

TUESDAY 3 FEBRUARY 2009

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

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.

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 per cent 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 per cent of German GDP over the next two years. Eleven other countries, including the UK and Spain, have implemented measures of over one per cent 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 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 hundred per cent 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 per cent 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.

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 – that 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 aids 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 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 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 per cent – 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 per cent 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 per cent 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 per cent reduction by 2050. If we can front load that to 30 per cent that is great, but the EU has definitely demonstrated leadership even with the 20 per cent figure.

Q20 Lord Teverson: What I was suggesting was that by tying 30 per cent 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 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 per cent 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 per cent is conditional on BRIC coming in.

Mr Guha: It was a difficult deal to get to 20 per cent. A number of other Member States, particularly the new Member States, would not have signed up to a 30 per cent 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 per cent. Without BRIC you will never achieve 30 per cent.

Mr Guha: That is correct but essentially by giving the 20 per cent 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.

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 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 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 21st 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 summititis and how packed the diary is. I say that, sharing my angst with you about the calls on my time 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 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.