

## We haven't solved financial crisis yet

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Hans-Friedrich von Ploetz - Member of Council of Baltic International Bank, former state secretary to the Ministry of Foreign Affairs of Germany and German ambassador in Russia - in the interview to "Dienas bizness".



**What was your motivation to begin working at Baltic International Bank, and what do you plan to influence by taking this position?**

It has rather long background history, because I have always been interested in the Baltic Sea region - I have spent 5 years in Finland, and when the significant political changes took place here, me and my wife travelled in the region, and stopped in Riga as well. I felt in love with the city from the first eye-sight, and from that time I have been here quite often, also working as state secretary to the Ministry of Foreign Affairs of

Germany, because one of my most significant tasks at the beginning of the 90ies was stabilizing the situation in the Baltics and closer integration of the region in the European Union.

Speaking on the banking sector, my personal opinion was that both the geopolitical placement and the historical experience of all parties should be used. I thought that the interests of the Baltics would be best served by developing friendly relations with neighboring Russia and other successor states of the Soviet Union, thus becoming over time something like a Switzerland for them when market economy and rule of law – two key features of the EU were established there.

And indeed, the banking sector started to be more and more important after Latvia joined the EU. Money matters, and if peoples from two countries interact positively, it's a good basis for strong banking system, right?

Another important aspect of course was security. It came to the foreground when a new NATO strategy was elaborated in 2009 and 2010. The working group included 12 people; I was one from them, as well as Aivis Ronis. He introduced me to Valērijs Belokons when I attended one of the Baltic Forums in Jūrmala devoted to the topic of security in the region. We had an interesting conversation, and –after subsequent meetings in Riga and Berlin, he invited me to join the supervisory council of the Baltic International Bank.

I thought for a long time whether I could make a good contribution in this context – and now I'm here. I have been a member of the supervisory board of several other companies, including a big bank, and with my background in diplomacy I have always been like a white sparrow in them. Nevertheless I think that a “white sparrows” who doesn't think “in box” can be quite useful, though colleagues sometimes were not happy with somebody asking “strange” questions. But – most of them were not only interesting but quite relevant.

**You mentioned the perspective of Latvia to become a kind of Switzerland for Russia. The banks working with non-residents, experience increasingly intense problems in Riga. How do you evaluate it?**

Baltic International Bank had certain problems as well. The recent decision of FCMC was quite drastic, and it can be explained by their wish to create a clean and transparent banking system in Latvia. I was connected to that topic in a different way when I was German ambassador in Russia – at that time I dealt with political responsibility. It is important to know that FCMC has in the context of its recent decision recognized that

the performance of Baltic International Bank is fully in line with all requirements of compliance.

**Was it connected to real shortcomings of Latvian banks? Sometimes it is said that there are just attempts to divide non-resident market, which is attractive to other players as well?**

There are different arguments, depending on which side you are standing. I have noted that such questions arise also in the context of other banks. In one way or another, a conflict can arise everywhere, because one part of the bank wishes to make business, and other parts responsible for supervision and are compliance insist on respect for all relevant rules. The answers are not always simple. I hope that my work can also help Baltic International Bank to maintain their compliance to requirements.



**How do you think, what are the main steps which should be taken to strengthen Latvian banking system and improve its reputation?**

Looking from macroeconomic perspective, a political decision has to be taken what kind of banking sector Latvia wants. It is clear that the business model implemented for example by Swedish banks is “easier” from the perspective of supervisory institutions. On the other hand, there are good reasons for any country to have a strong element of

banks which are “at home” there. There are good arguments that a balanced mix is the most beneficial for the country in general. Competition may not be a bad thing.

**Sometimes FCMC come with strict requirements, for example, like now - all customers of banks have to complete a survey, answering if they have close relationships to some politically significant person. Is the same situation in Germany as well?**

I have acquainted myself with the requirement in Latvia, including the aspect you mentioned. . But don't we know that such discussions take place everywhere? And is it not true that when a person grows up, he or she is often confronted with problems in the process of becoming a mature person. Countries which have regained their independence recently are also confronted with the difficult challenge to develop effective and stable institutions which respect the rule of law. I look forward to meeting representatives of FCMC, perhaps soon after the period of summer vacations.

**European banking sector can experience certain changes in the context of Brexit. You have been the ambassador in UK, how do you evaluate the development of events?**

One might say that I'm a specialist for countries which do not know if they want to belong to Europe - after having served both in Great Britain and Russia. British people have always protected a liberal, logically regulated big market and thus reinforced such policies in the EU. But while it is clear that the decision taken by the British people has to be respected it is far from clear where it leads us and what will be its impact - the initiators of Brexit don't have clear arguments on that. I was in London 3 days after the referendum, participated in an event with some 600 people, and many of them asked me - what should we do now? Inevitably, the situation is very serious and unclear.

**I read that Frankfurt is awaiting thousands of new working places in the banking sector in connection to Brexit. Can Latvia get some benefit as well?**

I'm very prudent and don't make populist comments on such an important subject. For a market as important as that of the EU it is vitally important to have a well developed and well performing banking sector. Thus, the financial service sector in London performs important functions not only for the UK but for all EU countries. . In the globalized world it is very significant that such a globally relevant financial center is situated in Europe. If Great Britain will exit EU internal market, of course, there will be discussions on whether and how certain functions will have to be re-located, I just mention the important issue of the so-called pass-porting of British banks if the country

ceases to be a part of the internal market. Prudence is necessary when tackling such issues. It will not be easy.

**What do you think on overall financial situation of Europe, for example, on 0% rate policy of ECB?**

There are many prominent financial experts who say that we haven't solved financial crisis yet. And I'm afraid that they are right. But inside the EURO-zone we have made important steps aimed at overcoming the crisis, which were believed to be necessary but impossible to take at the beginning of introducing single European currency, for example, the creation of the banking union. These steps were made despite the very different positions at the beginning. Also the position of Germany has changed significantly as well, but the final goal is not reached yet.

When discussions on currency union were taking place, the topic on how far the unity should be organized was widely discussed in Germany. There were many respectful financial experts who emphasized that at first we need a politically - economical union, and only afterwards we can create a joint currency union. In an ideal world the process should have been taken such an order. But, from the other hand, in the United States it took more than 40 years and several failed attempts to create Federal Reserve System.

A certain sense of humility would probably be helpful when criticizing certain shortcomings of the EU: They are often a consequence of the fact that its members are individual states with a long and proud history and domestic processes of dealing with social-economic problems are very. For example, populations of different countries have different attitude towards saving or national debt. There has been a certain progress in creating integrality, and I belong to those who recognize this while insisting that we haven't reached the goal yet.

**You have been also the ambassador of Germany in Russia. How do you evaluate the sanctions against Russia, how effective are they?**

Russia has been in recession for some time. It has experienced a significant decrease of value of ruble. However, it would be incorrect to say that these sanctions are to blame for this. Two other factors were much more important: firstly, the decrease of oil prices, it began well before the events in Crimea and Eastern Ukraine which led to the sanctions. This is also true for the second reason: Overdue structural reforms in Russia have been postponed and postponed. Thus productivity and competitiveness of the

Russian economy suffered. Sanctions contributed, especially the rather painful limits on Russian access to international financial markets, but only in third place.

**Germany sometimes is talking on ending the sanctions, but the overall position of European Union is stricter. How do you think, how long the sanctions will be in force?**

I don't know anybody who is happy with sanctions. This instrument has been used just in very significant cases. Sanctions are an unmilitary instrument of reacting to very significant disturbances in relationship among countries.

We were profoundly disturbed by the fact that Russia changed borders in Europe, using also military instruments. Yes, it is possible to change borders in Europe, for example, we can mention the recent unification of Germany But this step was taken slowly and in full respect for all relevant treaties - and with the approval of all other countries concerned, i.e. of all OSCE-countries.



This process lasted for decades. In our relations with Russia we succeeded only because we focused on the step-by-step improvement of our relations and deliberately excluded the ideological component. With Crimea, there is a similar situation. When a member of the German government asked for my opinion I answered with an expression we have

in German – a possibility creates thieves. If Ukraine would have been less weakened by crisis and corruption, it would not have happened. My interlocutor agreed.

When I this to my friends in Moscow, they said that it's nonsense, because "you cannot steal what you already possess!" Maybe this illustrates the fundamental disagreement between Russia and our countries. Thus, sanctions were an unavoidable way of expressing our disagreement with Russian behavior.

Another aspect of this problem, the security of our own countries, was one of the main issues discussed at the recent NATO summit in Warsaw. On one hand, emphasis was put on strengthening defense, in particular with regard to concerns voiced by the Baltic States and Poland. The second pillar of Alliance policy is the readiness to but resume and intensify relations with Russia. Regarding the above mentions sanctions, the Alliance confirmed its hope that full implementation of the Minsk agreements would allow to lift them soon. In this context, we have to admit that Ukraine is a complicated partner. Thus the situation remains difficult.

### **How do you evaluate the result of NATO summit in connection to deployment of army units in the Baltics?**

It corresponds to the already mentioned new strategy of NATO which was and approved in 2010. In the run-up the need for reassurance was raised by the same countries as now in Warsaw. In face of a perceived military threat there are always two options to deal with it: Firstly, one can reinforce one's own military capabilities secondly one can try to convince the other side to eliminate the reasons for such perceptions either by reducing his armaments or be agreeing to so-called confidence building measures, for example to refrain from surprise big military exercises close to the borders of its neighbors.

At the end of the Cold War we reached a comprehensive agreement with Soviet Union on such measures. Unfortunately, most of them have been suspended in the meantime. In this respect, the fact that President Putin reacted positively to a recent suggestion by President Niinistö from Finland to agree on certain steps to increase transparency of military flights over the Baltic Sea region is a positive signal. - small, but nevertheless a welcome step to improve mutual trust.

Given the fact that the budget of Russian state is under very strong pressure, there seems to be also from this side an important incentive to try and reduce military

spending. One might say this is common sense, but that logic is not always prevailing in international affairs.

When I discuss such issues with friends and former colleagues in Russia, I have recently asked them what should worry us in the West more, Russia's strength or its weakness? Interestingly, without any exception and without any hesitation all of them replied: "Russia's weakness!"

Here is another aspect of this complex problem: The future of fossil energy is increasingly unclear, Big international investors, Warren Buffet and the Rockefeller foundation, are reducing their investment in fossil energy to zero, trillions of Dollars are leaving this field because they are afraid to lose their money. Recently, Deutsche Bank announced that it will no longer invest in the coal business.

Thus, countries like Russia whose national budget relies heavily on revenue from oil, gas and coal, have good reason to diversify their economy. Such reforms have been talked about for many years.

I think it is high time to resume cooperation in this field. It would be in the best interest of Russia and of its neighbors and partners in the western world.

In this context, I consider the introduction of a new focus area in investment activities of the Baltic International Bank - it is a first in the Baltic countries - as potentially very promising: a focus on investment in sustainable, environmentally friendly fields and technologies. This shift finds important parallels in many other countries. There are many in Germany who believe that we could be at the threshold of another economic miracle - this time a "green" miracle. Older Germans still remember the "Wirtschaftswunder" (economic miracle) soon after the end of World War II.

**How do you see the cooperation of Europe and USA, for example, in the context of the TTIP agreement?**

TTIP has a big economic and strategic significance. If it will not be possible to agree on such an important and profoundly stabilizing agreement between the two biggest players in international trade - the USA and EU, - we'll learn the hard way that others are not sleeping. Of course, it would be preferable to have a comprehensive global agreement, but that is out of reach. Thus, TTIP would have a huge global impact because it creates common rules that facilitate more than half of international trade.

And don't we know that those who define the rules of global trade will have great advantage?

Unfortunately, critics in our countries often overlook this strategic aspect. They prefer to focus their criticism on details like chicken in chlorine, an issue long removed from the agenda!

**How do you think, what will be changed in global perspective by the initiative of China to create Asian Investment and development bank?**

It is an important initiative and a significant challenge to the traditional big players in this field. The US opposed the move and tried to persuade Europeans to do the same. But France and Germany, and even Great Brittan decided to become a founding member of this new instrument of international financing. We'll see if we'll succeed, but to our opinion joining the new bank is a preferable option. Self-confidence is always stronger when Europeans act together.

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