs to exist for a country like Ukraine to become part of the way in which we do contracts and facilitate contracts as EU Member States.

**Q39 Lord Teverson:** Minister, did we really have all the same machinations back in 2006 when this happened then? It obviously has not been a complete failure as proven by the fact that we have the same problem this year.

*Caroline Flint:* You are right, that is why I said that I hope this time next year we actually do not have a recurrence of what has happened. The way this cycle

has developed has been very worrying but I think what has made a difference in terms of previous occasions is how this crisis really galvanised the EU Member States and the Commission to think about what role we needed to play to deal with this. I think it is quite difficult for the European Union because obviously it is a commercial contract and it is not really the role of the European Union to act as an intermediary broker. We may want to play that role in this situation but we do not want it to lead to precedent to other situations. However, I think where the EU did show some leadership was to recognise that there were political aspects to this that they could act as a broker on but also that within limitations to get parties talking to each other and finding a commercial solution. The other side of it is the way in which it has galvanised EU Member States to think about energy policy and step up their determination to look at some of these issues around renewables but also energy pipelines which again will develop more during the course of this year and energy ministers meet and talk about getting some of the ideas and pilots under way and within that the relationships with countries that are going to be party to those sorts of developments. I hope we are not going to be in the same situation of a repetition of this and I think the actions the EU took this time were correct and pretty helpful to making sure it does not happen again. I do not want to be complacent; we have to work hard at this.

**Q40 Lord Hannay of Chiswick:** Surely, Minister, the European Union has committed itself to a stimulus package and is looking for ways of improving infrastructure in a way that is useful. It has had on the table since the gas crisis of 2006 Commission proposals relating to interconnectors to join up the existing pipeline system, provide for gas storage and for more LNG terminals. All these are things that need to be done, not just written on pieces of paper. Is there any hope that at the March European Council—where I think energy is going to be one of the principal subjects—they will actually take some decisions instead of just sending the Commission away to re-write papers that have been re-written any number of times already?

*Caroline Flint:* I think you would agree that we need to see the EU budget being used to support our energy strategic objectives and whether that is the interconnection projects (because obviously one of the concerns in the recent crisis was that gas was available in Europe but you could not get it from place to another quickly enough) or the issues around the southern corridor and I think there is more work being done to look at that as well. We see that as part of the EU economic recovery package. What we would like, as part of our agenda I suppose, in terms of the EU is to see the budget of the EU being used

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for things that we really do think make a long term difference to our prosperity and security. Certainly energy security and supply are key to that and I think there will be some more development around this but certainly those areas I have outlined have been earmarked as part of the economic recovery package.

**Chairman:** Minister, thank you very much indeed. This has been a very useful and helpful session. You are certainly having a rather busy scrutiny week because I understand you will be with our colleagues in the Commons tomorrow. Thank you very much again.

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