The Economic Club of New York

Valdis Dombrovskis
Vice President, European Commission

April 11, 2019
New York City

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Introduction

Vice Chairman Michael O'Neill

Good morning, and welcome. I'm Mike O'Neill, Vice Chairman of the Economic Club of New York. I'm very pleased to be able to introduce our honored guest, Valdis Dombrovskis, who is the Vice President of the European Commission responsible for the Euro and Social Dialogue and also in charge of Financial Stability, Financial Services and the Capital Markets Union. His responsibilities include supervising the economic and fiscal policy coordination in the European Union, as well as developing and negotiating proposals to strengthen Europe's Economic and Monetary Union.

In this role, Vice President Dombrovskis was involved in managing the 2015 Greek crisis and is responsible for the Macro-Financial Assistance Programmes to Ukraine. As the EU Finance Chief, he is working on the completion of the Banking Union and setting up a genuine Capital Markets Union for Europe. Vice President Dombrovskis leads the European Commission's initiatives related to the future of finance, including FinTech, crypto assets and sustainable finance. I would say that's quite a portfolio that the Vice President is in charge of.

Before becoming European Commission Vice President, he served three consecutive terms as Prime Minister of Latvia , becoming the longest serving head of government in Latvia's history. He was Latvia's Minister of Finance from 2002 to 2004. Twice elected a Member of the

European Parliament – 2014 and 2004-2009, and Head of the Latvian Delegation in the European People's Party Group. He served as a member of Parliament of Latvia from March 2004 to June 2004 and again from January 2014 to June 2014. Before entering politics, he worked as a Senior Economist and Chief Economist at the Bank of Latvia. He co-authored the book, *How Latvia Came Through the Financial Crisis*, published in 2011. A native of Latvia, he graduated with a degree in physics from the University of Latvia and economics from Riga University of Technology. He received his master's degree in physics in 1995 from the University of Latvia. Earlier, he worked as a research assistant at Mainz University, Germany at the Institute of Solid-State Physics in Latvia and the University of Maryland.

After some opening remarks, the Vice President will be joined on stage by club member Bill Rhodes for a fireside chat. Bill is President and CEO of William Rhodes Global Advisors, which he founded in 2010 after he stepped back from full-time responsibilities with Citi after more than 53 years with that institution. He most recently served as Senior Advisor, Senior Vice Chairman, and Senior International Officer of Citigroup and Chairman, President and CEO of Citibank before his retirement in 2010.

I'll be sure to save some time for questions from attending members and guests, starting with questions from members of the 2019 Class of Fellows. I want to remind everyone that this event is on the record. And in addition to streaming it on Facebook Live, we have media in the back of the room covering the event.

Please be assured that as always we will wrap up promptly at 9 a.m. Mr. Dombrovskis, the podium is yours. (Applause)

Valdis Dombrovskis

Vice Chairman, European Commission

Honorable Mister O'Neill, ladies and gentlemen, first of all I would like to thank the Economic Club of New York for this invitation and for the possibility to speak here. For decades, we have taken multilateral system for granted. But now we have to ask a question, can this system withstand the pressure from isolationism, protectionism, and from economic nationalism. There are new uncertainties stemming Brexit, trade tensions, geopolitical developments, and climate change.

For example, trade tensions puts an architecture of multilateral cooperation in question. Yet, these tensions are merely a fever signaling deeper trouble which is that not everyone has benefitted from globalization. Many people feel left behind. This societal malaise is something that we are seeing in many countries across the world. Probably the most visible symptom of this sentiment in Europe is Brexit. And I think that Brexit is loss for Europe.

First, it's a loss from a geopolitical point of view. We share joint history. I know this as a Latvian. Exactly one century ago, British navy ships helped secure my country's independence.

Today we share foreign policy defense and security interests. Brexit hopefully won't change that. But in practical terms, it could change the way we take action or share intelligence in a timely manner. Second, Brexit is a loss for EU policymaking. Not everyone in Europe shares this point of view, but I believe that UK support for free market economic principles has helped to strike the right balance on economic policy in Europe. Third, the European Union is losing the City of London, our largest financial center. It's like New York leaving the US and taking Wall Street with it.

Last night, EU leaders, including Theresa May, avoided the most destructive of all scenarios – no deal Brexit. No deal Brexit would have had considerable negative impact on people and economies, notably in the UK but also in the rest of the EU. This is why achieving a flexible extension until the 31st of October this year was so important. It gives six months for the UK government to decide on their preferred scenario and it gives European Union possibility to focus on our priorities.

Brexit has also shown us the real value of what the UK is walking away from. By this I mean our biggest asset, the single market. It accounts for over 500 million consumers, 22 million businesses, and a GDP of over 15 trillion euros. It makes us the second largest economy after the US. The size of this market also helps us negotiate beneficial trade deals worldwide. We have recently used it to strike broad trade agreements with Japan, Canada, and Singapore. We have a deal in principle with Mexico and negotiations are ongoing with Mercosur, Australia, New

Zealand, and others. In addition, the single market is an asset for upholding our continent's values and influence in the world – values such as respect for human rights, for sustainable management of resources, fair working conditions, and multilateral cooperation. And let me be clear, this will not change, whatever comes out of Brexit. Because, ladies and gentlemen, international rules are not a constraint but a safeguard for everyone. Moreover, we need them to tackle threats and challenges such as climate change, terrorism, or cross-border crime. This is why the EU is firmly committed to keeping the global economy open and rules-based. We support an inclusive multilateral trading system with the World Trade Organization at its center. And we strongly support the WTO Reform agreed by the G20 in Buenos Aires. As regards international financial architecture, let us also stress that we continue to see a central role for Bretton Woods institutions. We need an adequately-resourced International Monetary Fund. Its role in global financial stabilization cannot be overestimated. And we need to implement the capital increase of the World Bank as decided last year.

This brings me to my area of responsibility – the financial sector. I can say with pride that EU and US regulators fully share the vision of global financial markets that global financial markets require global cooperation. In the wake of the crisis, Europe worked hard and well with the US and other major economies to overhaul international regulatory architecture.

In the context of Brexit, preserving financial stability remains a shared objective for the EU and UK and both of us have already acted to minimize financial stability risks. But although we are well prepared, we cannot fully mitigate the negative economic effects of Brexit, especially in the case of a no-deal scenario.

Leaving the EU, the Customs Union and the Single Market would mean no automatic market access for UK firms and no passporting rights. In our future relations, each side will set their own regulatory standards. This is probably what Brexiteers meant when they were talking about taking back control. Nevertheless, the UK and EU financial systems will remain interconnected. We will need to cooperate closely on regulatory and supervisory issues.

So, the question is: what is the best way forward? If approved by the UK Parliament, the Withdrawal Agreement and the Political Declaration foresee for our future relations to use equivalence. This means that if UK rules and supervisory practice stay very close to ours and achieve equivalent outcomes, then we will rely on them and the UK will rely on our system. We will assess this sector by sector, law by law. It must be said that the EU's current system of equivalence is one of the most developed in the world. It is tested, operational and respects democratic accountability. And as the UK is leaving, it will be even more important for the remaining 27 EU members to combine their national markets into one single capital market.

For past months and years, we have laid the basis of this. The EU has adopted 11 out of 13 legislative proposals that the Commission would forward on the table to develop the Capital Markets Union. Deeper and more liquid capital markets will provide European businesses with more choice on how they raise funds and give new opportunities for savers and investors.

A single market for capital does not mean that we replace London with just another European city. In fact, we are combining and linking a number of financial centers to form a joint and integrated capital market, based on passporting, a single rule book, and a close convergence of supervisory practices. For example, we see trading venues relocated to the Netherlands, repo clearing moved to Paris, and some asset managers and insurers have moved to Belgium, Luxembourg, and Ireland. With the Capital Markets Union, we are building preconditions for financial markets to prosper in their new destinations.

Ladies and gentlemen, surprisingly, the biggest threat to multilateralism is its own success. By this I mean that some of the big winners of global trade – countries like China – are flexing their muscles. This challenges the way global institutions work. In the past, America was the world's economic watchdog. Today we see multi-polarity in the form of increasingly competitive global players. In this context, the US and EU have shared interests. To start with, there is a volume of trade that crosses the Atlantic. The EU and US together account for about half of the global GDP and nearly a third of world trade flows. For example, last year, the US exported well over $300 billion in goods to the EU. And the EU is the largest source of foreign direct investment in the US, which means millions of jobs.

This makes it clear that measures that would target certain European goods, such as often-mentioned German cars, would not only violate international trade rule, they would also hurt US consumers and cost American jobs. The EU will stand strong against such measures, which certainly cannot be justified on the grounds of national security. But the EU and US have a strategic partnership that goes further than trade. This partnership has ensured stability and certainty for decades, and it gives us a competitive advantage to address the challenges of tomorrow.

On the economic side, one of our shared challenges is maintaining high levels of productivity growth. This is necessary to continue to compete globally and ensure prosperity for our citizens. Yet productivity growth in both the US and EU has slowed down in recent years, especially since the financial crisis. At the same time, many emerging markets – most notably China – continue to enjoy rapid productivity gains. They are driving their economies towards higher value activities.

Population aging is another important challenge that we share. It poses risks for sustainability of our public finances. In the EU, pension spending amounts to 11% of GDP, while in the US it is 7%. In Europe, many countries have undertaken major reforms of pension systems. But we still need to do more to ensure the sustainability of our pensions, healthcare, and long-term care systems.

Then there is the challenge of climate change. A recent study found that investors are underestimating the risks in their portfolios to extreme weather events, such as hurricanes or wildfires. For example, the city of Miami has already lost 1% of its potential GDP due to climate change during the past decades. This means that reaching the Paris Climate Agreement targets matter not only for our Blue Marble, but also for the economy. The EU wants to be a global leader when it comes to climate action. But we also wish to give EU companies a head-start in the race to invest in climate-neutral solutions of tomorrow. We have recently proposed a strategy for the transition to a climate-neutral economy by 2050. But for this, trillions of euros of investment are needed for new technologies.

Let us take just one example: electric batteries, which is a strategic sector where EU must step up investment and innovation. Today, Europe's share of global cell manufacturing is just 3%, while Asia amounts to 85%. Yet demand for electric batteries is set to grow rapidly and the European market potential could be worth up to 250 billion euros annually from 2025 onwards.

But the scale of investment needed to spread this and other technologies cannot be covered only by public money. So private investors have to engage fully. This is why, as part of my portfolio, I have strongly promoted a sustainable finance agenda. In Europe, we have already adopted an Action Plan and three legal proposals to create more opportunities for green investment and to make investors more aware of the risks of climate change. But we need to do more to match the growing demand for climate-friendly investments with a supply of green financial products.

And because financial markets are global, also in this file we wish to work together with other international partners. The EU is already working closely with China, India, Japan, Canada, and other jurisdictions to align their approaches on sustainable finance. Yesterday, I had a meeting with Mike Bloomberg, who is mobilizing cities and private players in this country. And I believe that also the US government will eventually need to reconsider their position on climate change. The evidence is piling up.

Ladies and gentlemen, this morning I made a case for multilateralism. Ever since the beginning of the EU, European countries have defended their national interests, not in spite of multilateralism, but thanks to it. Cooperation, structured dialogue, compromise – these are all ingredients of a successful multilateral approach. Thanks to this multilateral approach, the European Union has delivered on the most important deliverable there is – peace. A strong and resilient EU will certainly continue to champion the multilateral cooperation.

There is a saying: if you want to go fast, go alone. If you want to go far, go together. So we invite the US – our strategic partner – to stay with us in the effort to uphold the rules-based international order. Thank you. (Applause)

Conversation with Valdis Dombrovskis

WILLIAM R. RHODES: First of all, let me thank you again. Michael O'Neill did at the inception of our meeting here, but I thank you for the work that you're doing in trying to make all these necessary changes and keep the EU together in a difficult period economically. And maybe you might want to say a little bit about how you see Europe economically. Because the latest figures we have out of the IMF, and when we take a look at the economies in Italy, the slowdown in Germany, which has always been the driver of the EU, and of course, you commented on Brexit, so we know what's more or less going on there, but how do you see the economy for the rest of this year onto next year with all the economic problems and slowdowns, with trade? And also the global slowdown we're seeing with China, how do you think that's going to affect the economies in the EU?

VALDIS DOMBROVSKIS: Well, first of all, as regards EU economy, EU economy is in good shape. It's in seventh year of consecutive economic growth and we have economic growth in all 28 EU member states. Employment levels are at record highs. Unemployment is down to where it was in pre-crisis years so we have strong demand side of economy and quite a broad-based diversified economic growth. That said, yes, we see some slowdown of European economy as this year we see some slowdown in global economy. So our winter economic forecast was expecting 1.6% growth in EU this year. We'll publish our next forecast on 7th of May. Probably it will indicate some further slowdown. But also, as we look at the tendencies in global economy, the latest published IMF figures expect that economy, global economy will slow down this year to 3.3% growth and then rebound somewhat to 3.5, 3.6% growth next year. And we expect European economy to follow this tendency with some rebound next year. Well, indeed, there are risks both internal and external. We discussed, I spoke a lot about Brexit. Well, on Brexit we now managed to avoid the most disruptive scenario and we have more time to find out which scenarios eventually UK would prefer. On Italy, you mentioned Italy, indeed Italy has the most marked slowdown of all EU member states. And indeed we have difficult discussions with Italian authorities concerning their budgetary plans. When they presented this year's budget in autumn last year, it foresaw substantial increase in the budget deficit and we saw that this was not warranted because Italy has second highest debt to GDP ratio in the EU. And it's important that they continue to reduce budget deficit and debt. And we saw also that markets reacted, spreads increased, which means also financing conditions tightened for the real economy, for Italian consumers and companies. We saw confidence indicators down which negatively affects investment. And as a result, we saw Italy's economy slowing down much faster than any other EU economy. Well, in between they have corrected the fiscal trajectory somewhat but the damage to the economy has already been done. And frankly, we expect difficult discussions with the authorities also concerning next year's budget. But , all in all, to reiterate, we expect that Europe's economy will continue to grow and it's going to be broad-based growth.

WILLIAM R. RHODES: Thank you very much on that question because everyone here is very interested in what the economy is going to do. One of the questions that I think people continuously ask and the concern is the policies on immigration going into the EU, which are very fractured depending on which country you're talking about. Some people say that Chancellor Merkel opened Pandora's box with the massive immigration that was allowed without much conditionality several years ago. And particularly this has been strong in some countries like Hungary, Poland, and others in Eastern Central Europe. But also it's a problem in Italy, as you know. It's a problem in France. Where do you see that situation resolving itself in the sense of a common policy in the EU on immigration because it's difficult enough in the eurozone to get a policy on immigration. But how do you see that affecting the EU itself, you know, today and going forward on the immigration situation?

VALDIS DOMBROVSKIS: Well, as regards immigration, well, currently it's probably not the most pressing issue in European policy debate. Indeed, we had a migration crisis in 2015, but thanks to coordinated action we managed to get numbers of immigration down very substantially. It's not really my area of responsibility but it's really many times, really ten times less than it was during the migration crisis. And we responded in different work directions. First, by strengthening EU external borders because one thing is clear. If we have abolished border controls in EU, internal borders, within so-called Schengen area, which is not the whole EU – there are some exceptions, including UK for example – but most of EU member states are part of this Schengen area – and it's very clear, if you do not have border controls on EU internal borders, you must be really sure that you control EU external borders. And indeed there is agreement on more streamlined, more uniform procedures how migrants and asylum seekers are received in the EU, how they are dealt with, how security screening is done, and how their asylum claims are being assessed if they assess asylum. Because indeed we need to distinguish between – so to say genuine refugees, genuine asylum seekers and economic migrants. And the work which has been done in Europe currently, I think, has brought us much further in this area. Of course, migration is always a difficult and controversial topic and it continues to have its controversies in EU like in US as we know. But in any case, currently we have managed to bring this situation under control.

WILLIAM R. RHODES: One of the things that I think is concerning a lot of investors in Europe and those watching the economy is what's going on with these tremendous money-laundering scandals that we've seen, particularly from the Nordic countries, the Danske Bank, the Swedbank, the Nordea Bank, coming out of the Baltic area in the sense of money-laundering from the oligarchs in Russia. And every day you pick up the newspaper, in fact the 7th of April, the *Financial Times* had a whole page dedicated to this. And, of course, it's not just those particular institutions and countries involved because there's also a real question about laundering money through Cypress, etc. And the reason I ask that is because as you know better than I do, in the EU 70% of the credit that's given to businesses comes from the banking system whereas here in the United States it may be 25, 30%. The rest comes through the bond market. And those statistics have not changed over the last few years. And, of course, the banking system itself in Europe is under a lot of pressure in some countries. Just take a look at Germany, the situation of the Deutsche Bank and sort of the forced discussions that the German government is pressuring Deutsche Bank to have with Commerce Bank. So maybe you might want to talk about the banking system in general and also how you see all these money-laundering problems being resolved because certainly that is not going to be helping the economic recovery of Europe that we would all like to see.

VALDIS DOMBROVSKIS: Okay, so let me maybe start then with the point which I addressed already during my speech, which is Capital Markets Union. Indeed, if you compare the EU and US economies, they are roughly similar size, but capital markets are some three times bigger in US than in EU. And that's why we are now advancing this project of Capital Markets Union because indeed we want to diversify the funding sources of EU economy and give European companies better chances to raise money, not only from banks, but also from capital markets as equity or bonds. And by this also give European savers and investors more options where to invest. So this work on Capital Markets Union is ongoing. During this legislative mandate, as I said, we managed to close 11 out of 13 legislative proposals which I believe is a good result. And I hope that the next European Commission will continue to have Capital Markets Union as its priority. Then if we look at the general health of Europe's banking sector, it must be said that banks in Europe are currently much better capitalized, has much bigger liquidity buffers than it was before the crisis or immediate aftermath of the crisis. And in general, one can say that European banking sector is more resilient. There are issues, for example, on non-performing loans. While overall, the situation on non-performing loans has improved very substantially and currently the level of non-performing loans is at 3.3% in EU, there are still some countries which have very high level of non-performing loans. For example, in Greece it's still around 40%. So obviously more action is needed. And there are other countries, apart from Greece, it's also Cypress to a lesser extent Portugal and Italy. That's why we put forward an action plan on non-performing loans, also coordinating the work of EU member states to address this issue especially in those countries where they are still high. Then on anti-money-laundering, indeed during the last year we have seen many money-laundering scandals pretty much across the EU. And so we needed to assess how we deal with this because we have strict anti-money-laundering rules, so-called anti-money-laundering directives, which are probably among the strictest in the world. But enforcement of those rules is purely national and as we have seen not always fully up to task. So that's why we have proposed, as European Commission, to give more role to the European Banking Authority to have a possibility to act in case national competent authorities are not acting. So basically task national competent authorities to certain action. And if they fail to do so, even take decisions directly towards the concerned banks. So this proposal has recently been adopted as part of the broader package of European, review of European supervisory authorities. So I think this will have a positive impact. But there is another consideration which I wanted to make. If you have all those money-laundering scandals, it also indicates that actually there is some cleanup of systems taking place that signals on money-laundering which were ignored maybe previously. And in some of those cases, there's plenty of evidence that actually relevant national competent authorities were receiving signals about potential money-laundering cases but basically ignoring them. That now indeed Europe is acting on those signals and cleaning up this system. And this together, I would say, change of attitude at member state level together with stronger European oversight of this issue I hope will help to improve matters quite considerably as regards to ML.

WILLIAM R. RHODES: I'd also like to ask you about your views on the Ukraine because this is obviously, as you know from the country from whence you come and your area of responsibilities in the EU, the situation with the Ukraine, with Russia, where you have a split within the EU on how to deal with the Ukraine and how to deal with Russia in this area, particularly given the history of what happened with Russia, Mr. Putin and the Ukraine also previously in Georgia. And maybe you might want to talk a little bit about that because many of us see a split between a number of the countries in Eastern Europe and some of those in Western Europe on how to deal with this problem.

VALDIS DOMBROVSKIS: Well, I wouldn't put it in these dramatic terms as a split because at the end of the day EU is managing to have united position towards Ukraine and towards Russia as regards to Russia's aggression against Ukraine. EU's position is very clear in condemning this action in not recognizing illegal annexation of Crimean in putting sanctions against Russia and in supporting Ukraine in this difficult period including through programs of macro-financial assistance which I'm directly dealing with. But it's true that if you want a sense of urgency, it differs through different member states so we manage to find an agreement but it's true that there are some countries which are more in driving seat, in driving this agenda than others. Well, how we see this situation developing, I think the situation is still problematic because conflict in Eastern Ukraine is ongoing. Crimea is still annexed. And from EU side, I think it's important that we sort of say stick with our approach. We stick with the policy of non-recognition. We continue sanctions against Russia unless we see some improvement. And we continue to support

Ukraine politically but also financially.

WILLIAM R. RHODES: I would be remiss, given this audience and where we're sitting, if I didn't ask you about how you see the economic relationship, particularly on trade between the EU countries and the United States. And you might also want to comment on your views on the WTO because our president on a number of occasions, President Trump, has threatened to leave the WTO and he's had some strong opinions in this regard. So maybe you might want to comment a little bit about that.

VALDIS DOMBROVSKIS: Well, as regards trade relations between EU and the US, I touched upon those trade relations also in my speech. And indeed, we have very strong trade relations. We have very strong trade flows. We have high levels of investment, both US investment in EU and EU investment in US. So, of course, it's very important not to put this relation under some kind of strain. And that's why we, of course, were concerned when President Trump started to announce unilateral measures against EU, but also against China, other jurisdictions, in the area of trade. And from EU side, our position was clear that we want to avoid those trade tensions. Of course, if there is some escalation of tariffs, we are going to respond in proportionate manner. That's exactly what we did after President Trump introduced tariffs on steel and aluminum and are ready to do if there will be further escalation. But now there has been agreement between President Trump and President of European Commission, Mr. Juncker, on putting on hold further escalations and trying to reach a negotiated solution. And this negotiating group is continuing their work and we do hope that this will help to avoid further escalation of trade tensions. And that's why in my speech I also emphasized this role of WTO and role of multilateral rules-based system. I think it's very important to uphold this global rules-based order and so far US has been always strong defender of this approach. And we think that at the end of the day if we stick with this approach of multilateralism, respect of rules, it's going to benefit everyone. And as regards WTO, also we see continued strong role of WTO, and as I said we also support WTO reform because we agree that reforms are needed and efficiency of WTO should be improved. But then we talk about improving WTO and making it more efficient and not moving away from it or scrapping it altogether.

WILLIAM R. RHODES: Lastly, I wanted to ask you about China because we couldn't have any conversation with you without asking you your views on China because when you take a look at EU countries, you have a very sort of mixed view. It was only a couple of months ago when the head of Huawei in Poland was accused of espionage and stealing technology. At the same time, when President Xi Jinping visited Italy, Italy was the first country to sign up supposedly to the One Belt, One Road, which is Xi Jinping's sort of map of the future of Chinese influence worldwide. We've seen it first in Africa, Asia, now even in Latin America. But I see a very kind of divided view in the EU about handling China going forward on the issues, not only of trade, but of technology theft and other issues. And maybe you might want to comment on that.

VALDIS DOMBROVSKIS: Well, actually we are working very closely with China and just earlier this week there was EU-China Summit where we were discussing our cooperation across wide range of areas including economy, including trade, and so just a couple of observations. So from EU side, we are willing to develop relations with China. At the same time, we share some of the concerns US also has. You mentioned some of the concerns already like forced technology transfer, intellectual property rights, industrial subsidies. Those are all the concerns we also have and from that point of view, we also think that it would have been more efficient if US and EU would agree on a joint approach and speak on those issues with China together. Then as regards investment, as regards investment EU remains open for inverse investment. But at the same time we are now putting in place what we call investment screening mechanism because we also need to see what investment is coming, especially in strategic sectors where there may be implications for security, public order or other major negative implications, and basically giving tools to EU member states to reject that kind of investment if they deem so necessary. So while staying open to investment, at the same time we don't need to be naive, and if we see a need to protect our strategic sectors, we should do so.

WILLIAM R. RHODES: Thank you. I think it's time that we open it up for questions. And I think I would ask everyone to say who they are and we will pass the microphone around. Mr. Chairman.

VICE CHAIRMAN MICHAEL O'NEILL: I promised to start with a question from the 2019 Class of Fellows.

Hi. Christopher Garrido from Citigroup. My question was around your comments about clean energy and energy independence. So you mentioned the European Union wants to be a leader in green energy and a green economy going forward, what are your thoughts around also securing energy independence, especially from Russia?

VALDIS DOMBROVSKIS: Okay, those questions are, in a sense, interlinked. The more we develop green energy, the more we improve energy efficiency, the less imported fossil energy we need, which means the less imported fossil energy we need also from Russia. So, in a sense, those elements are interconnected. So if we now set targets for renewable energy, for energy efficiency, it all helps to reduce our energy consumption. It helps to reduce emissions. But it also reduces our dependence on fossil fuels. Another element is, of course, we are still importing lots of fossil fuels from Russia. And we are in parallel developing European energy networks in a way that it avoids Russia dictating its, so to say, conditions to individual EU member states. For this, we need interconnections between, or among EU member states so that energy in case of need, for example, natural gas, can be transferred across the EU. Not all the projects which are currently developed we think are helpful to the EU's energy union priorities. Let's mention Nord Stream 2, which is currently being developed. From the European Commission side we have been outlining several times that this project is not in line with EU energy union priorities. While we cannot block the project, we have proposed amendments to the EU gas directive for seeing that also pipelines entering the EU and leaving the EU should operate under EU so-called set energy package rules to provide some transparency, openness on how this infrastructure is functioning. But I would say this question of green energy, of carbon-neutral economy, of course it's much broader than that because it requires setting targets in many different sectors, in building sectors, energy efficiency of housing, in car sectors, car submissions. And so we can go sector by sector. And above all, it will require lots of investment, including private investment in those sectors to actually make all those technologies to materialize and indeed to ensure that this energy transition of EU is taking place.

WILLIAM R. RHODES: Can we have other questions here? Thank you. Yes...

Good morning. Alexi Coscoros from Aether Global. Out of the top 20 technology companies, only one is European. The vast majority of the buyers of NPLs in Europe are US funds. I just wanted to ask you, both of those industries share the fact that they tend to be funded from private individuals. Do you think the difference between the EU and the US in terms of performance there is cultural? Or is something more that could be done under your brief to encourage private capital formation and risk taking of that type? Thank you.

VALDIS DOMBROVSKIS: Well, yes, this is an important issue we are also dealing with in Europe. I would say it's not so much a question of lack of private initiative or risk taking because Europe has what it takes to have a very lively startup infrastructure. We have educated population. We have skills. We have top-notch research and innovation capacities. So all of this is there. And if you look at the rate at which startups are created in Europe, it's probably the same as in US. So where the difference comes in is how many of those startups survive maybe two or five years down the road. And there we see a big difference with US being more successful. And we believe there are, one – there are several reasons but one fundamental reason is possibilities for companies to scale up across Europe. Currently, too often despite we have the single market, companies are still faced with 28 different regulatory and supervisory regimes, so scaling up often means scaling up country by country, complying with the specific requirements. And what European companies often choose, they instead move to US or to Asia and scale up there. And as a result, of course, Europe is losing lots in terms of its growth and innovation potential and that leads to the figures you just quoted that there are only very few European companies among top technology companies globally. So that’s why one of the aims of both the Capital Markets Union we are setting up and our, what we call FinTech Action Plan, is exactly enable companies to scale up within Europe. So to the extent possible to do so based on single authorization, single license, and being set with, so to say uniform set of rules across the EU. Because if we use a full scale of EU single market, it’s basically on par with US and then European startups can be much more successful also several years down the road.

WILLIAM R. RHODES: Can we have some questions from the other side? Right here. We seem to have all the questions on one side here.

Thank you. Two quick points. So first, how confident are you that extension that was agreed last night...

WILLIAM R. RHODES: Could you say who you represent?

Oh, sorry. ___. How confident are you that the extension that was agreed last night will ultimately work and lead to the avoidance of the worst case scenario, the hard Brexit? And related, how do you envision the six months to be used by the UK, but by the EU as well? In other words, is there room for the EU position to change a little bit?

VALDIS DOMBROVSKIS: Well, as regards to this six-month extension, so indeed, so what was yesterday agreed, basically UK has requested additional extension until 30th of June, but the discussions also in the EU Council were that it's more logical either to go for very short extension or for even a longer extension. And there were discussions, I would say, six months is the minimum. There were discussions of possibly longer extensions up to one year. But, okay, so what it currently brings, currently it helps to avoid no-deal Brexit, which is probably the most important outcome because no-deal Brexit is certainly very disruptive scenario, including economically. And it gives UK more time to decide on their preferred scenario. But then I would say we need some clarity to emerge from UK side. Because, you know, all the votes which have been taken in UK Parliament, do you want a deal? No. Do you want a no-deal? No. Do you want no Brexit? No. Do you want Customs Union? No. So, at some moment, they need to tell us what do they want? So that's the main issue. Some points were put clear in this council conclusion that we are not renegotiating the Withdrawal Agreement. So Withdrawal Agreement was agreed with UK government. So should UK Parliament approve the Withdrawal Agreement, there can be

UK's withdrawal with agreement. What comes now into play as a factor is European Parliament's elections, which are going to be held in late May. And according to EU treaty, all EU member states have to have elected members of European Parliament. That's very fundamental requirement because European Parliament is one of our legislative institutions. And that's why UK, in a sense, had to choose between very short extension, so to say before European Parliament elections, or longer extension where they participate in European Parliament elections, elect their members of European Parliament, and continue to be EU member state. But it was done in a flexible way so this 31st of October is set as a deadline. But should UK approve Withdrawal Agreement at any time between now and 31st of October, this extension can also be shortened and provide for orderly Brexit. But where it will really go, at this stage it's really difficult to say. I would say everything is still possible from no deal to no Brexit. Because ultimately it's now for UK to decide which direction they really want to go.

WILLIAM R. RHODES: I would just add very quickly, and we have time for one more question, having spent a lot of my life negotiating across the table, it's very difficult to negotiate with someone who doesn't know what they want to negotiate about. And I think that's really the point that you were making because unless the UK decides what they want, it's very difficult to finalize any discussion with the EU in this regard. I think we had a question over there. One more, because remember we have to keep to our rules here of 9 o'clock.

I'm Shawn Kling(?). I'm also an ex(?) for Citigroup. I think, if I may, Mr. Prime Minister, you've been a little bit, I would say difficult with the UK – if I can be the devil's advocate – and I'm not of British origin, I'm coming from another country, but I am an American citizen now.

WILLIAM R. RHODES: France.

Yes. Thank you. Nobody's perfect.

WILLIAM R. RHODES: I wanted to properly identify from whence you come.

Okay, thank you, Bill. Seriously, you're right when you say we know what they don't want. And you say we don't know what they want. And I don't think we can have a clear answer from the UK without having a general election. I don't believe in a referendum, but I think the only way to get out of this – and by giving them six months, I think you've given them an opportunity to run the general election and finally decide what they want.

VALDIS DOMBROVSKIS: Well, on this, I broadly agree, because that was the discussion also during yesterday's summit, that an extension has to have a purpose. If we are extending, we need to see what will be done during that period of extension. And indeed, if UK decides to run a general election or hold a second referendum or just find the majority for one of different options which are available, it could help to solve this situation. So I can just broadly agree to that.

VICE CHAIRMAN MICHAEL O'NEILL: All right, thank you very much, sir. Very, very interesting set of discussions. I, for one, am quite impressed with not only the depth of your knowledge but the breadth as well and the ability to articulate it. So, a very, very nice job. Thank you. (Applause) Now I'm told I have to run a commercial here so I will do that. We have some very interesting upcoming events. I think at your places is a list of the upcoming speakers. I'm sure you'll agree that the next two months will be quite interesting for the club. I won't go down every one of them but these are names that I think most of you will recognize, and I would encourage you to attend. Thank you again very much.