FINANCIAL TIMES

TUESDAY 24 MAY 2016 — WORLD BUSINESS NEWSPAPER — EUROPE

Learning curve
The future of education is online
JOHN THORNHILL, PAGE 9

Iraqi battleground
Why fighting Isis may be the easy bit
BIG READ, PAGE 7

Farewell China
My accidental Americans head home — PATTI WALDMEIR, PAGE 8

Viacom power struggle heads to the courts

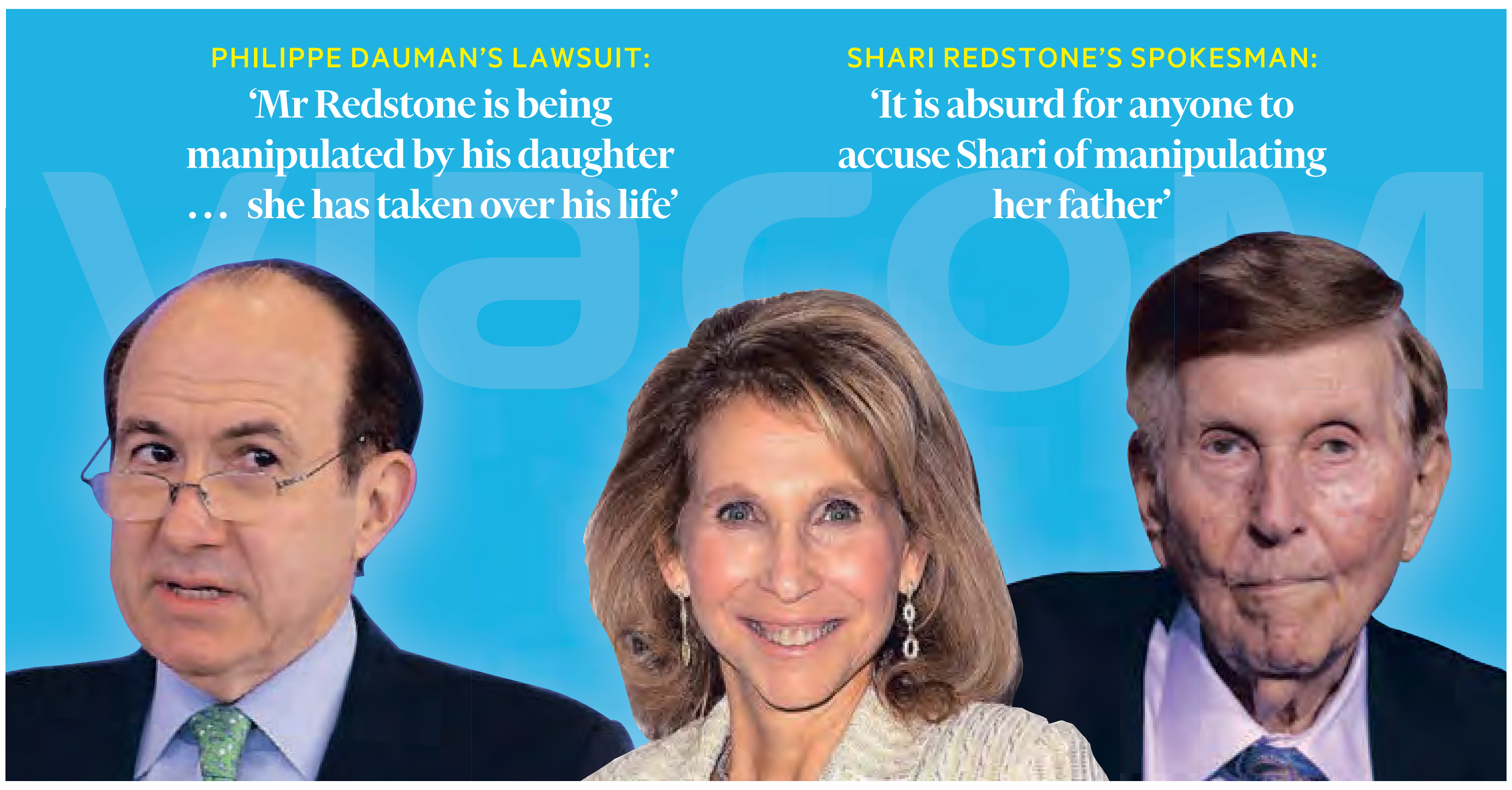
A fierce succession struggle over the media empire controlled by 92-year-old Sumner Redstone is heading for the courts after two of his once most trusted lieutenants filed a lawsuit challenging their abrupt removal from the Redstone family trust, which will manage his companies after his death.

Philippe Dauman and George Abrams, formerly Viacom chief executive and director, claimed Mr Redstone, who controls the movie and television group, was being manipulated by his daughter Shari Redstone. Their lawsuit alleged that Mr Redstone was suffering from "dementia, loss of memory, apathy and depression". A spokesman for Mr Redstone said the claims were false.

Report page 15

PHILIPPE DAUMAN'S LAWSUIT: 'Mr Redstone is being manipulated by his daughter . . . she has taken over his life'

SHARI REDSTONE'S SPOKESMAN: 'It is absurd for anyone to accuse Shari of manipulating her father'



The suit filed by Philippe Dauman, left, alleges that Shari Redstone is manipulating her 92-year-old father, Sumner — FT Montage

Briefing

▸ US tax crackdown scuppers $8bn deal
A US crackdown on tax inversions has prompted CF Industries and its smaller Dutch-listed rival OCI to scrap their $8bn deal because it "materially reduced" the value of a planned tie-up.— PAGE 13

▸ Brazil warning on fiscal time bombs
Former central bank chief and founding partner of one of the country's biggest hedge funds Arminio Fraga has warned that the new government's plans for pensions and education are "explosive".— PAGE 6

▸ Obama lifts Vietnam arms embargo
The US president has used his visit to Hanoi to announce that the US has ended a 50-year arms embargo on communist Vietnam, the latest push to oppose Chinese territorial ambitions in Asia's seas.— PAGE 4

▸ Osborne in fresh warning on Brexit
The UK finance minister has warned that if Britain votes to leave the EU more than 500,000 jobs will be lost, wages will fall, inflation will rise and sterling will drop sharply — PAGE 4; JANAN GANESH, PAGE 9

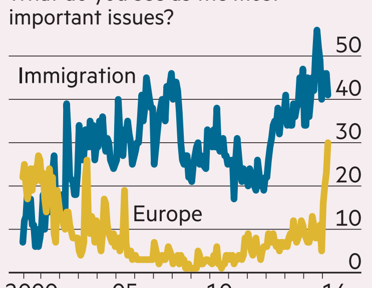
▸ Isis kills 148 in strikes at Assad territory
The Islamist militants have claimed responsibility for rare attacks on Syrian cities in Bashar al-Assad's stronghold that will spark fears over his ability to shield nearby Russian assets.— PAGE 2; BIG READ, PAGE 7

▸ Chinese university protests intensify
Protests against changes to China's university admission system have spread to a fourth province as access to education emerges as a key concern for the country's emerging middle classes.— PAGE 4

▸ Journalists scoop payout in Argus sale
US investment group General Atlantic's move for a controlling stake in Argus has taken dozens of the London-based energy reporting group's journalists to the brink of becoming multimillionaires.— PAGE 14

Datawatch

UK voter concerns
What do you see as the most important issues?



Source: Ipsos Mori Sample = 1,000 British adults

British concern about the EU is at its highest level this century. At 30 per cent, it is the third most important issue behind the NHS and immigration. Tories and the over-55s are most likely to say it is the biggest issue facing the country

Investors signal Bayer's $62bn offer for Monsanto is not enough

● Deal would be biggest all-cash takeover ● Latest attempt at blockbuster tie-up in sector

GUY CHAZAN — BERLIN
JAMES FONTANELLA-KHAN — NEW YORK
ARASH MASSOUDI — LONDON

Investors are signalling that Bayer will have to increase its $62bn offer for Monsanto if the German group is to win the US agribusiness and complete the biggest all-cash takeover on record.

A combination between the two would create the world's largest supplier of seeds and agricultural chemicals, at a time when the sector is being reshaped by a wave of blockbuster deals.

Monsanto declined to comment on the offer, which many analysts expect it to reject as too low. The US company's shares were trading up 5.27 per cent at $106.79 by early afternoon in New York, significantly below Bayer's offer price. Bayer's shares closed down 4.7 per cent.

However, Morningstar analyst Jeffrey Stafford said the fact Monsanto first saw the proposal on May 10 and had yet to respond could mean the board was "seriously considering the deal".

Falling commodity prices and slumping farm incomes have driven a wave of consolidation in the agribusiness sector over the past few months, with Dow Chemical and Dupont joining up in a $130bn merger and ChemChina buying Syngenta for $43bn. A tie-up between Bayer and Monsanto would leave Germany's BASF as the only outlier going solo in the industry.

But any takeover of Monsanto is likely to invite scrutiny from antitrust regulators in Washington, Brussels and elsewhere. Analysts say there is no significant revenue overlap but that a combination could give the two greater control over farmers' supply chains.

Bayer said it had offered to buy Monsanto for $122 per share, a 37 per cent premium to its undisturbed share price on May 9. The bid values the company at $62bn including net debt of about $9bn, and would overtake the purchase of InBev by Anheuser-Busch in 2008 as the largest all-cash deal if completed, according to Dealogic. It would also be the biggest foreign takeover by a German company.

Bayer chief executive Werner Baumann, who took the reins less than a month ago, said farmers needed to boost productivity 60 per cent to feed a world population projected to reach 10bn by 2050. A combined Bayer-Monsanto would, he said, be able to provide the advanced products to make that increase possible.

$122
Price per share offered by Bayer for Monsanto

4.7%
Fall in Bayer's share price yesterday

Mr Baumann said a tie-up would be an "extraordinary fit", bringing together Monsanto's genetically-modified seeds and Bayer's crop protection products, with sales far exceeding those of their nearest rival, the merged Syngenta and ChemChina.

But Mr Baumann has failed to convince all of Bayer's investors. The company's shares have fallen 12. 5 per cent since Thursday when it confirmed it had made a bid for the US seed giant, amid concerns about the cost of a deal.

Additional reporting by David Lynch in Washington and Lindsay Whipp in Chicago

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Bid yet to grow page 15

Gangs keep tight grip on life and death in El Salvador

Analysis ▸ PAGE 6

Austria resists rightwing surge as Hofer suffers wafer thin presidential defeat

RALPH ATKINS — VIENNA

A rightwing nationalist conceded defeat by the narrowest of margins in Austria's presidential elections yesterday, a near miss that highlighted how the immigration crisis has thoroughly upended Europe's politics.

Norbert Hofer, the Freedom party candidate who ran on an "Austria first" manifesto, was defeated by Alexander Van der Bellen, a Green politician who took 50.3 per cent of the votes, according to official results. The race was too close to call after Sunday's voting and Mr Hofer lost by just 31,026 votes after postal ballots were counted yesterday.

Mainstream parties in other European countries have shunned the Freedom party, which was founded in the 1950s by former Nazis. But similar parties have led recent opinion polls in France and the Netherlands, forcing EU leaders to re-examine their tactics.

"The fact that he came within a whisker of becoming head of state is a huge deal," said Heather Grabbe, an expert on populism at the European University Institute in Florence.

Mr Hofer's campaign promised better border security as well as tougher controls on immigration and asylum seekers. He played on fears that Austria had lost control of thousands of refugees passing through the country as they fled wars in countries such as Syria.

He was "someone who softens the very harsh message of the Freedom party", said Thomas Hofer, political analyst in Vienna. "It wasn't the anti-refugee message. It was also an anti-establishment message."

Initially, Austria sided with Angela Merkel, the German chancellor, in supporting the thousands of refugees seeking asylum in Europe. Most passed through Austria and on to Germany. But the strain on Austria's infrastructure and voters' fears that the government had lost control forced a reversal.

Conceding defeat on Facebook, Mr Hofer thanked supporters and said their campaign efforts were an "investment in the future".

Mr Van der Bellen, an economics professor whose parents were refugees from the Soviet Union, campaigned for an open Austria with strong EU ties.

His wafer-thin victory followed a campaign portraying him as a conciliatory alternative to the "authoritarian" Freedom party and somebody who would present a more acceptable face to the world.

Analysis page 2
Heather Grabbe page 9

Austria	€3.60	Macedonia	Den220
Bahrain	Din1.7	Malta	€3.50
Belgium	€3.60	Morocco	Dh43
Bulgaria	Lev7.50	Netherlands	€3.60
Croatia	Kn27.50	Nigeria	Naira715
Cyprus	€3.50	Norway	NKr34
Czech Rep	Kc100	Oman	OR1.50
Denmark	DKr32	Pakistan	Rupee 280
Egypt	E£20	Poland	Zl 18
Finland	€4.10	Portugal	€3.50
France	€3.60	Qatar	QR15
Germany	€3.60	Romania	Ron17
Gibraltar	£2.70	Russia	€5.00
Greece	€3.50	Saudi Arabia	Rls15
Hungary	Ft990	Serbia	NewD420
India	Rup195	Slovak Rep	€3.60
Italy	€3.50	Slovenia	€3.50
Kazakhstan	US$5.50	Spain	€3.50
Kenya	Kshs300	Sweden	SKr37
Kuwait	KWD1.50	Switzerland	SFr5.90
Latvia	€6.99	Tunisia	Din7.50
Lebanon	LBP7500	Turkey	TL10
Lithuania	€4.30	UAE	Dh15.00
Luxembourg	€3.60		

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World Markets

STOCK MARKETS

	May 23	prev	%chg
S&P 500	2049.70	2052.32	-0.13
Nasdaq Composite	4773.95	4769.56	0.09
Dow Jones Ind	17502.86	17500.94	0.01
FTSEurofirst 300	1319.51	1326.45	-0.52
Euro Stoxx 50	2939.77	2962.16	-0.76
FTSE 100	6136.43	6156.32	-0.32
FTSE All-Share	3382.15	3387.22	-0.15
CAC 40	4325.10	4353.90	-0.66
Xetra Dax	9842.29	9916.02	-0.74
Nikkei	16654.60	16736.35	-0.49
Hang Seng	19809.03	19852.20	-0.22
FTSE All World $	260.08	260.27	-0.07

CURRENCIES

	May 23	prev		May 23	prev
$ per €	1.120	1.121	€ per $	0.893	0.892
$ per £	1.446	1.451	£ per $	0.691	0.689
£ per €	0.774	0.773	€ per £	1.291	1.294
¥ per $	109.445	110.455	¥ per €	122.573	123.854
¥ per £	158.290	160.319	£ index	87.158	87.608
€ index	87.765	87.504	$ index	101.137	100.991
SFr per €	1.111	1.113	SFr per £	1.435	1.440

COMMODITIES

	May 23	prev	%chg
Oil WTI $	47.80	48.41	-1.26
Oil Brent $	48.03	48.72	-1.42
Gold $	1245.90	1254.20	-0.66

INTEREST RATES

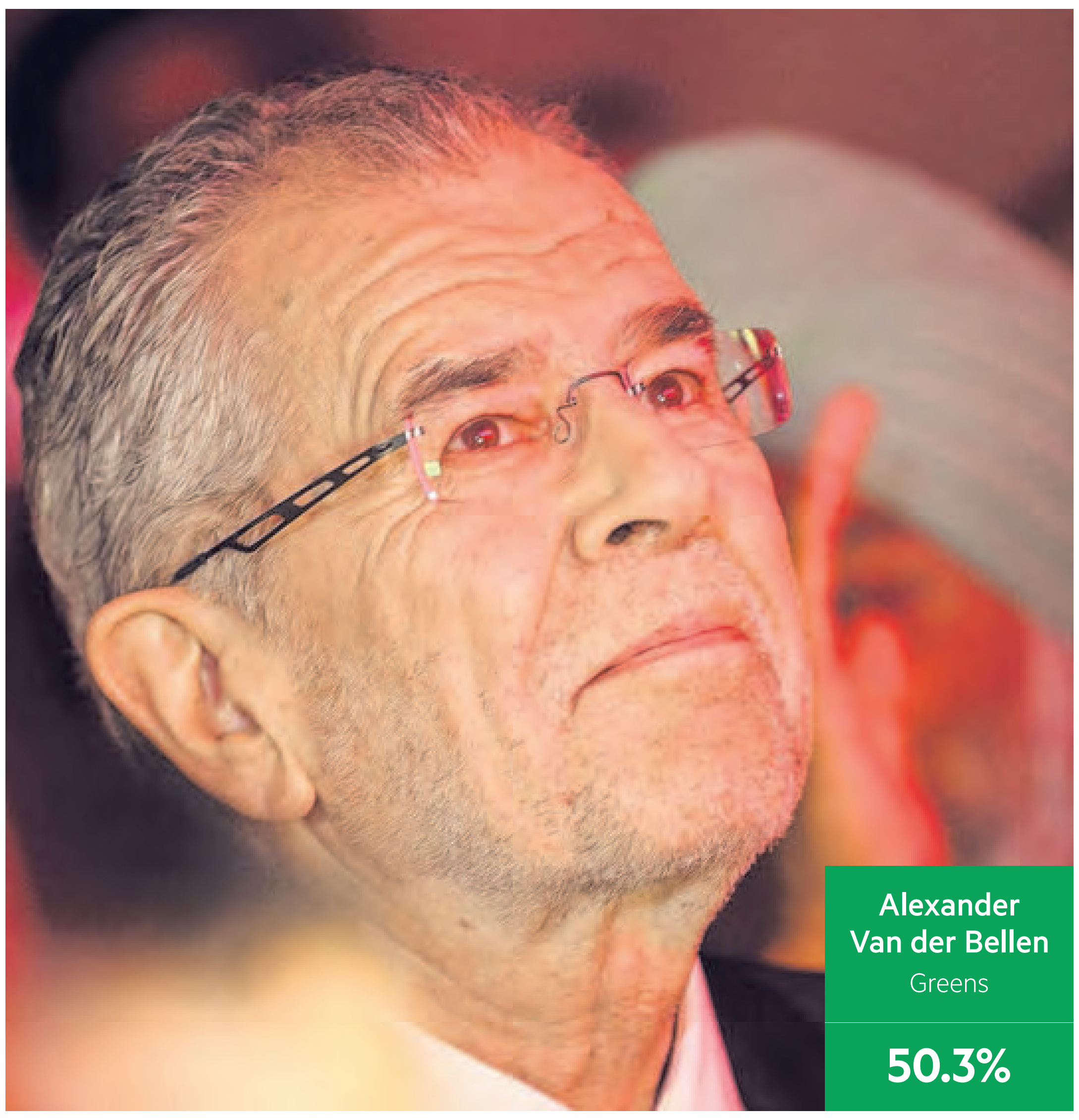
	price	yield	chg
US Gov 10 yr	97.97	1.85	0.01
UK Gov 10 yr	99.25	1.58	0.00
Ger Gov 10 yr	103.13	0.18	0.01
Jpn Gov 10 yr	102.03	-0.10	0.00
US Gov 30 yr	97.13	2.64	0.02
Ger Gov 2 yr	102.94	-0.50	0.00
	price	prev	chg
Fed Funds Eff	0.37	0.36	0.01
US 3m Bills	0.31	0.30	0.01
Euro Libor 3m	-0.28	-0.28	0.00
UK 3m	0.59	0.59	0.00

Prices are latest for edition — Data provided by Morningstar

INTERNATIONAL

Hofer's defeat spares EU leaders dilemma of far-right head of state

Populist forces on the rise while mainstream parties struggle as electoral landscape shifts



Florian Wieser/Filip Singer/EPA

RALPH ATKINS — VIENNA
ALEX BARKER — BRUSSELS

A narrow defeat for Norbert Hofer, the far-right candidate in Austria's presidential election, came as a relief to many Austrian and to EU leaders recoiling at the thought a far-right head of state in Europe.

But the thin margin of his defeat provides the latest evidence of the rapidly shifting electoral landscape across the continent — where mainstream parties are struggling to retain power and illiberal, populist forces are on the rise.

Other European far-right politicians have not yet come as close to power as the Freedom party. But it is possible to trace an arc of illiberal politics through Poland, Hungary (and to some extent) Slovakia and Austria that stretches from the Baltic Sea to the gateway of the Balkans.

Mr Hofer's loss has, nonetheless, spared EU leaders an awkward dilemma on how to deal with a member state with a directly elected far-right president.

Austria's rightwing politics have presented a conundrum for fellow EU members in the past. Other countries gave Vienna the diplomatic cold shoulder in 2000 after the Freedom party, which was founded by former Nazis in the 1950s, entered government under Jörg Haider.

Many observers have said that approach — erecting a so-called "cordon sanitaire" — served only to fan nationalist sentiment in Austria.

The political context has changed in the EU since then, with illiberal and nationalist politicians on the rise in much of Europe.

Under EU rules, countries can be punished for breaching democratic standards. Indeed the rules were revamped and the European Commission is testing them against Poland — although it has had little success so far.

The Austrian contest has drawn particular attention in France. Opinion polls have all suggested that Marine Le Pen, the far-right leader of France's National Front party, would qualify for the second round run-off, leaving mainstream parties scrambling to pick candidates able to snatch second place.

Ms Le Pen's father made it into the second round of French elections in 2002. But in a departure from the Austrian contest, he was thrashed by his opponent, Jacques Chirac, who secured more than 82 per cent of the vote.

Alexander Van der Bellen's move into Vienna's Hofburg palace could increase political tensions in Austria if he seeks to create a rival power centre to the government and parliament.

"Pressure on the government to introduce serious reforms has increased," said Franz Schellhorn, director of Agenda Austria, a think-tank.

In his first comments as president-designate, Mr Van der Bellen struck a more conciliatory tone, saying he would act "above politics" and seek a "constructive" relationship with the government.

The high-stakes drama in an Austrian presidential election, which usually passes unnoticed to the outside world, has challenged the country's reputation for political predictability.

Gerhart Holzinger, head of Austria's constitutional court, said yesterday that in future postal votes should be counted on election day to avoid a power vacuum. "Waiting 24 hours unnecessarily is democratically worrisome," he said.

Mr Hofer's campaign played on fears about Islamic influence over culture. He also sought to address concerns about the Freedom party's heritage by portraying it as pro-Israeli. The former aircraft technician, who has walked with a cane since a paragliding accident, saw support surge for a programme aimed at upending the two-party system and protecting Austrian jobs.

He was "someone who softens the very harsh message of the Freedom party", said Thomas Hofer, political analyst in Vienna. "It wasn't only the anti-refugee message. It was also an anti-establishment message."

Initially, Austria sided with German chancellor Angela Merkel in supporting the thousands of refugees seeking asylum in Europe. Most passed through Austria on their way to Germany or other destinations such as Sweden. Nevertheless the strain on Austria's infrastructure and voters' fears that the government had lost control over the inflows forced a policy reversal.

Profile

Economics professor who erased a ballot deficit

Arriving to cheers from supporters in Vienna's 18th-century baroque Auersperg palace late on Sunday night, Alexander Van der Bellen looked an unlikely "comeback kid".

The 72-year-old economics professor and former Green party member, is no natural politician. During the campaign he was often hesitant, and generally less dynamic, than his younger rival, Norbert Hofer. Mr Van der Bellen appeared as if he would have been more at home in a lecture theatre.

Still, he managed to erase a 14-percentage-point deficit from the first round ballot in April to defeat Mr Hofer in what became Europe's most closely watched election.

In the final weeks of his campaign, Mr Van der Bellen's message was clear: whatever they thought of his politics, Austrians should vote for him to prevent the Freedom party taking control of the Hofburg palace, the official home of the Austrian president.

The choice, said Mr Van der Bellen, whose parents were refugees from the Soviet Union, was between a co-operative president and the Freedom party's "authoritarian style".

Although Austria's presidency is a largely ceremonial position, Mr Van der Bellen said he would use it to try to prevent a Freedom party candidate becoming chancellor.

The two candidates presented contrasting programmes. The Freedom party is protectionist and nationalist. Mr Van der Bellen favoured free trade — and would increase the pressure on the government to implement reforms that boost growth and unemployment, said Franz Schellhorn, director of the Agenda Austria think-tank.

"Austria is an open economy, so I think a lot of businesses would not be too upset with Van der Bellen as president," he said.

Still, like Mr Hofer, Mr Van der Bellen has said he would not sign the Transatlantic Trade and Investment Partnership (TTIP), a proposed EU-US trade pact — for environmental reasons.

In contrast to the Eurosceptic Mr Hofer, however, Mr Van der Bellen's pro-EU stance is more in line with the conventional thinking of both the Social Democratic and People's party thinking.

Mr Van der Bellen was an economics professor for almost 30 years at Vienna university and spokesman for the Green party for 11 years. "I stand for an Austria that supports and promotes friendly co-operation at home but above all in Europe," he said during the campaign.

Ralph Atkins in Vienna

Baltimore riots

US officer cleared in Freddie Gray death in custody case

COURTNEY WEAVER — WASHINGTON

A police officer involved in the arrest of Freddie Gray has been found not guilty of all charges, a year after the young African-American's death in police custody sparked the worst riots in Baltimore since the 1968 assassination of Martin Luther King.

Edward Nero, the officer, was acquitted after being charged with second-degree intentional assault, two counts of misconduct in office and reckless endangerment.

He was one of six officers charged over the 25-year-old's death, which prompted questions over the fairness of the US criminal justice system in relation to African-Americans.

Gray died from spinal cord injuries sustained while in custody. Three of the officers charged in his case are black and three are white.

Mr Nero, who is white, is the second officer to stand trial in the case. The trial of the first officer, William Porter, ended in a hung jury and mistrial.

Prosecutors had focused their case against Mr Nero on his role in putting Gray into a police van without strapping him into a seatbelt — a move they said led to fatal injuries. They also argued that Mr Nero had detained Gray illegally, a move they said amounted to assault.

Gray became a symbol for the inequities of the US criminal justice system and alleged routine police brutality towards African-Americans. In the age of smartphones, such incidents have increasingly been captured on camera.

In 2014 the city of Ferguson, Missouri, was the scene of months of riots after a white police officer shot Michael Brown, an unarmed black teenager. That officer, Darren Wilson, was exonerated of any wrongdoing in Brown's death both by a grand jury and by the Department of Justice.

Another case was the death of Eric Garner in New York, who died after being put into a chokehold by a police officer who suspected he was selling cigarettes illegally.

The mothers of both Garner and Brown have become campaigners for Hillary Clinton, the Democratic candidate, who has promised to curb police brutality and reform the criminal justice system if elected.

In the wake of yesterday's verdict, local officials appealed for calm in the hope of avoiding violence and looting of the kind that gripped Baltimore after Gray's death.

"This is our American system of justice and police officers must be afforded the same justice system as every other citizen in this city, state and country," said Stephanie Rawlings-Blake, mayor of Baltimore.

Local authorities were prepared to combat potential unrest after the verdict, she said. "We will protect our neighbourhoods, our businesses and the people of our city."

Mr Nero also faces an internal investigation by the Baltimore police department, which has not reached its conclusion.

His five colleagues face separate trials that are scheduled to take place in the next five months, with the final one due to begin in mid-October.

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Syria

Death toll mounts after Isis attacks Assad's coastal heartland

ERIKA SOLOMON — BEIRUT

Isis has claimed responsibility for a string of explosions in the Syrian coastal cities of Tartus and Jableh that killed at least 148 people, a rare attack in President Bashar al-Assad's coastal stronghold.

Four blasts hit Jableh and three hit Tartus, capital of Tartus province. At least two of the attacks were carried out by suicide bombers, according to the UK-based Syrian Observatory for Human Rights.

The blasts will raise concerns about the Syrian regime's ability to protect areas where Moscow's assets are based. Russia's newly built Hmeimim air base is near Jableh, and Tartus is also home to a Russian naval base.

A video from the Syrian state news agency, Sana'a, showed crowds gathering around the charred remains of cars in Jableh as sirens sounded in the distance. According to agencies, 48 people were killed in Tartus and 100 in Jableh, part of Mr Assad's home province of Latakia.

The provinces of Tartus and Latakia are home to a large portion of the president's Alawite minority, consider apostates by hardline Islamist groups and jihadi groups.

Yesterday Isis said its attacks "hit Alawite gatherings in Tartus and Jableh".

The strikes in the heavily fortified area have shaken an area largely untouched by the five-year civil war. Compared with the rest of Syria, the Mediterranean coastal region, particularly Tartus, has flourished economically during the conflict.

What began as a revolt against four decades of Assad family rule has degenerated into a multi-sided civil war. Sectarian tensions have long been part of the backdrop of the civil war because much of Syria's ruling circle is Alawite in a country that is majority Sunni Muslim.

Groups such as Isis try to exacerbate these tensions. After the attack Isis supporters on Twitter launched the hashtag "In the heartland of the Nusayris", using a derogatory Arabic term for Alawites.

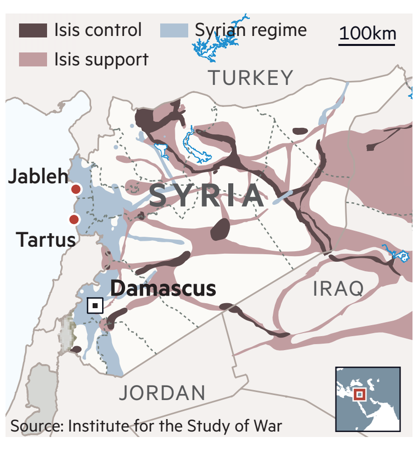
The attacks will raise questions about the ability of a US-Russian brokered "cessation of hostilities" to protect civilians. Already on the verge of collapse because of continued clashes, the ceasefire includes only pro-Assad forces and Syrian rebel groups that agreed to the truce. Jihadi forces such as Isis and al-Qaeda's Syrian affiliate, Jabhat al-Nusra, were excluded.

Facebook pages for Tartus residents urged locals to donate blood for the dozens of people wounded in the attacks. Explosions hit car garages in both cities, and a hospital and an electricity office in Jableh.

The attacks came two days after Isis released an audio statement believed to be the voice of its spokesman Abu Mohammed al-Adnani. Isis typically gives a speech before Islam's holy month of Ramadan, which begins this year on June 6, calling for attacks to be launched.

In an address to "the soldiers of the caliphate and their supporters" abroad the spokesman said: "With God's permission you will make it a month of calamity for the non-believers everywhere." He also criticised the US-Russian ceasefire efforts, accusing both countries of doing little to stop regime air strikes and sieges that have left up to 5m people at risk of starvation.

Explosions in the city of Jableh yesterday killed 100 people



Source: Institute for the Study of War

IMF stands firm on Athens debt and urges cap on interest rates

Move risks requiring other eurogroup members to plug yet more Greek gaps

ALEX BARKER — BRUSSELS
SHAWN DONNAN — WASHINGTON

The International Monetary Fund confronted Germany over Greece's unsustainable debt burden yesterday, issuing a bleak assessment of its financial future just as eurozone finance ministers prepared for a crunch meeting on debt relief.

As detailed talks begin today to resolve a long-running stand-off with Berlin, the IMF signalled it would be standing its ground, calling for European creditors to forgo any Greek debt payments until 2040 and, most controversially, to fix interest rates at 1.5 per cent over that time in a move that could require other eurogroup members to plug yet more Greek gaps in the future.

While officials involved in the talks were upbeat about a deal taking shape that could be completed today, negotiators have dug in on specifics. Some eurozone officials are disappointed that Christine Lagarde, the IMF managing director and a key figure in brokering previous political deals over Greece, will be in Kazakhstan and unable to attend.

Analysts said the move to release the paper ahead of today's eurogroup meeting was controversial but also a sign of the pressure Ms Lagarde and the IMF's staff were under from its non-European members to abide by the fund's rules and not to grant Athens or its European creditors special treatment.

"It is very provocative," said Andrea Montanino, a former Italian representative to the IMF who is at the Washington-based Atlantic Council. "You have the IMF telling the Europeans what to do on their own debt. [Yet] in the whole document there is no word on what to do with the IMF debt."

In its publicly released paper, the IMF gave little hint of compromise on its core assessment of the Greek economy, concluding in its debt sustainability paper that the bailout programme's 3.5 per cent surplus target was overambitious and unrealistic.

"In all key policy areas — fiscal, financial sector stability, labour, product and service markets — the authorities' current policy plans fall well short of what would be required to achieve their ambitious fiscal and growth targets," IMF staff wrote.

Most contentiously for Germany, the IMF called for a more "plausible" surplus target of 1.5 per cent, supplemented by extensive debt relief. A large part of that debt relief would come from fixing interest on all eurozone loans until 2040 at current market rates of about 1.5 per cent.

IMF and eurozone officials have said the market for long-term fixed rate paper could not absorb the €200bn of debt that would have to be refinanced at that rate, meaning eurozone countries would need to offer a fiscal subsidy that Germany insists would be contrary to EU treaties.

"The fixing of the interest rates would in effect require a commitment by member states to compensate the [European Stability Mechanism] for the losses associated with fixed interest rates on Greek loans," the IMF paper said. "This would clearly be highly controversial among member states in view of the constraints — political and legal — on such commitments within the currency union."

The IMF also warned that "even under the proposed debt restructuring scenarios, [Greece's] debt dynamics remain highly sensitive to shocks" and that European creditors could be forced to make even greater concessions down the line.

A modest slip in Greece's long-run economic growth from 1.5 per cent to 1 per cent would yield a "downside scenario" that would make both its debt and gross financing needs "unstable" and could require European institutions to forgo any interest on Athens' debts until 2050.

One live option remains the possibility of drastically scaling back the IMF's exposure to Greece, potentially through an EU buyout of up to €14bn in IMF bailout loans. Such a move could lower the debt- sustainability bar on future IMF loans. But even after a buyout Greece might struggle to meet the IMF's normal lending standards, especially in more pessimistic economic scenarios.

While Berlin is open to the idea of an IMF buyout, it wants the commitment to be tied to conditions that Athens must fulfil, and only made at the end of Greece's rescue in 2018.

Wolfgang Schäuble, the German finance minister, wants to avoid taking any big concessions or changes to the Bundestag before the 2017 federal elections.

The IMF did open some ground for a compromise. Its paper called for "an upfront unconditional component to debt relief" to reassure markets. But given Greece's patchy reform record, the IMF said it "understands and supports" the eurozone's desire to "make further relief contingent on programme implementation". Its main stipulation is that any conditions should end in 2018, a position that sits uneasily with Berlin.

A protester burns a fake €100 banknote during a demonstration against a new package of tax rises and reforms in Athens — Michalis Karagiannis/Reuters

Southeast Asia

US ends 50-year Vietnam arms embargo

Obama uses Hanoi visit to strengthen links in face of China's regional ambitions

MICHAEL PEEL — BANGKOK

The US has ended a 50-year arms embargo on communist Vietnam in the latest push to strengthen opposition to Chinese territorial ambitions in Asia's seas.

Barack Obama used yesterday's first full day of a visit to Hanoi, the Vietnamese capital, to announce that the US was lifting the weapons sales ban and hoped for growing co-operation between the two countries' militaries.

Analysts said the US president's decision to sweep away this "lingering vestige of the cold war" was a sign that both states considered their shared aim of checking Beijing more important than mutual suspicions.

A US "pivot to Asia" comes after a long journey from the Southeast Asian war of the 1960s and 1970s that pitted communist North Vietnam against Washington and its south Vietnamese allies.

"The end of the arms embargo indicates a stronger rapprochement between the two former enemies," said Le Hong Hiep, a research fellow at the Institute of Southeast Asian Studies, a Singapore think-tank.

"The relationship between Hanoi and Washington is now fully normalised, and they are more ready now to step up their strategic co-operation, especially in the South China Sea, where their interests converge."

Tran Dai Quang, Vietnam's president, thanked his US counterpart for lifting the embargo.

Mr Obama said the US and Vietnam had "developed a level of trust and co-operation".

Yesterday's announcement came after news that the US was in talks to position military equipment in Vietnam for the first time since Saigon fell in 1975 to the North.

Landmarks in Hanoi, where the announcement was made, include the imposing mausoleum of Ho Chi Minh, founder of the Vietnamese Communist party and inspiration of the North's war effort.

The US president's Southeast Asian trip comes after Nguyen Phu Trong became the first Vietnam Communist party general secretary to visit the White House last year.

The rise of China has hastened a thaw in US-Vietnam relations that began in earnest when Bill Clinton's administration ended a long-running US trade embargo in 1994.

Fears are rising in Vietnam and other Asian countries about Beijing's growing military and its efforts to claim disputed territory by building islands in the region's seaways.

Those worries have given the US the chance to strengthen security relationships in states in strategic points around Asia.

US aircraft and ships have returned on a semi-permanent basis to the Philippines for the first time in more than two decades, while new guidelines have allowed for closer co-operation with Japan.

The scrapping of the Vietnam arms embargo, which had been partly lifted in 2014, is unlikely to lead Hanoi to lobby for large orders of heavy weapons straight away.

Instead targets in the short term could include radar systems, patrol boats and other items that would improve Vietnam's ability to monitor and maintain a presence in important seaways.

Analysts said the government in Hanoi would be wary of antagonising China, on which Vietnam depends heavily for imports. The neighbours have a complex relationship, which includes political and cultural ties as well as formal partnerships relating to military and civilian security.

Centre of attention: Barack Obama is welcomed by local residents as he leaves a traditional Vietnamese restaurant in Hanoi yesterday — EPA/STR

Diplomacy. Obama gesture

Hiroshima visit sparks anger in Seoul

S Korea fears US leader's trip will be used to depict wartime Japan 'merely as a victim'

ROBIN HARDING — TOKYO
SONG JUNG-A — SEOUL

Barack Obama's planned trip to Hiroshima, a gesture aimed at reconciliation, has sparked dissension in South Korea, Washington's other main East Asia ally, where fears are mounting that the US president will endorse a version of wartime history that presents Japan as a victim.

A South Korean group representing Hiroshima survivors argues that tens of thousands of their countrymen were exposed to the US nuclear attacks on the city and the southern port of Nagasaki because they had been conscripted by the Japanese military or forced into hard labour.

"We hope that your visit to Hiroshima will not be used to further the Abe government's intention of portraying Japan merely as a victim," the group said in a letter addressed to Mr Obama.

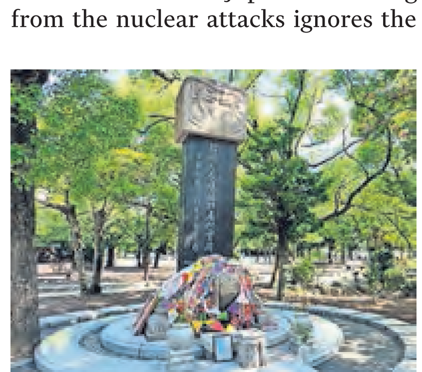
The growing South Korean backlash is just the latest sign of the political risks posed by the historic visit, with the US president forced to balance sensitivities over wartime wounds that have not fully healed with the rise of a new regional power in Beijing that is unsettling postwar alliances.

Underscoring the overlapping sensitivities, Mr Obama, who will be in Japan to attend the G7 summit, will face renewed protests in the southern island of Okinawa after the alleged murder of a 20-year-old woman, whose body was found last week.

US Marines have been based there since the end of the second world war — to the anger of Okinawans — and a former Marine has been arrested over the killing.

Speaking in an interview with the Japanese broadcaster NHK, Mr Obama said he would not be apologising when he visited Hiroshima alongside Shinzo Abe, the Japanese prime minister, on Friday. The visit will be the first by a sitting US president. "I know as somebody who has now sat in this position for the last seven and a half years that every leader makes very difficult decisions, particularly during wartime," Mr Obama said.

Seoul's concern is not about the decision to use the bomb but rather that the focus on Japan's suffering from the nuclear attacks ignores the pain of Korean citizens. In its letter, the South Korean group asked Mr Obama to pay respects at a monument in the Hiroshima Peace Memorial Park dedicated to the tens of thousands of Korean victims.



A memorial in Hiroshima to Korean conscripts killed by the atomic bomb

About 70,000 South Koreans — 50,000 in Hiroshima and 20,000 in Nagasaki — were killed or affected by the atomic attacks, according to the group.

Evan Medeiros, managing director at Eurasia Group, who stepped down last year as Mr Obama's chief Asia adviser, said that while Mr Obama could manage this with a carefully worded statement at Hiroshima combined with bilateral diplomacy, "we will have to see if he and his diplomatic team can pull this off".

Mr Obama must also contend with the murder of Rina Shimabukuro, an office worker from Uruma, a city on Okinawa.

The incident has fuelled tension over the US military presence on Okinawa, bringing back dark memories of an incident in 1995 in which three US Marines raped a 12-year-old girl.

Demonstrations have already been staged on the island. Takeshi Onaga, the prefectural governor, has demanded to meet Mr Obama, saying Okinawans "can't contain their emotions — they are about to explode".

A final possible flashpoint will occur when all the G7 leaders visit the Ise shrine — the most sacred site in Japan's Shinto religion — on Thursday. Although there has been little controversy over Ise so far, Michael Cucek, an adjunct professor at Waseda University in Tokyo, says the visit has political significance.

Ise is the house shrine of Japan's imperial family and Mr Abe has taken to visiting it every year. Mr Cucek argues he is using it as an alternative to the controversial Yasukuni shrine in Tokyo, which commemorates Japan's war dead, including war criminals.

"It's a way to honour the imperial legacy without the South Koreans and Chinese being able to react," said Mr Cucek. "It's all dog-whistle politics to Mr Abe's rightwing base."

Referendum

Vote to leave EU could cost 800,000 UK jobs, claims chancellor

GEORGE PARKER AND CHRIS GILES
LONDON

George Osborne, the UK chancellor of the exchequer, has warned that if Britain votes to leave the EU more than 500,000 jobs will be lost, wages will fall, inflation will rise and sterling will drop sharply.

Launching an official report on the impact of Brexit, Mr Osborne and David Cameron, prime minister, added that in the worst-case scenario, more than 800,000 jobs would be at risk if the UK decided to break with the EU in its June 23 referendum.

Their claim that Britain would face a "DIY recession" is the latest in a series of warnings from the Remain campaign which is basing its appeal to voters on arguments of economic self-interest.

Mr Cameron and his colleagues hope such warnings will counter the Leave campaign's case that departure from the EU is essential to control immigration.

Britain was still emerging from the shadow of a recession, the prime minister said, and voting to leave the EU would be the "self-destruct option", plunging the economy into a year-long contraction.

The report on the short term impact of Brexit, compiled by the UK Treasury, argued that leaving the EU would depress household spending, because of fears for the economy's future, damp growth because of increased uncertainty, and probably reduce corporate spending and investment as markets became more volatile.

Iain Duncan Smith, a leading figure in the Leave camp, said the report was biased and the Treasury had handed over forecasting to an independent body because its record was so woeful.

The Treasury's latest findings — its second and final report on Brexit — follow its assessment last month of the long-term risks, which concluded that the average household would be £4,300 worse off by 2030 if Britain left the EU.

According to the main scenario in the latest Treasury analysis, gross domestic product would be 3.6 per cent lower after two years than if Britain stayed in the EU. Inflation would be 2.3 per cent higher, unemployment 520,000 higher, wages 2.8 per cent lower, house prices 10 per cent lower, sterling down 12 per cent and public borrowing would increase by £24bn.

Under a "severe shock" scenario, GDP would be 6 per cent lower, inflation 2.7 per cent higher, unemployment 820,000 higher, wages 4 per cent lower, house prices 18 per cent lower, sterling 15 per cent lower and borrowing £39bn higher.

However, the model used by the Treasury has wide margins of uncertainty and Mr Duncan Smith pointed out that it made no assessment of the risks to Britain of staying in a failing EU. "It's prudent to look at what could happen in the worst case but it is also prudent to look at the worst case of remaining," he said.

Although Vote Leave has criticised the methodology of what it calls "Project Fear", it concedes that the first Treasury report on the long-term risks of Brexit resonated with voters.

The Brexit campaign tried to divert attention from the economy by focusing on immigration, producing a poster suggesting that Turkey would join the EU and trigger a new wave of migration.

Janan Ganesh page 9

Higher education

China university quota cuts prompt protests

TOM MITCHELL — BEIJING

Protests against changes to China's university admission system spread to a fourth province yesterday as authorities scrambled to contain growing anger over one of the most important issues for the emerging middle class: access to higher education.

According to a post on the Weibo messaging service, parents gathered outside the education bureau in Baoding, Hebei province, to demand "fairness" and that the education ministry scrap plans to reduce the number of places reserved for local applicants.

This followed protests at the weekend by hundreds of residents in Zhengzhou, capital of Henan province. In recent weeks parents have taken to the streets of cities in Hubei and Jiangsu provinces.

Like their state-run counterparts in the US, Chinese universities reserve a percentage of places for students from their home provinces, allocated through a gruelling annual exam known as the *gaokao*. The education ministry had ordered universities in many populous provinces to reduce such quotas and increase access for non-local students, sparking the backlash.

Internet censors have taken down social media posts and online discussions about the reforms and protests. One posting on WeChat, the most popular messaging app, called on parents in southern Hunan to join a protest scheduled for today.

In an open letter to the state council, parents in Henan complained about alleged discrimination for places at the most sought-after institutions, such as Peking university in Beijing. According to the letter, reported by the South China Morning Post, Peking accepted one out of every 8,900 Henan applicants in 2013, compared with one out of every 325 from Beijing.

That complaint was echoed yesterday by parents protesting in Baoding, an industrial city a few hours' drive from the capital. They said the imbalance was particularly unfair given the central government's effort to merge Hebei, Beijing and a third city, Tianjin, into an integrated region with 110m people.

"Parents in Baoding are making their voices heard," the protesters said, according to the Weibo post. "You talk about integration . . . so why are you so cruel to Hebei students?"

A parent in Hunan said: "When you are hungry, you ship our food to Beijing. When you are thirsty, you transfer our water to Beijing. Why won't you allow our children to study in Beijing?"

The education ministry could not be reached for comment.

A municipal education bureau in Henan said local students would "benefit from the adjusted college entrance exam programme".

A statement by the Puyang government said: "We hope parents will not believe online rumours. Everyone cares about fair education and we will take the issue to our superiors."

Additional reporting by Wan Li

Flight MH17

Russia and Putin face lawsuit over downed jet

JAMIE SMYTH — SYDNEY

Relatives of victims of the Malaysian airliner shot down over Ukraine in July 2014 are suing Russia and President Vladimir Putin over alleged involvement in the incident.

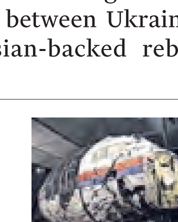
LHD, an Australian law firm, said yesterday it had filed a lawsuit at the European Court of Human Rights seeking damages of $10m per passenger in relation to the downing of the jet in pro-Russian rebel-held territory, which killed all 298 passengers on board.

"We have submitted almost 2,000 pages of documentary evidence which indicate that Russians were present, Russian heavy military equipment was present; it was photographed, witnessed, videoed and geo-located to the area where the missile was fired from," said Jerry Skinner, counsel with LHD.

He told Australian radio the lawsuit was filed on behalf of 33 next of kin of seven families from Australia, New Zealand and Malaysia. The action was intended to be "a deterrent or punishment for undesirable conduct", which Mr Skinner alleged had been perpetrated by Russia and Mr Putin.

The shooting down of flight MH17, during a conflict between Ukrainian forces and Russian-backed rebels,

Flight MH17: Ukraine and western experts blamed Russian-backed rebels for firing the missile



prompted the UN to issue a resolution condemning the "tragic loss" of lives and calling for an independent investigation.

Two-thirds of the 298 victims on the flight between Amsterdam and Kuala Lumpur were Dutch. The rest were from Australia, Malaysia and other nations.

In a report last year the Netherlands safety board concluded that the aircraft had been felled by a Russian-made surface-to-air Buk missile but did not say who fired it. Ukraine and western experts have blamed Russian-backed rebels for firing the missile but Russia has blamed Ukrainian forces.

Mr Skinner, who has worked on compensation claims lodged by families against Libya following the Lockerbie disaster, said it was clear that without Mr Putin's permission a Buk missile would not have crossed the border into Ukraine. "That doesn't simply happen in Russia unless it is cleared all the way to the top," he said.

Russia said on Sunday it did not have any information about the compensation claim.

Last year Moscow vetoed a UN resolution that sought to establish an independent tribunal to prosecute people responsible for downing the jet. An investigation by Dutch criminal prosecutors has yet to conclude.

Russia has offered $50m to help capture those behind a terror attack on an Egyptian jet in October that killed 224, mainly Russian holidaymakers.

INTERNATIONAL

Fiscal crisis

Brazil warned of 'explosive' build-up of public debt

Education and pension plans must be reversed, says ex-central bank head

JOE LEAHY — SÃO PAULO

Brazil's new government urgently needs to defuse fiscal "time bombs" that threaten an already strained national budget, according to Arminio Fraga, the former central bank governor and founding partner of one of the country's biggest hedge funds.

The administration of Michel Temer, interim president, would have to reverse a planned increase in spending on education and growth in the pension system, said Mr Fraga at a conference in New York.

If not these two areas of spending would add up to 12 percentage points of gross domestic product to the budget in the next decade, he added. "If you do the arithmetic, it's explosive."

The Temer government is trying to refloat a sinking economy after the suspension of President Dilma Rousseff in an impeachment process this month. Among the priorities is resolving a budgetary mess created during her five years in power. Ms Rousseff is being impeached on charges of manipulating the public accounts to disguise the deteriorating state of public finances.

The interim government has announced a new target for the 2016 central government primary budget deficit — before interest payments — that was worse than economists had expected at R$170bn ($48bn), or about 2.7 per cent of GDP. Ms Rousseff's highest estimate had been 74 per cent lower.

"This is a target that we judge to be very realistic," said Henrique Meirelles, the new finance minister.

Mr Fraga, who co-founded Gávea Investimentos and worked with global financier George Soros, helped the opposition during the election campaign in 2014. He said the budget challenge facing the interim government was difficult even before accounting for the potentially explosive issues of education and pensions.

Ms Rousseff was running a 2 per cent primary fiscal deficit, so in effect the government was borrowing money from the markets to meet its interest payments. Together with interest payments that are among the highest in the world — the benchmark rate is 14.25 per cent — the budget deficit was about 10 per cent. Gross public debt rose from 51.7 per cent of GDP in 2013 to 66.5 per cent last year.

If other liabilities were included, such as loans to state governments that are struggling with the recession and the likely need to recapitalise Petrobras, the state-owned oil company, public debt would rise to 75-80 per cent of GDP, said Mr Fraga.

Education and pension spending 'doesn't add up', says Arminio Fraga, who worked with George Soros

"With 6 per cent real rates and a primary deficit, [gross debt] grows very fast, so from there to 90 per cent is just a couple of stops on the debt subway."

To stabilise the debt, the Temer government would need to begin posting a primary fiscal surplus of 3-4 percentage points of GDP, which means it will have to find 5-6 percentage points of GDP in cuts to public expenses or new tax revenues.

Brazil has created a law that envisages a doubling of spending on education to 10 per cent of GDP over 10 years.

Meanwhile the pension system is expected to grow in cost by 7 per cent of GDP over the next decade.

Together these two sources of additional spending would add up to 12 percentage points of GDP to the budget at a time when the government is struggling to come up with savings.

Brazil's pension system is generous, allowing for early retirement, indexing pensions to the minimum wage, and even permitting some inheritance of pensions. "It just doesn't add up," Mr Fraga said, referring to the education bill and trends in the pension system.

The impeachment of Ms Rousseff — a leader who oversaw a 4 per cent contraction of the economy last year — had been done in accordance with the constitution, he added.

The functioning of Brazil's institutions, in which the police and prosecutors exposed government corruption while the Supreme Court ensured that the impeachment was conducted according to the rules, "bodes very well for our future", said Mr Fraga. "I do think once this goes through we are likely to have a different Brazil."

Mr Temer has published a policy document for solving the crisis, "A Bridge to the Future", which lays out market-friendly ideas. "He has support and he got there through legitimate means," said Mr Fraga. "As a Brazilian I can only hope that he can go to work and get some of this done."

Central America. Killings

El Salvador declares bloody war on gangs

Attempt to reduce savage turf battles has led to fears over trigger-happy security forces

JUDE WEBBER — MEXICO CITY

One woman's body, her wrists and feet tied, dumped in a black bag; a man, possibly hanged, bundled in sheets and stuffed into a suitcase; a dead gang member.

The newspaper coverage of this grisly pre-dawn death toll around the country on one day this week was matter-of-fact. Savage turf battles between gangs have made murder mundane in El Salvador, which last year supplanted Honduras as the homicide capital of the world.

Now the government, which credits its tough anti-gang task forces in masks for helping cut the murder rate by 42 per cent in April compared with March, has promised to bring the gangs to their knees in a year.

It is a tall order: the Mara Salvatrucha and Barrio 18 gangs, declared terrorist groups by the Supreme Court last year, have some 60,000 members. Even national police chief Howard Cotto has admitted that as fast as the men on El Salvador's 100 most wanted list are captured or killed, others will fill their shoes.

"We can't go on tolerating these groups . . . we have to lay siege to them, pursue them and bring them down. This is the mission we have in the next 12 months," Oscar Ortiz, the vice-president, said this month.

Its success is not just a Salvadorean but a regional issue. With scant prospects in a country with low growth and rising debt, young people face a stark choice: gang membership or a trek to enter the US with the prospect of being sent home.

Violence took root in the country in the 1990s precisely when thousands of Salvadoreans who joined gangs in Los Angeles after fleeing their country's 1980-92 civil war were deported.

Despite the government's iron-fisted tactics, the recent fall in homicides owes much to a self-imposed gang ceasefire agreed in late March — a reminder of how murders halved during a truce from March 2012 until late 2013, which saved an estimated 5,500 lives.

After that collapsed, killings climbed again. Last year the murder rate surged 70 per cent to 6,670 compared with 2014, making the tiny Central American country of 6m the most murderous peacetime place on earth.

Underscoring the government's zero tolerance to gangs, Raúl Mijango, the former congressman who talked the imprisoned bosses into the truce, was this month himself arrested, accused of getting them perks including prostitutes, cable television, video games, dancers and 1,605 boxes of fried chicken. Mr Mijango defended the perks as necessary to get the gang leaders onside and said he acted with the full knowledge of the then government.

Analysts see the arrest as a distraction after recordings published by respected online news site El Faro showed both government and opposition figures in contact with gangs ahead of the 2014 presidential election — raising suspicions, which they deny, that they were courting or buying the gang vote.

Now El Salvador has another problem: trigger-happy security forces. Last year the government said police who felt threatened could shoot gang members "with no fear of suffering consequences". Critics say they have taken that edict to heart.

David Morales, El Salvador's human rights ombudsman, says security forces killed 13 in two shoot-outs last year, including four teenagers, the youngest aged 15. In all, he has received reports of 30 cases of alleged murders, with 100 victims since the gang crackdown began last year.

The government's tactics are popular in a country terrorised by violence, where extortion of shopkeepers, bus drivers and other locals is the gangs' main income. It is "an ugly, informal tax system supported at gunpoint", according to Geoff Thale at advocacy group the Washington Office on Latin America.

As Héctor Silva, a Salvadorean scholar at the American University in Washington, puts it: "The difference between what is happening now and two years ago is that the state is in the position of strength and not the gangs, because they are using violence in the streets, with few limits, to hit them . . . it's like some sort of scorched earth policy in some areas."

It is a fragile situation. One aid worker with long experience of working in El Salvador feared that with jailed bosses now held incommunicado, the gangs' "mad young guns" could become more radical, leading to violence rising again.

And that has heartbreaking consequences. The collapse of the truce was followed by record numbers of unaccompanied children fleeing to the US in 2014, believing they would be allowed to reunite with family members. From October 2015 to March 2016, there were 11,000 apprehensions of Salvadorean children and their families trying to cross into the US, more than three times the rate in the same period last year, according to the Pew Research Center.

Mauricio Hernández, a taxi driver in the capital, San Salvador, sees little hope. "These gangs are like octopuses, they have tentacles everywhere," he said. "It's very difficult to end this."

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On the move: gang members are transferred to prison in San Salvador in March. Below: a member of the special forces tackling the gangs — Fred Ramos/Washington Post/Getty

PMI

Eurozone growth slows to lowest in 16 months

CLAIRE JONES — FRANKFURT

Growth in the eurozone appears to be slowing after a rapid recovery at the start of the year, according to a closely watched poll.

The purchasing managers' index, compiled by Markit, the data provider, and used by officials to monitor the direction of economic activity, dipped to a 16-month low of 52.9 in May — from 53 in April.

While PMI remains above the 50 level that marks an expansion in activity, the downward trend raises doubts about the strength of the recovery in the 19-member single currency area.

The data are based on surveys of variables such as output, new orders and employment at thousands of companies and show new business growth at its lowest since the beginning of last year.

In contrast the eurozone's two biggest economies, France and Germany, have put in relatively strong recent performances. The disparity potentially indicates diverging fortunes of the region's core and peripheral economies such as Italy, Spain and Greece.

Stephen Brown, European economist at Capital Economics, said the data provided "little evidence that another strong quarter of growth was on the cards in the second quarter".

However, the figures underestimated the pace of expansion recorded in the first quarter. In March Markit's economists estimated growth for the period of 0.3 per cent, lower than the 0.5 per cent figure recorded by Eurostat, the European Commission's statistics bureau.

In France activity rose in May at its fastest in seven months, as rapid growth in the dominant service sector offset a decline in manufacturing.

"There are signs of improving life in the 'core' countries of France and Germany, led mainly by their service sectors, as manufacturing continued to struggle," said Chris Williamson, chief economist at Markit.

"Elsewhere the rate of expansion slowed to its weakest for almost one-and-a-half years. The survey paints a picture of a region stuck in a low-growth phase, managing to eke out frustratingly modest output and employment gains despite various European Central Bank stimulus 'bazookas', a competitive exchange rate and households benefiting from falling prices."

South Africa

Prosecutor under fire in Zuma corruption case

JOSEPH COTTERILL — JOHANNESBURG

South Africa's national prosecutor has said he will appeal against a court order to revive corruption charges against President Jacob Zuma that were dropped seven years ago.

The decision will rekindle controversy dogging the ruling African National Congress over its support for the scandal-prone president, two months before local elections that could threaten its control of key cities for the first time since apartheid ended in 1994.

North Gauteng high court ruled last month that a 2009 decision to drop 783 counts of fraud, racketeering and corruption against Mr Zuma, who was president of the ANC at the time, had been "irrational" and he should face them.

Yesterday Shaun Abrahams, head of the National Prosecuting Authority, said the ruling raised constitutional issues for the prosecutor's independence and needed "the decision of an appeal court". A filing had been made to the Supreme Court of Appeal, he added.

The opposition Democratic Alliance, which has pursued legal action for years over the decision to drop the charges, said the appeal was a "blatant delaying tactic" and the prosecutor's office was "preoccupied with protecting President Zuma at all costs".

Mr Abrahams "categorically" denied that the NPA was trying to delay the case, saying he wanted it "resolved as soon as possible".

The Supreme Court could refuse to hear the appeal, and Mr Abrahams did not rule out going to the Constitutional Court.

Fears have been growing over the politicisation of South Africa's police and prosecution services, especially since reports that Pravin Gordhan, finance minister, was about to be arrested in connection with allegations that a unit of the tax authority illegally spied on senior officials. Mr Gordhan was head of the tax authority at the time.

The reports triggered a sharp drop in the rand last week.

Mr Abrahams said "no charges of espionage" against Mr Gordhan were being investigated and he would not be arrested. "The NPA is not filthy or corrupt as some politicians would have you believe," he said.

Mr Zuma has always denied the corruption charges, which were dropped after recorded conversations emerged suggesting political interference in the original prosecution.

The Constitutional Court ruled in March that Mr Zuma had violated the constitution by failing to pay back taxpayers' money spent on his private Nkandla residence.

Monetary policy

Kenya cuts interest rates as inflation falls

JOHN AGLIONBY — NAIROBI

Kenya, one of the best-performing economies in sub-Saharan Africa, yesterday unexpectedly cut its benchmark interest rate by 100 basis points to 10.5 per cent amid falling inflation and a "strong" outlook for growth.

Analysts had expected the central bank to keep rates unchanged for several more months, citing uncertainty in the global economy, particularly the threat of the UK leaving the EU and the possibility of another US rate rise.

Patrick Njoroge, central bank governor, said after a meeting of the Monetary Policy Committee that "the global economy has weakened in recent months" but that there was "space for an easing of monetary policy while continuing to anchor inflation expectations".

The benchmark rate has been at 11.5 per cent since last year, when it was raised 150bp at the June and July meetings of the bank's MPC.

John Ashbourne, at Capital Economics in London, said the move was "not unjustified" since Kenya, a net oil importer, has bucked the sub-Saharan Africa trend of slowing growth and rising inflation. But he added: "I thought they might have waited a few more months to see that the falling inflation was a trend and not [a blip] for a couple of months."

Inflation fell to 5.3 per cent in April from 6.5 per cent in March, well within the government's target range. The Kenyan shilling has remained stable this year, supported by a narrower current account deficit driven by cheaper oil imports, improved earnings from tea and horticulture exports and strong diaspora remittances. These have helped boost foreign exchange reserves to $7.7bn, equivalent to five months of import cover, up from $7.4bn in March.

The broader economy is also performing well. Over the past month the government has announced that in 2015 gross domestic product grew 5.6 per cent, up from 5.3 per cent in 2014. Kenya's economy is one of the few in the region that grew faster last year than in 2014. The government expects growth to accelerate to 6.1 per cent this year.

This contrasts sharply with sub-Saharan Africa more broadly. Earlier this month the International Monetary Fund revised down its forecast for regional growth in 2016 to 3 per cent.

The MPC cited the stabilisation of the banking sector after the midsized Chase Bank was put into receivership last month as another reason for optimism.

Mr Njoroge said in the short term he was concerned about the UK's referendum on EU membership because the EU, and especially the UK, was a big market for Kenyan flowers and vegetables.

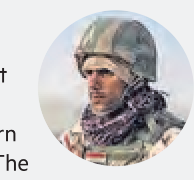
FT BIG READ. MIDDLE EAST

Isis has lost territory in Iraq and Syria but military success is disguising a larger problem for the coalition, with regional politics proving far more difficult to overcome than the Islamist group on the battlefield.

By Erika Solomon and Geoff Dyer

Conflict zones From Mosul to Raqqa and the 'Manbij pocket'

Main players
Forces fighting the jihadis



Iraqi Armed Forces — Iraqis lost faith in their national military, dominated by the country's Shia majority, after they beat a hasty retreat when Isis began its blitz across northern Iraq in June 2014. The US is retraining units to try and get them ready for the fight.

Hashad al-Shaabi — Shia militia, also known as Popular Mobilisation Forces, formed to fight Isis in the summer of 2014 but are now taking on a life of their own, with their leaders gaining political and military power. Sunnis fear them as a sectarian force that has committed abuses against their minority population.

Kurdistan Workers' party (PKK) — Originally from Turkey's southeastern Kurdish region, the PKK has fought a 30-year war with Ankara for Kurdish autonomy. It has bases inside the Iraqi Kurdistan region, where it has been fighting Isis. Branded a terrorist group by Turkey, the US and the EU.

People's Protection Units (YPG) — Syrian Kurdish militia that is seen as a sister group or descendant of the PKK, with which it maintains strong operational and ideological links. It is the most effective US ground partner in the anti-Isis campaign in Syria.

Peshmerga — Kurdish paramilitary forces of the semi-autonomous Kurdistan Regional Government in northern Iraq.

Syrian rebels — Syrian opposition forces that emerged from the 2011 revolt against President Bashar al-Assad. They are a fractious force of countless groups with different patrons, most of them backed by Turkey and Gulf states. Several groups deemed ideologically "moderate" have US backing.

The factions behind the fight against Isis

Looking at a map of northern Iraq, it can easily appear as if the Isis forces holding the city of Mosul are highly vulnerable. To the west, militias are ready to advance. To the north, south and east, army and paramilitary troops are as close as 20km away.

Yet even as these troops seem within touching distance, they are a long way from retaking Mosul. What the maps do not show are the bitter rivalries, political ambitions and regional power struggles behind the forces gathered around Iraq's second-largest city, hindering what will be one of the most important campaigns in the war against the jihadis.

"If you think there is some grand plan for this — well, there is no plan," says one Iraqi security official.

In the two years since Isis shocked the world by seizing Mosul and large swaths of Syria and Iraq, the US-led coalition battling the group has made progress. Isis has lost 46 per cent of its Iraqi territory and 16 per cent of its holdings in Syria, according to the Pentagon, faster than US officials had thought likely.

'Some of these groups were not co-ordinating with each other. So how can they agree on the same point of attack or defence?'

Recent momentum has lulled many regional players into a sense of confidence, almost as if the war was over.

"Everyone has forgotten about Isis," says one UN official in Iraq. "They are busy positioning themselves for the war after Isis instead."

The regional shake-up Isis created has unlocked opportunities to grab new territory or reassert spheres of influence. These ambitions not only hamper the unfinished conflict, they have sparked fears of sectarian bloodshed and regional proxy wars to come.

Today it is politics, not military matters, that is delaying the most critical battles against Isis — such as in Mosul, the jihadi group's largest city, or its de facto capital Raqqa in Syria. In a sign of the tension, Baghdad at the weekend announced a campaign to retake the town of Falluja, a move that could threaten US efforts to focus on Mosul.

The risk of prolonged war has serious implications for the region and beyond. It leaves millions across Syria and Iraq homeless and displaced at a time when world powers are keen to stem the flow of refugees towards Europe. It also complicates the peace process for Syria.

US officials say preparations to retake key targets like Mosul have been incredibly hard. With so many political disputes unresolved, some offensives could do more harm than good by reintroducing the same political and sectarian tensions that helped Isis take root.

"We could probably move faster," says a senior US official. "But we don't want to have a victory today and then a month later we see that we planted the seeds for the next Isil", using an alternative acronym for the group.

The anti-Isis coalition's campaign hinges on retaking three areas: Mosul in Iraq, Raqqa in Syria and the so-called Manbij pocket near the Turkish border. Each area highlights a jumble of interests now proving more difficult to navigate than the battlefield itself.

Iraq's second city

Iraq is divided between a Shia Arab majority that dominates the government, a marginalised Sunni Arab minority that wants more power and an ethnic Kurdish minority dreaming of independence. Conditions around Mosul reflect that tension. But on top of that, an intra-Kurdish rivalry has emerged as well as a proxy struggle between Turkey and Iran.

Mosul lies in the Nineveh Plains, part of the so-called disputed areas, where the central government and the semi-autonomous Kurdistan Regional Government are eager to stake a claim. They remain in an uncomfortable alliance to retake territories from Isis that they themselves are fighting over.

"The US is leading the mobilisation efforts and have to find forces acceptable to Baghdad and Erbil [the KRG's main base] and everyone else," a Kurdish official says. "I'm not sure how they can do it."

Anti-government protests over corruption in Baghdad last Friday

The struggles are being fought against a backdrop of political and economic crisis in Baghdad. Haidar al-Abadi, prime minister, is trapped between protesters demanding a crackdown on corruption and an elite reluctant to give up a sectarian patronage system that has enriched them since the 2003 US invasion. Predominantly Shia protesters stormed the Green Zone and ransacked parliament in April and clashes on Friday left at least four dead. Kurdish parties are now boycotting parliament arguing it is illegitimate.

"Usually, Abadi would call the commanding officer up north every day but he is completely focused on this mess in parliament," says Mohammed Tamim, a Sunni MP. "This [crisis] is hurting our security now as well."

The KRG is reluctantly hosting 5,000 Iraqi Army troops at a base south of Mosul, but the Kurds merely watched when those troops failed in early attempts to advance. Other groups are eager to step in, most notably the thousands strong Shia volunteer forces known as the Hashd al-Shaabi, or Popular Mobilisation Forces. Prominent in the recovery of Tikrit from Isis last year Mr Abadi has promised the group a role in any assault on Mosul but Kurdish and Sunni leaders have vowed to stop them.

Turkish forces are, meanwhile, building up a base north of Mosul, raising the ire of Baghdad and its patron Iran. Mosul was a hub for Turkish commercial and intelligence operations before the Isis takeover. A presence there would also give Ankara a foothold between territories used by the Kurdistan Workers' party (PKK), a group Turkey and the US considers terrorist and with which the former has fought a 30-year insurgency. To Turkey's dismay, the PKK now has an arc of influence from northern Iraq right across the border to its sister group in Syria.

Local PKK affiliates, with the suspected backing of Iran are also jockeying for a role in the Mosul offensive. The move is alarming Ankara and the KRG, which fears that the PKK could try to seize the Sinjar region north-west of Mosul. Amid the political chaos, academics like Rasha al-Aqeedi, a Mosul native who works at Al-Mesbar Center in Dubai, warn that planners must not forget the needs of Mosul residents. She says the city may be easier to take than expected — western officials have been bracing themselves for massive destruction. But to keep Mosul residents onside, the coalition must send in forces they trust.

"Whether we like it or not, Mosul is very tied to Turkey. It's where their roots are. I'm not saying people are more loyal to Turkey, but right now, they are in an identity crisis and they feel closer to places like Aleppo [in Syria] and Ankara than they do to [the southern Iraqi city of] Basra," she says.

A Syrian Democratic Forces fighter during a battle for an Isis-held town

All this makes any timeline for retaking the city in 2016 seem optimistic, the Kurdish official says: "If they're lucky, maybe next year."

From Al-Rai to Jarablus

Tension is also present in an area known as the Manbij Pocket, a 90km strip of land along the Turkey-Syria border stretching from the village of Al-Rai to the town of Jarablus, and southward towards cities such as Manbij. As the jihadi group's last crossing zone into Turkey, it offers a gateway to Europe.

"Manbij is there for the taking," says Aaron Stein at the Atlantic Council. "The only reason Manbij and Jarablus are still in Isis hands is political."

The problem lies with the rivalries between coalition partners. In recent weeks, Turkish and coalition-backed Syrian rebels captured al-Rai. But the triumph evaporated as Isis recaptured the area under the cover of explosions, sending thousands of refugees fleeing towards Turkey. Since then, this western corner of the Manbij pocket has been stuck in a tug of war between Isis and Syrian rebels.

Western forces have a more capable ally nearby eager to do the job: the People's Protection Units, known by their Kurdish acronym YPG, the Syrian affiliate of the PKK. The YPG has chipped away at Isis territory under coalition air cover, retaking nearly all Kurdish areas of eastern Syria.

The US says it has tried to attract Arab rebels to ally with the YPG under the banner of the Syrian Democratic Forces, hoping this could create a force more committed to fighting Isis than ousting Mr Assad. But most Arab rebels, who have strong links with Turkey, are wary of joining saying they get second-class status to the favoured Kurdish forces. .

With Turkey fighting the PKK on its own soil, the US-Kurdish alliance is straining American co-operation with Ankara. At the same time, many rebel groups are still focused on their war with the Assad regime that foreign powers say only a settlement in Geneva can end. As peace talks and a partial ceasefire flounder, that still looks far off.

Rebels in the area are also riven with rivalries between those groups closer to Turkey and those allied to Washington. Among US-backed groups, there are even differences between those backed by the Pentagon's "Train and Equip" scheme, and those from an older CIA programme.

"The result is that some of these groups are not coordinating with each other," one rebel leader says. "So how can they agree on the same point of attack or defence?"

Hitting Isis at home

The potential for Kurdish-Arab tension is especially evident in the coalition's efforts to recapture Raqqa, which is seen as the most vulnerable to an offensive. Residents say speculation is rising of an imminent attack in the area.

Demographically, Raqqa is overwhelmingly Arab. But only the Kurdish-dominated SDF is within range of the Syrian city and its Arab forces are few.

"If we're purely talking cities, Raqqa is easier to take [than Mosul]," a senior US official says. "But the composition of a holding force there is much harder to come up with. I don't think it would make sense to take a city and then leave it — we've learned in the past [in Iraq and Afghanistan] what that means."

Critics say the sections of the Obama administration that have been the biggest proponents of the US-Kurdish alliance, including parts of the military, have failed to realise just how damaging that focus has become. Arab-Kurdish hostilities are surging across northern Syria, leading to fierce battles around Aleppo, often prodded by Turkey, which wants rebels to weaken the PKK's sister force. This fighting will be hard to extinguish even if Isis is defeated.

"It is just one of those things where you have to accept the consequences that go along with what you're doing," says Philip Gordon, former senior director for the Middle East at the White House. "I don't think the Kurds are the recipe for either forcing change in Damascus or taking Raqqa and stabilising the east of the country. So even if it is useful in some ways, it doesn't solve the overall problem."

The coalition is trying to implement a plan to choke Raqqa by taking the surrounding area but it still needs a bigger Arab force to hold those towns. Washington recently deployed 250 more US troops to bolster Syrian forces fighting Isis.

"We are like people walking barefoot on a burning surface," says one commander of the Thuwar Raqqa brigade, an Arab rebel group that is part of the SDF. "It is a forced marriage."

Some Syrian opposition figures who once considered joining forces with the SDF are now opposed, suspecting that the US and Russia, are working towards a deal to leave Mr Assad in power. "The goal now is just to hold out until the next [US] administration," one Syrian opposition adviser says.

In Mosul, residents are wary of the forces trying to liberate them, fearing they will be blamed for the Isis takeover. "Saying they are from Mosul now makes them guilty by association," says Ms Aqeedi, the Iraqi academic.

Such tension could leave room for Isis to exploit. That seems to be the strategy it is already pursuing in Baghdad, where car bombs have killed 200 people over the past 10 days, mostly in Shia districts.

There has been no outbreak of sectarian conflict yet but anger at the government is rising. "The dynamics that led to Isil are still there," the Kurdish official says. "There's been no change."

Speed read

Losing ground Isis has lost 46 per cent of the territory it controlled in Iraq after its takeover in 2014

Military targets The anti-Isis campaign hinges on retaking Mosul, Raqqa and a 90km area on the Syria-Turkey border

Wider struggle The military battle is being fought against a backdrop of economic and political crisis in Iraq

FINANCIAL TIMES
'Without fear and without favour'
TUESDAY 24 MAY 2016

The gig economy needs a new bargain for workers

Senator Warren offers a framework to update employment laws

America's middle class is losing ground. Wage stagnation, economic insecurity and rising inequality have become the defining issues of the presidential campaign. Yet as politicians search for a response, they must also grapple with the changing nature of employment. The "fight for $15", the nationwide campaign for a big rise in the federal minimum wage, is of little relevance to the growing numbers working without the traditional relationship of employer and employee in the so-called gig economy.

Enter Elizabeth Warren, the left-leaning senator named in some quarters as a potential running mate for Hillary Clinton. In a speech last week, the former Harvard academic set out a framework to "rethink the basic bargain for workers" and ensure that a majority can share the benefits of technological change. Her intervention is a thought-provoking one that could guide the debate in many developed economies facing the same dilemma.

She resists the temptation to demonise the online platforms that have become a focus of fears over job security, epitomised by the ride-sharing company Uber and its rivals. This balanced appraisal of their business model is welcome.

It is true that Uber's offer of cheap abundance depends on low wages for drivers, who are held to be independent contractors and so enjoy none of the protections of employees.

However, the fact that online platforms can attract workers in large numbers despite relatively unappealing conditions is an indictment of the labour market in many of the countries where they operate. In France, many Uber drivers come from the deprived banlieues and say that discrimination prevents them finding mainstream employment. In the US, a study by JPMorgan found that people used online platforms mainly to help them weather a dip in their regular earnings — as an alternative to cutting spending or running up debts.

There is anecdotal evidence that competition is already helping to improve conditions, since workers are free to join more than one platform and are increasingly migrating to those that offer better terms.

However, there is a need for policymakers to provide a level playing field and to ensure that the changing nature of work does not erode living standards or fray the social safety net when it comes to health, pension and job security. As Ms Warren points out, these problems apply not just to gig workers, but also to temporary, contract and part-time workers, especially in sectors such as retail or construction.

The challenge is not to regulate the gig economy, but to ensure that all workers enjoy basic protections.

Ms Warren outlines four areas for action. First, she wants to make it easier for all workers to pay social security contributions and buy insurance against disability or illness, as well as to accrue credits for at least some paid leave. Second, she argues that health and pension benefits should belong to workers and should follow them no matter what their employment status. Third, she underlines the need to streamline and enforce existing labour laws to stop employers exploiting loopholes. Finally, she stresses the need for collective bargaining for all workers — unions, historically intent on protecting insiders, need to bear some responsibility.

This is an agenda that policymakers in many countries would do well to pay heed to. The rise of the gig economy offers new opportunities that many people are keen to take up. The task now is to allow them to do so with a reasonable degree of security.

South Africa's plans for its first 'black bank'

Regulators must look carefully at the implications of Absa purchase

Black economic empowerment has been an important goal for South Africa since the end of apartheid in 1994. The aim has been to give the country's disadvantaged majority a bigger stake in the economy. Yet despite the policy's mixed record, people within the ruling African National Congress could be planning a radical departure.

A plan under consideration by the Public Investment Corporation (PIC), the state pension fund, would see the acquisition of a controlling stake in Absa, one of the country's biggest banks, to create a majority black-owned institution backed by powerful investors.

Doing more to raise up the black population is a prerequisite for the country's future stability, and the government is right to push for it. Despite all the promise of 1994, there has been no great entrepreneurial lift off. For the majority of the population, livelihoods have yet to improve to any meaningful extent.

But intervening to place Absa in the hands of a select group of individuals and institutions is not the best way of changing that. South Africa's third-largest bank by market capitalisation, presently controlled by the UK's Barclays, is scarcely a basket case requiring a new business model. The decision to sell it, along with the rest of the African assets in its portfolio, has more to do with Barclays' balance sheet than Absa's performance.

In theory, the "black bank" envisaged by PIC, with backing from the ANC, would help to remedy continuing social injustice by investing more proactively than other banks in small black-owned enterprises that have been starved to date of credit.

Such an ambition is understandable — certainly from a political perspective. Public frustration with the slow progress towards creating a more equal society has given rise to populists such as Julius Malema with radical agendas, including the expropriation of white-owned corporations. His ideas are steadily gaining ground.

There are, however, valid reasons to worry about a politically connected takeover of Absa, which is one of the most important suppliers of capital to the South African economy. There are questions about superimposing social objectives on to financial criteria when directing pensioners' savings or the capital of depositors. The risk is even greater when it involves an economy as riddled with patronage as the country has become.

It may be that South African capitalists are simply too risk averse or myopic to invest in value adding projects put to them by smaller enterprises run by black entrepreneurs. But there are other mechanisms the government could use to remedy this situation. The state could, for instance, establish its own national investment bank with a mission to seek out and back such projects.

Assuming it invested wisely, this new financial institution would then earn superior returns, demonstrating to the private sector the value of what it was missing out on.

This is a delicate time for the country. Black economic empowerment is under fire for fostering cronyism and corruption by allowing a small politically-connected elite to prosper while bringing no appreciable benefit to the disadvantaged. While PIC has a record as a responsible investor, it could emerge as the sleeping partner in any empowerment deal to acquire Barclays Africa. Fortunately, the regulators in South Africa, whose approval would be required, remain independent. They should bear in mind how much is at stake.

Letters

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Anti-elitism is fuelling a populist insurgency

Sir, I believe the challenge to the Labour vote over the longer term is greater than Jim Pickard reports ("Immigration worries leave Labour divided on Europe", May 21). There is at long last a determined revolt in the west by blue-collar voters and their families against them bearing the pain for the rich elite's insistence on unfettered globalisation and open borders.

That strategy has put China into pole position for the next stage of world history. And this cavalier transfer of economic power to the east has decimated too much of the economic basis of western economies' ability to pay decent wages on which families can be raised.

Donald Trump is completing President Ronald Reagan's strategy of decoupling blue-collar Democratic voters by giving them hope in the Republican camp. A careful choice by Mr Trump of a tough female running mate will put the kibosh on Hillary Clinton's attempts to win the White House, as he leads what is now a fast-moving insurgency vote. Bernie Sanders, even more hopefully, shows it is possible to take richer people distressed by these impacts of globalisation, on the insurgency journey.

That insurgency began assembling for battle in the UK at the last general election. Nearly 1m one-time Labour voters supported the UK Independence party. Labour is now wholly represented by a leadership from the frontline of blue-collar constituencies, but remains as deaf as any Blairite to the totally justifiable revolt that is girding up its loins for battle. Labour's inability to respond to this insurgency vote is handing over the future of Britain's political centre-left for Ukip to decide.

Frank Field MP
House of Commons,
London SW1, UK

Savers can be forced to fund public sector deficit

Sir, In John Plender's excellent "Why governments are caught in a double bind over public debt" (Markets Insight, May 18) he concludes that there is no escape from "sky-high debt-to-GDP ratios" because disciplined austerity leads to nominal gross domestic product growing slower than the debt and its servicing, while pro-growth policies and inflation make the servicing cost unaffordable. But there is one escape route: rob more from savers. That is, deficit-financed pro-growth policies combined with greater financial repression similar to wartime, forcing savers to fund the public sector deficit at ever lower real interest rates.

Mr Plender refers to how Britain managed to escape debt of 260 per cent of GDP after the Napoleonic wars via deflationary growth (while continuing to pay positive real interest rates). It should be noted that at the time Britain briefly debated a 10 per cent haircut on the debt, but instead returned to the gold standard in 1821, inducing confidence in the debt holders, but for a number of years most of the tax revenue was spent on debt servicing. Welfare spending was postponed for decades, and half the banks in the country went bust. That may not be an acceptable policy today.

John Gent
Doctoral candidate,
London School of Economics,
Kingston upon Thames, Surrey, UK

Private equity's secondary market is legitimate

Sir, Your correspondent Sujeet Indap ("Buyout firms' secondary market is of prime concern", May 17) paints a false picture of what is a well-established, transparent, highly functioning and sustainable aspect of the private equity market: namely secondaries.

The funds of funds world has grown beyond the need for financial institutions to respond to regulatory pressures and divest themselves of some or all of their private equity portfolios. Every robust market needs a second-hand function for trading. With more than $4tn of assets allocated to private equity, investors predictably need a marketplace to sell private equity holdings to second-hand players, just as they expect for their stock and bond portfolios.

Sellers are motivated by a number of rational reasons to tap into the marketplace. Movements in exchange rates, stock market indices or oil prices can all create a need to rebalance.

Gaining access to capital can be another reason to manage holdings actively. On the flipside, buyers are attracted to secondaries for visibility and quality returns.

In 2015, secondary transactions completed were worth between $30bn and $40bn, mirroring the deal flow in 2014. This demonstrates a consistent demand among institutional investors to have the option of secondary liquidity for their private equity investments.

It is, therefore, bizarre to use the story of one allegedly fraudulent individual to frame an analysis of what is in practice a well-functioning, open and accessible market. By doing so you describe hundreds of public pension funds, financial institutions, sovereign wealth funds, family offices, as well as many other organisations, as operating in the "dark crevice of Wall Street".

The bottom line: market participants view the private equity marketplace as mature, legitimate and essential.

Benoit Verbrugghe
Head, Ardian USA,
New York, NY, US

Hope for London's young

Sir, The Financial Times reports that David Cameron and George Osborne hope the Treasury warning of an immediate hit to jobs, interest rates and house prices will be the clinching argument for undecided voters in the EU referendum ("Brexit shock will trigger year-long recession, Treasury warns voters", 23 May). It may well be the determining factor, but not necessarily as they wish. I imagine there are many young Londoners who would welcome lower house prices.

Paul Barrett
London SW4, UK

Rules on pension 'rescue plans' are unclear

Sir, You report that two years ago the Pensions Regulator rejected a "rescue plan" from Sir Philip Green for the BHS pension scheme, which could have left some scheme members better off (May 20). Under the plan, members could have chosen to transfer to a new scheme with lower pensions than promised, but higher than the Pension Protection Fund compensation, with a company controlled by Sir Philip's family injecting some cash into the new scheme.

Precise details are, understandably, sketchy, especially how much cash was involved, but the report fails to answer some obvious questions of principle: which part of pension legislation allows this to happen? Is this a tried and tested mechanism for pension schemes, which the regulator has already approved, or something entirely new? If there are other examples, how was BHS different?

Any implication that the regulator rejected Sir Philip's offer capriciously and that things would have been very different had it been just a bit more helpful, strikes me as misleading.

You also say that the regulator would not comment, but you do not point out that the Pensions Act 2004 makes it a criminal offence for it to disclose any information obtained "in the exercise of its functions which relates to the business or other affairs of any person", punishable by a fine or prison sentence of up to two years. This allows companies to give their version of events, knowing the regulator is forced to remain silent.

John Ralfe
John Ralfe Consulting,
Nottingham, Notts, UK

'Loincloth strategy' strips away the pomposity

Sir, I was surprised to see that "loincloth strategy" is appearing in Lucy Kellaway's Guffipedia. The image is striking (although I would agree with Lucy that it is not necessarily one you would wish to be struck by), the phrase crisp, clear in its meaning, original and free from the taint of management consultants' pomposity. Even better, there is no dreadful clichéd sporting metaphor lurking to depress the productive units, sorry, co-leaders, in their daily toil. It is a phrase I will use whenever appropriate, so my thanks to the Guffipedia for bringing it to my attention.

Gavin Reid
Singapore

Reading the numbers for UK airport expansion

Sir, Philip Stephens is right to point out (FT.com, May 15) that the Airports Commission's numbers do not add up. An FOI request of the Department for Transport has revealed arithmetic errors and omissions in the commission's final report. Even on its own assumptions, the commission's figures miscount international traffic to and from the UK under airport expansion, particularly in the case of Heathrow expansion (overstating by 4.2m international passengers in 2030). Once corrected, it becomes clear that long-haul travel to and from the UK is the same under Gatwick expansion as it is under Heathrow expansion, with 61m passengers in 2030. This is directly at odds with the commission's conclusions.

As for economic analysis, it is now also clear that the commission did not prepare its economic case in accordance with the Treasury/DfT guidelines, as it should. The commission suggests that the capital costs of the schemes are not relevant to the economic analysis and that the growth enjoyed by competitor nations should all be treated as a benefit to the UK if they use London as a transit point. Correcting for these invalid assumptions — as indeed the government is required to do if it is to have a sound basis for its decision making — shows that Gatwick has the strongest economic case under all the commission's traffic scenarios.

As for its assumptions, in July last year the commission projected Gatwick would reach 40m passengers by 2024. Sir Howard Davies is right to note that some projections may turn out to be wrong (Letters, May 17) but starting out with an error will make that possibility a certainty. Gatwick passed the 41m mark last weekend.

Nick Dunn
Chief Financial Officer,
Gatwick airport, W Sussex, UK

Why wind and solar farms push power prices down

Sir, Your article implies that wind and solar farms depress power prices because they are subsidised (May 21). This is not the case. The reason for wind and solar farms as well as nuclear power plants producing power even at zero prices is that their marginal cost in the short run is zero as they have no meaningful fuel costs. Wind and solar, but not nuclear plants, can easily adjust their output. It is unclear where the "distortion" lies. The wholesale power market is a competitive one where new entrants with lower marginal costs cut profits for old power plants. Conventional plants might not like this but it is in consumers' interest and delivers the price reductions a competitive market should deliver.

Niels Kroninger
Managing Director,
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Correction

● There has been a $100bn rise in the past two months in the value of China's loan-for-bonds swap, not its debt-for-equity swap as incorrectly stated in an article on May 23. Under the scheme, banks trade short-term loans to local government companies in exchange for bonds with longer maturities.

A valedictory to my daughters' birthplace

Shanghai Notebook

by Patti Waldmeir

A little more than 16 years ago, a newborn infant was left by the side of a Chinese road in winter, and thus began my love affair with her, and with her homeland.

It hasn't all been unadulterated bliss in either of my relationships — that with my adopted Chinese daughter Grace (and her Chinese sister Lucy), and with the country that could not keep them. But I am in this for the long haul: Grace and Lucy, now 16 and 15, are my forever children. And China will forever be their motherland.

However many times they may renew their American passports, however many US elections they vote in, however many US driver's licences they will procure, a part of them will be forever China. And a part of me will be, too.

I moved our family to China in 2008 to honour that Chinese part of all of us. Lucky for me, the Financial Times had offered me a job in Shanghai that made this possible. And thus began the great Waldmeir Sinicisation project. My plan was to take two kids who became accidental Americans in the instant that I adopted them, and teach them how to be Chinese in China. It seemed like such a good idea at the time.

Now, eight years later, our family is heading back to America, each to a greater or lesser degree a Sinophile. After so many years in China, one of us has lost her taste for American food, distinctly preferring noodles to burgers; another loves speaking Mandarin and will really miss the chance to practise her tones back home, and the third says she "never really left America in the first place". I will not reveal which of us is which. But I sometimes think the most Chinese person in our family is lily-white, Italo-German-Swiss-American me.

My kids might be Chinese by birth but by temperament they are 100 per cent American teen, by which I mean they think Mom is never right about anything. So they were never particularly onboard with us re-enacting the Chinese version of *Roots*. But when we arrived, they were only 7 and 8 — still young enough to drag around from the dog-eating provinces of the south to the ice castles of the north, hoping that a flavour of their homeland would sink deep into their bones, by osmosis.

With hindsight, it might have been better to skip the trip, when they were 10 and 11, to that town in Guizhou province where every restaurant serves only dog meat. Grace hid in the car the whole time and Lucy has never let me forget that the first thing she saw, upon entering Xiao Hong's dog diner, was a wok full of simmering puppy paws. Sometimes I took the cultural authenticity thing a step too far, and few Chinese eat dog these days anyway.

I might have had more luck in teaching them to love China if I had stuck to bribing them with dumplings, bootleg DVDs and their own private stash of fireworks with which to risk blowing their arms off at lunar new year. That is something they wouldn't get back home.

My goal was to give them access to the culture, the values, and most of all the language that goes along with the faces they were born with.

I think I have done that, but only time will tell whether doing so has bred in them an enduring love for their motherland — or put them off it forever.

But at 15 and 16, the choice is theirs now. I have finished trying to teach them how to be Chinese in China. Now it's time for them to teach themselves to be Chinese in America. I am not sure I envy them that prospect, at a time when ethnicity is such a Trump-touchy subject but I am quite certain they don't want my advice on how to manage it.

And then very soon they will be all grown up and living in a two-power world where they will have a foot in each camp. Maybe they will thank me for that; maybe they will hate me for it, or maybe they just plain won't care. Perhaps I will be long gone by the time they even make up their minds about all this. Maybe these two lost daughters of China will only grow into their Chineseness over decades.

But it won't take me that long: already there is a corner of my foreign heart that will be forever China. I only hope that I won't always be the most Chinese member of the family.

patti.waldmeir@ft.com

Comment

Brexiters' insouciance is the privilege of the rich

POLITICS

Janan Ganesh

The man who runs the National Health Service said on Sunday that a British exit from the EU would disrupt his work. Simon Stevens is, according to Leavers with no prior interest in him, a government stooge and proven administrative klutz.

There is bespoke invective for any third party who speaks against their cause, always on the theme of elite collusion. The governor of the Bank of England? Goldman Sachs puppet. Big business? Gluttons at the trough. As for the International Monetary Fund's Christine Lagarde, she was put up to it by Treasury back-scratchers. No one, in this desert of goodwill, is credited with sincerity.

Leavers had better win next month's referendum. They have peddled too dark a view of how Britain is run to slide back into public life with a straight face after defeat. What minister could serve a state he says is a racket? How can a commentator appraise week-by-week politics if the whole superstructure is rigged? Still, watch them do it. Only a few Leavers are credulous conspiracy theorists who squirrel away tinned food and think bitcoin, that Esperanto of currencies, will take off any day now. Most just use anti-elitism as a tactic to mobilise voters. The insincerity is all theirs.

And so, when you think about it, is the elitism. A Treasury report puts the short-term cost of exit at 3.6 per cent or more of gross domestic product. When such forecasts are made, Leave's technical rebuttal is less telling than its indifference to whatever smaller setbacks it concedes would occur.

With noble candour, some admit that exit would bring a quick downturn and, perhaps, marginally slower long-term growth. When a survey by the CBI, the employers' organisation, said the economy by 2030 would be a few percentage points smaller outside the EU than in, it was taken as proof of the trifles at stake.

Call this what it is: elitism. People who work in and around politics are mostly screened from the vicissitudes of the economy. An MP, peer, adviser, columnist or think-tanker has job security and, if it fails, an escape hatch to the public relations sector. In Westminster, the crash did not happen. Any post-exit recession would not happen there either. There is something of the gung-ho general billeted miles from the frontline in the Leave campaign's untroubled contemplation of an economic downturn. Insouciance is a rich man's privilege.

> The Leave campaigners' droll routine is all the worse for their pose as underdog yeomen

For the rest of the country, small movements in economic output translate into jobs lost or created, pay rises given or withheld. Not everybody lives on that margin but most people know someone who does. Leavers have half a point about the Remain firmament. It really is a mountain range of dignitaries and industrialists. But being of the elite is not prima facie evidence of elitism. It is not Ms Lagarde or the CBI who seem happy to brook a short sharp shock to the economy as the tactical price of a loftier cause. It is not the Davos crowd who talk of a slightly smaller economy in 14 years' time as a near-victimless outcome. (Which, given the rising population, it certainly would not be.)

What damns the Leavers is not their belief that the Treasury forecast is wrong. It is the hint they give off that they do not really mind if it is right. They can live with a recession if they must. If others cannot, well, nobody said the path to freedom is lined with cherry blossom. Their nonchalance is all the worse for their pose as underdog yeomen, a droll routine that has cabinet members and an Etonian former mayor of London deploring the "establishment", presumably while buffing each other's brass necks.

As a picture of decadence, politicos who cannot lose their jobs shrugging at percentage points of GDP here and there will stick in the mind. Mostly drawn from the right, they resemble nothing so much as the rich Londoners who voted for the far-left Jeremy Corbyn as Labour party leader because "winning isn't everything". If you are poor enough to taste government policy, winning elections really is everything. If your next contract hinges on economic calm, a downturn this year is not just a detour on the way to national destiny.

There is a class of people in politics for the frisson of belief, for communion with the like-minded, for anything but the tedious amelioration of material life for most people. There are Remainers who think household finances too tawdry a theme for a campaign that should major on European civilisation and the epic sweep of history.

But many more Leavers think like this. For them, economics is a vulgar reason to support a political proposition, even theirs. Principle trumps all. They say it because they can afford to.

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Trump's retreat from American greatness

FOREIGN AFFAIRS

Gideon Rachman

Donald Trump loves to say that he will "make America great again". But Mr Trump's foreign policy ideas actually amount to a headlong American retreat from "greatness" on the world stage.

The all-but-anointed Republican candidate for the US presidency essentially wants America to resign from the role of global policeman. Any such decision would have profound implications. The world's security system is based around a series of American "red lines" and alliances. But if the US starts pulling back from its international role, other powers, in particular China and Russia, will move to fill the vacuum.

Mr Trump's promised America-first trade protectionism could trigger a worldwide recession and undermine the globalised trading system that gives countries an incentive to co-operate rather than compete.

To understand the full implications of Trumpism unleashed, look at three crucial regions — Asia, Europe and the Middle East. It is also important to understand how Mr Trump's dealmaking approach to diplomacy would create dangerous international uncertainty.

In Asia, Mr Trump would stand US policy on its head. America's approach to the rise of China has been based on economic openness, combined with security alliances designed to balance growing Chinese power. Mr Trump wants to reverse these priorities. He has talked about imposing swinging tariffs on Chinese goods. But he has also sounded very sceptical about America's two most important treaty alliances in East Asia, with Japan and South Korea.

Mr Trump's priorities probably sound like common sense to many US voters, who regard it as much more important to safeguard American jobs from Chinese competition than to protect Japan and South Korea from potential attack. In reality, Mr Trump's promised diplomatic revolution in Asia would have malign consequences that would swiftly be felt back home. A Trump-inspired trade war would be seen as a threat to the prosperity and stability of China. If this were combined with a weakening of US security guarantees to its Asian allies, China could well respond aggressively. The tense shadowboxing in the East and South China seas between China, the US and Japan could escalate into something much more serious.

The implications of Mr Trump's pronouncements on Europe are no less profound. They threaten to gravely weaken the western alliance that has guaranteed security in Europe since the end of the second world war. For decades, US policy to Europe has been based on the twin pillars of Nato and the EU. But Mr Trump has abandoned America's traditional support for European integration, suggesting that it would be a good idea if Britain voted to leave the EU. Mr Trump's scepticism about alliance commitments extends to Nato, which he sees as a bad deal for America. Combine that with his admiration for Vladimir Putin and you have a formula for a radically different US approach in the region. Mr Trump could take America back to the isolationism of the 1930s, when the US was reluctant to countenance security commitments in Europe.

The structural damage that Mr Trump would do to the western alliance would be compounded by the harm that he would inflict on America's image in Europe. Mr Trump has already engaged in an intermittent public row with Sadiq Khan, the new mayor of London, who is a Muslim. If the Republicans were genuinely to attempt to ban Muslims from entering the US, even temporarily, that would create a huge diplomatic issue with countries such as the UK and France, which could not accept such frank discrimination against millions of their citizens.

> If the US pulls back from its global role, other powers, particularly China and Russia, will fill the vacuum

The "Muslim ban" would obviously go down even worse in the Middle East, where Trumpism would promise a further deterioration in US regional power. Many of America's Middle Eastern allies regard Barack Obama, the US president, as feckless and unreliable — and some may hope that Mr Trump would be an improvement. But they would be disappointed. Mr Trump's scepticism about US alliance commitments, combined with wild promises to grab Middle Eastern oil, are not a formula for the restoration of American regional leadership.

Of course it is hard to know how much of what Mr Trump says he actually means and how much is campaign rhetoric or random musing. But that, in itself, points to another big problem with his approach to the world.

Traditionally, American leaders have made a fetish of US "credibility" in international affairs. They believe that global security can only be guaranteed if potential adversaries believe that America's military commitments are utterly reliable. That is why Mr Obama's failure to enforce his red line against Syria's use of chemical weapons in 2013 was felt to be such a big deal.

Mr Trump, however, has made it clear that he wants America to become more unpredictable. In his writings on business, he has extolled the virtues of making extravagant demands or promises as an opening bid, before eventually finding a compromise. This approach might work well in real estate. But it is potentially a formula for disaster in international politics, where America's friends and foes should believe that the US says what it means, and means what it says. Anything else could prompt dangerous miscalculations by US rivals, leading to uncertainty, instability — and, ultimately, war.

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The second renaissance will be digitised

TECHNOLOGY

John Thornhill

With no teachers, timetables, or exams, Ecole 42 is a strange kind of educational institution, open 24 hours a day, seven days a week. Students shuffle into this tech-enabled school whenever they want and work as hard as they need.

Is this the future of education?

Xavier Niel, the French internet and telecoms billionaire who founded the coding school for young adults in Paris in 2013, certainly thinks so. He chose the school's number for a reason. As fans of *Hitchhikers' Guide to the Galaxy* know, 42 is the answer to the ultimate question of life, the universe and everything. So sure is Mr Niel that he has found the answer that he is committed to funding Ecole 42 for the next decade and is spending a further $100m on a new school in San Francisco. There are several ironies in a French entrepreneur teaching Silicon Valley geeks how to code.

Mr Niel argues that smartly designed online courses are more effective than traditional classroom teaching methods. Students learn best by pursuing online projects by themselves and by interacting with each other. Peer-to-peer lending may be going through a rough patch, but peer-to-peer learning may be on the rise. "We are preparing people to learn together," he says.

EdTech, as it has inevitably become known, is certainly an increasingly active field for investment. EdSurge, a company which tracks such things, counted 161 investments in EdTech around the world totalling $1.59bn during the first half of 2015 alone.

Some traditionalists scoff at online education, saying it can only ever serve the needs of the few and that, anyway, we have been here before. They point to the initial euphoria that greeted the creation of massive open online courses (Moocs) by several leading universities almost a decade ago and the disappointment that rapidly followed.

The online experience, they say, can never replace the personal relationships forged between teachers and students, and the networks of contacts that can be developed. The completion rate for some Moocs is as low as 4 per cent.

But EdTech may finally be coming of age for three main reasons: product, cost, and accessibility.

> There are several ironies in a French entrepreneur teaching Silicon Valley geeks how to code

Sebastian Thrun, who runs the Udacity online university, says there was a good reason why first-generation Moocs did so badly: "They were a lousy product." Sticking a random academic in front of a video camera in a dimly lit university hall for an hour was unlikely to stimulate a student's synapses.

Udacity, and many other online course providers, have learnt to make shorter, punchier videos, mixing them up with tests and challenges to keep students engaged. Some courses, such as Ecole 42, offer blended learning, combining the physical and virtual worlds.

Several Moocs are also closely linked to the demands of employers and the needs of individuals for life-long learning. Udacity has designed courses with companies, such as AT&T and Google, offering nano-degrees. For some of these courses it even refunds students their fees if they do not find a job on graduation. "It is not clear that the existing universities are the right places to create education," Mr Thrun says.

The second advantage of online education is how cheap it is compared with most degrees from established universities. With US student debt now topping $1.2tn that appeal is becoming increasingly glaring.

Third, the spread of the internet around the world is leading to the democratisation of higher education. More than 25m enrolled for a Mooc from one of the leading providers over the past three years, according to a study published in 2015 by the Harvard Business Review.

Even though the dropout rates are high, the absolute number of people who finish programmes is remarkable. More than 2.1m courses have been completed through Coursera, one of the leading providers, as of April 2015. Many students are from academically or economically disadvantaged backgrounds.

Ian Goldin, co-author of the *Age of Discovery*, believes we are entering an era of the mass production of ideas, or a Second Renaissance. Higher education has already exploded in China and India, and the internet will provide near-universal, virtual access to some of the world's best teachers. By his calculation, the number of people alive today with a degree is greater than the total number of degrees awarded before 1980. "If you believe in the random distribution of talent then we can discover a lot more smart people out there," he says. It may seem difficult to believe at times, but our planet is growing smarter.

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Mainstream parties always lose in a race to the right

OPINION

Heather Grabbe

Austria is the taboo-breaker in European politics. By coming within a whisker of making Norbert Hofer the first far-right European head of state since the war, voters there have normalised the Freedom party, whose revisionism and anti-Semitism used to be considered unacceptable. The victory of Alexander Van der Bellen, the Green party candidate, is not a cause for complacency. The size of the vote for Mr Hofer will benefit other parties, such as the National Front in France, that are pursuing a strategy of "decontamination".

Even if Mr Hofer had won, other EU governments would have done little more than wring their hands. Ostracism is no longer an option. Much has changed since 2000, when other member states cold-shouldered a coalition government that included the Freedom party, then under the leadership of Jörg Haider. Many prime ministers are looking anxiously over their shoulders at the rise of populism. Few, though, are keen to use EU mechanisms to tackle breaches of values or threats to the rule of law lest they should fall foul of such measures in the future.

Some mainstream politicians argue that "keep calm and carry on" is the better strategy. Fiery populists tend to lose their nerve under the constraints of government. Once in power in the Austrian province of Carinthia, Haider adopted mainstream policies and his party lost credibility after a corruption scandal. Populist parties currently in coalition governments in Belgium and Finland have not kept their wilder promises.

> Austria's experience shows that the politics of fear can quickly get out of control

In a climate of crisis around migration, however, the open society is threatened not only by extremist parties getting into power but also by mainstream ones reinforcing the same xenophobic logic. Recent events in Austria show that the politics of fear can quickly run out of control. After all, it was mainstream parties that agreed bilateral deals with the country's Balkan neighbours to keep out migrants. The governing coalition has drastically restricted the right of asylum, in contravention of the Geneva Convention, according to the European Commission and the UN.

The logic taking hold across Europe is that we must turn inwards and build higher fences, physical and virtual, to ward off external threats. Following the migrant crisis and terrorist attacks in Paris and Brussels, the centre ground of European politics has moved to the right. By making migration policy a security issue, mainstream parties are reinforcing the idea that populations are vulnerable to foreign intruders.

Nativism of this sort has implications not only for immigration and asylum policy. A rightwing populism that portrays all forms of interdependence as a threat, rather than as the best form of security, threatens economic integration, too: from the European single market to international trade. It also affects societies. When mainstream politicians join the xenophobic chorus, they undermine anti-racist norms and encourage prejudice.

Does doing so bring them electoral rewards? It is very hard to outflank the far right by being more extreme. Voters prefer firebrands over flip-floppers, as Werner Faymann discovered last week when he was pressed into resigning as Austria's chancellor.

The only way to counter the appeal of Fortress Europe is to make the case for openness as the best form of security. Of course, it takes a brave politician to explain that large-scale migration is the new normal, requiring better integration policies rather than more fences. But the alternative is to give in to the politics of fear, which will not save old parties from oblivion.

Austria's most important lesson for Europe is that, even if mainstream parties collude in trashing humanitarian values and undermining the rule of international law, they still lose power if their candidates have no positive vision to offer.

The writer is a fellow at the European University Institute

Trimming the BT CEO's bonus will not fix its poor service

Andrew Hill
On management

I am probably not the only BT customer who gave a small fist-pump on learning that Gavin Patterson, the telecoms group's chief executive, missed out on part of his bonus last year after failing to meet customer service targets.

You do not need to know the details of my recent complaint to the former UK monopoly. It is enough to say that what started as an attempt to avoid paying BT a trivially small amount of money escalated into an hours-long litany of calls to several departments, online and off, and culminated in the offer that I would get the service in question free for a year as a gesture of goodwill. A gesture that was then rudely curtailed as the line dropped. For the fifth time.

So if Mr Patterson loses £10 for every minute I and others spend on hold, I should be the first to applaud. Except I don't think that linking his annual bonus directly to customer service is any more meaningful or useful than the gesture the company made to stop me from setting fire to an old telephone directory and stuffing it through the letterbox at BT headquarters.

Shackling the boss to customer service sends a good message to customers and to staff. It tells them Mr Patterson is aware of the problem and is working to solve it. (As he told me last year: "We won't be satisfied until we're number one [for service]".)

It also gives the chief executive an additional reason to keep an eye on various gauges of customer service, on which he relied last year for 25 per cent of his bonus. They include a Right First Time measure — which lurched downwards last year — and a "perception" survey comparing what customers think of BT and its rivals.

BT is not alone in tying senior executive incentives to customer satisfaction. TIAA-CREF, the US financial services company, uses Net Promoter scores (based on questions such as "would you recommend this company?") as one way of shaping leaders' pay.

Elsewhere, incentives that oblige front-line workers to focus on how customers feel are clearly useful. Privately owned Enterprise Rent-A-Car built its entire culture on a homegrown measure of customer satisfaction.

GlaxoSmithKline started tying incentives for sales staff to measures such as patient focus and understanding of the customer, dropping sales targets that had dragged some employees into illegal marketing of drugs in the US.

Customer service incentives can distort behaviour, too, though. Beneficiaries game the numbers or focus obsessively on specific goals, to the exclusion of equally important but unspecified ways of helping clients.

One part of my odyssey through BT's many call centres involved an exchange with an employee who insisted she had to call within a week to check if my complaint was resolved, even though it was inconvenient for me. I had a strong sense she was trying to meet an internal target.

Plenty of studies show that executives behave in odd, even illegal, ways when their bonuses are tied to short-term financial outcomes. Introducing more targets that affect chief executives' pay merely confuses the way they are motivated and blunts the incentive.

> **'More targets affecting pay just confuse the way bosses are motivated'**

At BT, the amount of the chief executive's pay affected by a poor service record is comparatively small. Mr Patterson may have "lost" £290,000 of potential bonus, but the pain will be dulled by total remuneration of £5.4m — £800,000 more than the year before.

The more important point, though, is that any chief executive who fails to provide adequate customer service ought to suffer, whether or not his pay is directly linked to it, because the company as a whole will suffer.

AO World is an interesting counterpoint. When the UK online appliance retailer came to market in 2014, its prospectus mentioned customer service 63 times. Delivery teams hand over a form asking you to assess how they did, even as they are plumbing in your new dishwasher. But senior executives have no explicit customer service requirement in their compensation policy. They got no bonus for 2014, because they missed "stretching profit targets".

When your entire business depends on satisfying the customer — and whose does not? — it is unnecessary to be explicit about it in bonus targets. It is going to take more than a tweak to the CEO's incentives to solve BT's problem of persistent poor service.

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Art of persuasion

Verbs and why the marketing gerund is so effective

SAM LEITH

Bloomberg

A note on verbs. In the Art of Persuasion column a fortnight ago I discussed how you make the reader's (or listener's) life easier if, in any given sentence, you keep your subject as close to your verb as possible and put them both up front. It bears further exploration.

Many of us will have been taught two things about verbs. The first is old-fashioned grammatical advice: every sentence must have a main verb. Is that true? Not exactly. At least informally, many short sentences go without. You would be hard pushed to make the case that "Drat!" is a sentence and that "Rats!" is not. It is true, though, that almost all sentences have a main verb — and that arguing at the margins about whether something is a sentence or a fragment is a game for scholars.

The second piece of advice about verbs is stylistic: it is that they are "action-words" and that they give any sentence its electric jolt of energy. Any number of style guides enjoin you to use "strong" and "vigorous" verbs, to avoid "weak" passive constructions and to beware turning verbs into nouns.

As always, this is too categorical. But there is something to it. If you turn your verb into a noun, you need to find another verb to take its place — and you will often end up with muddy sentences where a weak main verb is buried in the middle: "The prompt implementation of the reconstruction programme is crucial to value-building going forwards."

There is nothing like the chilly wind of the market for sorting out grammar. If you look at the most memorable advertising slogans, it is striking how many are verb-first. "Just do it." "Think different." "I'm lovin' it." "Got milk?" "Melts in your mouth . . . " "Tastes so good . . . " "Enjoy . . . "

No accident, perhaps, that these verbs are either in the imperative mood (a command) or the present tense.

A problem with verbs is that they locate things in time and space: if something has happened, or is happening now, or by implication it may not continue to do so.

So one usage in particular intrigues me, because it seems to solve this problem. "Delivering quality first" is a BBC Trust slogan. If it sounds like anodyne business-blurb, that may just be the temper of the times: that subjectless "-ing" form of slogan is ever more widely used.

This is what I've come to think of as the "marketing gerund" — though, technically, it's a present participle.

This odd construction seems to be almost unique to the strapline-writing community.

Why is it so popular? My hunch is that it is an elegant, if slightly cheesy, way of having your cake and eating it. It puts, right up front in your slogan, a strong and action-filled verb but it also makes it sound almost stative (describing a state of being rather than an action). The participle cues us to understand the verb as an ongoing thing. The delivering is not a thing that has been done, that's occasionally done or that will be done — rather, it is implied the delivering is continuous. Here is the dynamism of a strong verb, with the changeless stasis of the verb to be.

Who knows? If Ozymandias had rebranded — "Sneering with cold command" — that statue might still be standing. Then again . . .

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The writer is the author of 'You Talkin' to Me?' Rhetoric from Aristotle to Obama

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Nicolas Petrovic at St Pancras International: **he would like his directors to have the same training programme on cultural awareness as employees**
Charlie Bibby

On board for Eurostar's journey across cultures

Nicolas Petrovic tells Sarah Gordon about the levels of co-operation and liaison needed to run trains under the Channel

When Nicolas Petrovic turned up at business school in 2003 to study for an MBA, he found that his group for the whole course was chosen by a computer to be "as dysfunctional as possible".

Insead, based near Paris, had devised a team of two women and three men — among them a New York investment banker, a South Korean state banker, a German engineer and a Swedish diplomat — including Mr Petrovic, a Frenchman.

"You had to make it work," he says. "But it was really hard."

It was good preparation for the next stage of his career: to move to London to join Eurostar, which runs trains between Britain, France and Belgium. Before Insead, he had worked in Taiwan for Compagnie Générale des Eaux, and spent 10 years at SNCF, the French national railway company. He started at Eurostar as director of customer service, taking over as chief executive in 2010.

Eurostar is almost the definition of a cross-cultural company. Set up by the French, Belgian and British governments in 1994, it was run as three separate corporate entities, managed by the national rail company in each country.

"We co-operated, and communicated but it did not work well," Mr Petrovic says. Indeed, Eurostar did not make its first net profit until 2011, a year after it was unified into a single company.

Since the UK sold its stake in 2014, Eurostar has been owned by SNCF, Belgium's SNCB, Quebec's pension fund, and Hermes, a UK infrastructure fund. Its 16-strong board, which is headed by British woman Clare Hollingsworth, is mainly British and French but also includes Belgian, Canadian and Australian members. The executive management team is equally diverse.

Mr Petrovic sees the size and diversity of the board as an indicator of success — "so many people want to join it" — and says the cultural differences are a strength. "French and British people, when they work together, they are complementary. The British are very pragmatic, very good financially — and they are more empowering, they give away responsibility more easily," he says. "The French are more structured, they like to plan 25 years ahead," he adds.

But Mr Petrovic, speaking at Eurostar's headquarters next to St Pancras International station, does not play down the challenges of either the ownership or the staff structure.

"I enjoy having a diverse team. But the short-term effect can be tough," he says. "At first everyone is very polite — but they don't really engage, they don't listen and actually understand."

The main problem is, unsurprisingly, language and culture; British senior executives had to be told not to talk about television programmes they had watched or to tell in-jokes, because "it made the others feel excluded". But at the same time, genuine disagreements are also too quickly attributed to differences in nationality, he says.

Mr Petrovic says he may soon ask the board to undertake the cross-cultural training programme that Eurostar provides to new joiners across the company, from senior management to train drivers and hospitality staff. A three-hour session covers topics such as "cultural baggage, concepts of culture, perceptions, challenging areas and cultural awareness levels", and tries to help employees develop the skills to communicate effectively with strangers.

Eurostar asks employees every year to rate its cultural awareness and diversity; the latest score was a "very strong" 73 per cent. Senior executives are assessed on ability to overcome cross-cultural tasks.

One of Eurostar's main challenges remains finding more non-French staff who speak the language well. The company's working language is English, and 850 of its 1,700 employees are based at the headquarters near St Pancras.

To address this, Eurostar has its own language training school, teaching mainly French. Its planned customer service apprenticeships will include a French language component. It also sends drivers into English schools to teach French conversation.

Eurostar has changed the way people think about the relationship between the UK and continental Europe, says Mr Petrovic, and brought Paris and London closer in their "mental map".

The ease of the journey between the two capitals, which comprises the bulk of Eurostar journeys, has led businesses to set up in both cities, Mr Petrovic says, and commute between them. Sixty per cent of Eurostar's customers during the week travel on business. It will be laying on special trains for the Uefa European Championship, the football tournament that kicks off next month.

If Britain left the EU after the referendum in June, Mr Petrovic says, that ease of travel would not be lost. However, he is vehemently opposed to the UK leaving the bloc and reels off the benefits the EU has brought to Eurostar's operations, such as standardised technical requirements and an independent regulator. "There is no upside [to Brexit] for Eurostar and a number of risks."

In practical terms, he says, the biggest question would be the ability to carry out French custom and passport checks in London, and British checks in France. Other concerns are whether the number of workers in the City, who account for a significant number of weekday passengers, would shrink, as well as the fate of the big French and British expatriate communities in London and Paris.

Britain "turning its face away from Europe", he says "for a lot of people, would be like a break-up".

Mr Petrovic is well placed to measure the emotional as well as the practical effects of Britain leaving the EU. Born in Paris to a French mother and Yugoslav father, he has lived in London for 12 years, although he frequently travels to his home country, in part to visit his son. As he says: "A divorce can be handled in different ways."

Eurostar has had time to contemplate the possibility of Britain voting Out. But it has also had unwelcome recent experience of dealing with the effects of shock events. Terror attacks in Paris and then Brussels, as well as the intensification of the migrant crisis in Calais suppressed passenger numbers to just over 10m, with none of the expected increase on 2014.

Although terror attacks resulted in a big drop in bookings and journeys in the immediate aftermath, numbers recover quickly, Mr Petrovic says. "Business comes back first, then leisure. The last one to come back is always [travellers from] outside Europe. But within 12 months [the effect] has disappeared."

Earlier, the financial crisis had led to a big push to attract leisure travellers from outside Europe. With non-European travellers making up about 15 per cent of all journeys, compared to less than 4 per cent before the crisis, there is more need than ever to enhance the ability of Eurostar staff to interact adeptly with strangers.

Updates on track

German trains and free WiFi

Eurostar controversially ordered 10 trains from German supplier Siemens in 2010 and a further seven in 2014, rather than "buying French" from Alstom. It was a "tough decision" that was taken after a "robust process" of evaluation, says Mr Petrovic. "We are a private business trying to maximise value for our shareholders," he adds tartly.

The first of the new trains came into service on the Paris-London route, with interiors designed by Pininfarina of Italy. Among the trains' innovations are power sockets at each seat and WiFi.

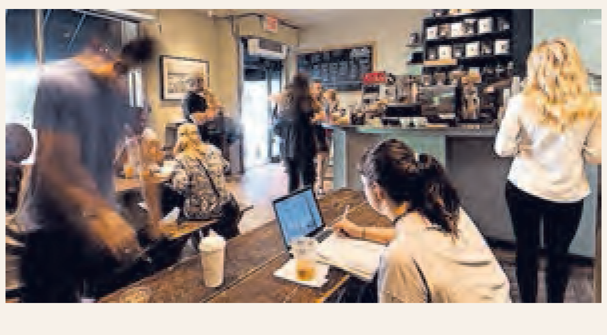
"Woohoo! The new @Eurostar trains have free WiFi," tweeted one traveller this month. But another tweeted: "The only place on Eurostar's new trains where I can get a reliable phone/WiFi signal? Deep in the Chunnel. #irony #tech."

To finance the €1bn fleet renewal, Eurostar borrowed a hefty €500m, although Mr Petrovic says it is not highly geared.

Its private ownership means Eurostar releases little financial information. In 2015, revenues were £821m, down slightly on 2014, and underlying net profit was £55m.

Great place to meet

Ground Support, New York



Where **399 West Broadway**	WiFi **Yes**
Plug sockets **Yes**	Espresso **$3.25**
Open **7am-8pm; Sat-Sun 8am-8pm**	Privacy ★☆☆☆☆

Ground Support exemplifies what SoHo has become. Shopping bags, briefcases and backpacks slide neatly by patrons' feet, as fashion types mix with laptop-carrying marketers, digital consultants and start-up founders. Previously, it was artists who occupied the local lofts.

The café is a popular place for an informal meeting amid this microcosm of SoHo's media and tech crowds. Positioned between a number of train lines, Ground Support is an easy stop for many on their way to or from the office or for those escaping from any of the three nearby WeWork co-working spaces.

Unlike other SoHo cafés, it has plenty of seating, an outdoor area, internet access and the staff don't mind people lingering.

This work-oriented crowd rarely takes selfies or food pictures, as is the norm with many of the other nearby restaurants, although the quality of the coffee, pastries and sandwiches — the latter are made in house daily — certainly warrant it.

The café has an industrial look, with communal picnic bench tables, tree stump stools and a metal bar, all enclosed by whitewashed walls displaying photographs with a cycling motif around the perimeter.

As for hearing yourself speak, the white noise of meetings mixes with the music — typically rock leaning — which gives a sense of privacy despite there actually being none.

Alyssa Zeisler

ARTS

Camping it up in the English countryside

OPERA

Glyndebourne festival opening
East Sussex, UK
★★★★☆

Richard Fairman

Weather permitting, a walk in the garden is obligatory before the opera. A few years ago, in Britain, that could only have meant Glyndebourne. Now there are multiple choices for country-house opera in the UK, with yet another festival preparing to open next summer. Who could have predicted this explosion of activity — the most expensive of art forms thriving, away from London and unfunded by the public purse?

The Christie family, who founded Glyndebourne, must need a sense of humour to see these upstarts taking their formula and rebranding it in their own image. Perhaps that is why so many of the operas in this year's festival are comedies.

The opening weekend paired two classics, the most Italian and most German of them all: Rossini's *Il barbiere di Siviglia* and Wagner's *Die Meistersinger von Nürnberg*. The Rossini is pure farce, with none of the human warmth and depth that Mozart brought to the same characters in *Le nozze di Figaro*. That follows later in the season, a chance to compare and contrast.

There is not much a director can do with the Rossini. Annabel Arden, in charge of Glyndebourne's new production, has tried to balance tradition with giving the opera a new look. The style is semi-abstract, mixing some modern dress with old costumes and dances of Seville. Blue-and-white Moorish tiles decorate the walls. Rosina twirls flamenco flourishes. Dancers enact symbolic bullfights at crucial moments. The end mix is a rich paella, gaudy and wearingly fussy, though certainly not lacking in energy.

Is it funny? Yes, but not as funny as it should be. Arden plays down the traditional business in the main comic scenes with the drunken soldier and the bogus music teacher, leaving them both to fall flat. Removal men coming in and out with harpsichords is a running joke that never produces a laugh.

What fun there is comes from a well-chosen cast. At the top of the class is Björn Bürger's ace Figaro, sung with brilliance, precision and a non-stop cheery grin, as if it is all no effort at all. Danielle de Niese is a Rosina of irrepressible energy and sparkly, racing semiquavers, not all of them even in tone. An extra aria is added for her in Act 2. Taylor Stayton's Count Almaviva conversely slides over the coloratura and loses his big aria (which is often cut) at the end. At this stage of his career one would have thought the loveable Alessandro Corbelli might have run out of rubber-faced comic expressions as put-upon Dr Bartolo, but he is as inventive as ever. Christophoros Stamboglis booms mightily and rouses a cloud of cannon-ball smoke as Basilio. Janis Kelly turns Berta's little aria into a show-stopper.

Above all, conductor Enrique Mazzola gets Rossini's music to sizzle. No slouching, no lingering here and there — just razor-sharp playing from the London Philharmonic Orchestra at helter-skelter speeds. That, at least, keeps a smile on one's face.

The revival of the 2011 production of *Die Meistersinger* is Glyndebourne at its default position: only intermittently inspiring, but de luxe in the quality of its musical and theatrical preparation. The performance rises to its highest level whenever Gerald Finley's beautifully sung Sachs and the exemplary musicians of the LPO are working together to conjure the poetry and emotional depth at the heart of the opera.

For the rest, David McVicar's colourful, too-camp-by-half production provides a showcase for some well-observed portrayals. Jochen Kupfer's pompous young popinjay of a Beckmesser, not the usual caricature, is a particular success. Amanda Majeski is a lovely, silvery-voiced Eva. Hanna Hipp's well-sung Magdalene is nicely complemented by David Portillo's lively David. Michael Schade gets through the Prize Song unscathed, but his tight, forced tenor makes an unhappy match for the romantic Walther. Michael Güttler, taking over from the indisposed Robin Ticciati, wields the conductor's baton with a safe pair of hands.

Ideally, Wagner asks for more, but there is enough to justify reasonable contentment on the way out. The belly laughs will have to wait for later in this season of comedies.

Glyndebourne festival continues to August 28, glyndebourne.com

Pure farce: Danielle de Niese and Björn Bürger in 'Il barbiere di Siviglia'. Right: Luke Norris and David Haig in 'Blue/Orange' — Bill Cooper; Johan Persson

ARTS VIDEO

As Tate Modern, the world's most-visited museum of modern and contemporary art, prepares to open a £260m extension, FT critic Edwin Heathcote explores the new building with its architect, Jacques Herzog
ft.com/new-tate

THEATRE

Blue/Orange
Young Vic, London
★★★★☆

Sarah Hemming

A slight whiff of disinfectant hangs in the air, one of the small touches that underpin this fizzing revival of Joe Penhall's 2000 *Blue/Orange* with a sombre note of the reality of being institutionalised. The scintillating, quick-fire drama plays like a verbal boxing match. Two white psychiatrists spar over a black patient, trading clinical and ethical punches over his fitness to leave hospital. Matthew Xia's staging revels in its daring wit and theatricality (the play observes the classical unities of place, time and action) but it also reminds you of its painful relevance. The Young Vic's production, 16 years after the play was written, makes its points about under-resourcing hit harder than ever.

Christopher is a young black man who was sectioned after "doing something funny in the market". His 28 days are up and it's time to leave. A senior psychiatrist decides that Christopher is fit to go, arguing that his behaviour may be conditioned by his culture, rather than any mental illness. Besides, they need the beds. The options — institutional care or return to a hostile home life — look bleak. What follows is a bruising dingdong between two doctors, roving into medical ethics, institutionalised racism, cultural norms and even what constitutes sanity and who defines it. The fact that Christopher sees oranges as blue becomes key, not just to his case but to the play's far-reaching consideration of subjectivity and perception.

Xia's production is beautifully pitched, nerve-janglingly on the edge of what is comically acceptable. David Haig's Robert is all soothing platitudes and sudden ruthlessness. Luke Norris's Bruce, the junior doctor, begins fired up with idealism and unravels into a shaking wreck. Stuck between them is Daniel Kaluuya's superb, vulnerable Christopher: joking and relaxed one moment, jumpy and incoherently enraged the next. His plight is increasingly distressing as we realise how poor his options are and how fragile his wellbeing.

To July 2, youngvic.org

The Devil wears cowboy boots

MUSIC THEATRE

Hadestown
New York Theatre Workshop
★★★☆☆

Max McGuinness

Hadestown is a theatrical adaptation of Vermont-born singer-songwriter Anaïs Mitchell's 2010 album of the same name, based on the myth of Orpheus and Eurydice, here transplanted to the Depression-era South. Blending folk, country, jazz, blues, gospel and mid-century rock 'n' roll, her music provides both an intellectual and visceral thrill. Here, one feels, is someone who has memorised the entire American songbook, been awarded an A+ for her thesis on musicology, and yet retained the soul of a true artist. Only occasionally does she veer off into Coldplayish wailing or Norah Jones-esque elevator jazz in a set list comprising more than 30 numbers.

Staged in-the-round in the intimate setting of the New York Theatre Workshop, Mitchell's "folk opera" features strong performances from Chris Sullivan as a hoboish Hermes and Amber Gray as a seductive Persephone. Patrick Page's cowboy-boot-wearing Hades steals the show with gruff charisma and a gravelly voice reminiscent of Tom Waits. The Devil gets the best lines here.

By contrast, Nabiyah Be's Eurydice comes across as a cipher — sweet, ingenuous, and devoid of any sense of agency. Damon Daunno's Orpheus is similarly guileless. He also struggles vocally with the music's falsetto passages. But there's perhaps little either can do in the face of their story's inherent limitations, which occupies only a few pages in Virgil and Ovid. Abstracted from such larger works, it's a fairly thin tale (boy meets girl, loses her, finds her, then loses her again), which is why Tennessee Williams added oodles of melodrama to his 1957 play *Orpheus Descending* (an obvious influence here).

Mitchell's version cleverly evokes the "satanic mills" of industrialisation and the lonely romance of the railroads, but it's not quite enough to pad out the story for two hours. As directed and co-developed by Rachel Chavkin, *Hadestown* thus feels more like a semi-staged concert (albeit an entertaining one) than a fully developed work of musical theatre. The ending in particular fails to extract much pathos from Orpheus's fatal backward glance. Eurydice just walks back downstairs as if she's changed her mind. Then again, as in *Paradise Lost*, who'd want to leave the Devil's party?

To July 3, nytw.org

Gruff charisma: Patrick Page in Anaïs Mitchell's folk opera — Joan Marcus

CLASSICAL MUSIC

Beijing Modern Music Festival
NCPA Concert Hall, Beijing
★★★☆☆

Ken Smith

Since its inception 12 years ago, the Beijing Modern Music Festival has evolved from a comparatively modest affair at the Central Conservatory of Music into a national-level event. This year it opened on Sunday with each piece consciously trained on the past.

Despite occasional slips in pitch and rhythm, the Beijing Symphony Orchestra revealed a keen sensitivity to timbre right from the opening *Xiaoxiang*, a saxophone concerto reorchestrated from a 2009 electro-acoustic piece by the Chinese-American composer Lei Liang. Soloist Chien-Kwan Lin often used his mouthpiece to mimic folk reed-playing and funeral wailing. But *Xiaoxiang* suffered from the censorship of salient details in the notes: that the protagonist's husband was murdered by an official during the Cultural Revolution. With no mention that driving the official insane by her wails was the widow's only chance for revenge, there was little point to the piece's unrelenting unpleasantness.

Ye Guohui's *A Sight of Mainland* (2011) alternated bombast and tenderness with precious little in between. Soprano Li Xiuying's shimmeringly lyrical account of poet Yu Youren's nostalgia-tinged text became one of the evening's few moments of conventional beauty. *Winterreise* (1999), by the evening's conductor José Serebrier, was a virtuoso exercise in creative plagiarism, borrowing from "almost every composer but Schubert", as the notes explained, avoiding postmodern "channel-changer" aesthetics by smoothly recontextualising its parts into a coherent whole.

Compared with the evening's other works, John Corigliano's Clarinet Concerto (1977), in the second half, was positively monumental. In contrast to Lin's anti-virtuosity in *Xiaoxiang*, clarinettist Michael Collins tore into the opening cadenzas like a man possessed. Serebrier deftly led his forces through considerable gradations in dynamics and texture, inspiring some effective string playing in the central Elegy, and making fine use of acoustical space in the concluding Antiphonal Toccata.

bmmf.ccom.edu.cn, chncpa.org

Deft touch: José Serebrier conducts

Lex.

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China cement: weighed down

In the three years to 2013, China consumed more concrete than the US used in the 20th century, according to the academic Vaclav Smil. China's economic growth has since slowed. Cement demand will never be as strong again. There remains, however, enough cement-making capacity in China to fill the peak appetite. If it is to earn positive economic returns, the industry has no choice but to shrink.

Chinese cement companies know this and believe that consolidation is the answer. The market may concur. Yesterday, shares in West China Cement rose nearly 6 per cent on news that a sufficient majority of option holders had agreed to an acquisition by largest listed Chinese peer, Anhui Conch Cement. The deal should have the government's blessing, too. Last week, the State Council reiterated its desire for a more concentrated industry. It wants the top 10 players to control three-fifths of capacity by 2020. This is even less radical than it sounds. HSBC points out that the top 10 cement producers already controlled 54 per cent of the market as of the end of 2015. Nor will mergers achieve what the industry needs most: outright reduction in supply.

Consolidation has been showcased elsewhere. Last July European giants Holcim and Lafarge merged to become the world's largest cement producer. Economies of scale did not spare the merged entity from having to announce a reduction in capex by November. Despite expected savings of $1.6bn by 2017, and anticipated improved pricing power, the middling set of results highlighted the need to conserve free cash flow. HeidelbergCement has been faring far better. It has, at last, digested its own overblown 2007 acquisition.

Enthusiasts for a cyclical China trade might point to a near-term pickup from stimulus-led demand. Last week, the government said it would spend nearly 7 per cent of gross domestic product ($722bn) on infrastructure projects over the next three years. Construction activity has improved as housing starts have rebounded. Yet supply is more than adequate to satisfy more demand. Fitch Ratings points out that clinker production capacity last year was 2bn tonnes, compared with output of 1.3bn. So, despite an increase in cement output of 13 per cent in the four months to April, prices over the same period actually dropped one-tenth. They look likely to keep sinking.

Oil: drill pickle

Billions, a television drama about hedge funds, portrays a Manichean struggle between insider-trading cheats and research-focused worthies. Commodity traders looking for an edge must sometimes wonder if anything works. Take oil. Historically high Opec production and full inventories are both negative for market direction — yet the bulls are winning. Three of the top five commodity markets this year are oil-related.

Part of this must be put down to expectations. Even if Opec production is at 10 year highs, US shale crude output — a key factor in the supply shock before the price top in summer 2014 — peaked early last year. Furthermore, some Opec producers, such as Nigeria and Venezuela, have curtailed their own flows. Do the maths, as Goldman Sachs repeatedly does, and global crude supply will fall this quarter by about half a million barrels per day. That is the most since 2011 and the first decline that has been seen in three years.

A supply squeeze then? Not so fast. US shale oil regions might have one last burst of life left. A lot of onshore wells in the key regions — Permian, Bakken, Eagle Ford and Niobrara — were drilled but not fully completed, the last stage before the well can produce oil. While there is usually some lag between drilling and completion, Rystad Energy notes that uncompleted wells have trebled to 2,300 in a year.

No guesswork is needed for these sites. The oil is there. Were all of these completed, as much as 1m barrels per day of supply could return. Some US explorers, such as Concho Resources, have even announced increases in new rig counts recently. If there is a doubt, it is whether enough oil workers can be found to finish the wells.

It may seem petty to worry about a small fraction of the 35bn barrels consumed annually as adding to supply. But markets work at the margin. And the higher oil rallies, the more likely it is that drilling will resume in the US.

Newspaper wars: private eyes

The valuation page in investment bankers' pitch books often shows a series of bars indicating how much a company may be worth. One bar is based on discounting future cash flows. Another arrives at a price based on the valuations of publicly traded peers. Many investors think the most important metric is the "private market" benchmark: the valuations (in terms of price-to-cash-flow multiple) that other businesses, sold in whole or part, have attracted historically. Tribune favours this approach as it attempts to fight off a bid from Gannett, a bigger rival.

Gannett's recent bid for Tribune of $15 a share is a 99 per cent premium to Tribune's price before the fireworks began a month ago. Gannet points out that Tribune sold 17 per cent of itself — along with the right to appoint several directors — to its new chairman at $8.50 per share in February. Surely offering almost twice as much for the entire company should be fair?

Until yesterday, investors might have agreed. But Tribune has announced that biotech billionaire Patrick Soon-Shiong has bought a 13 per cent stake at $15 a share. He too will get a seat on the board. In a separate deal, Mr Soon-Shiog licensed artificial intelligence technology to Tribune in return for more shares. Now $15 a share for control no longer looks like a dead certainty.

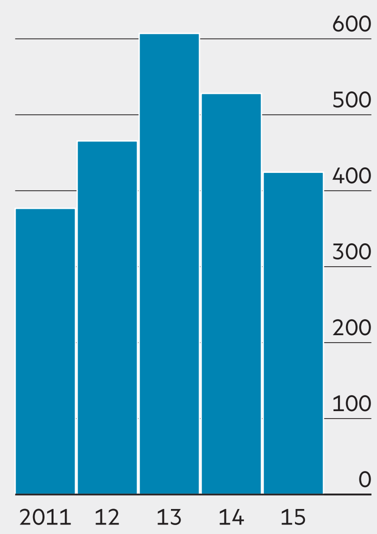
Tribune believes that it can reinvent itself as a digital media and marketing titan but it needs more time to do so. It further suggests that its stock price is artificially depressed — and Gannett is exploiting that. Not everyone agrees. One large Tribune investor, Oaktree Capital with 14 per cent, favours negotiations with Gannett.

Hostile takeovers always feature lots of tough talk. The winning side is almost always the one that puts the big money where its mouth is. On that basis, Gannett was in a strong position to take Tribune. That is trickier now a Tribune ally has appeared and reset the valuation benchmark.

Loan to moan

Leveraged loan issuance has fallen sharply since peaking in 2013. Bank regulators have cracked down on the riskiest loans backing LBO transactions, which created an opportunity for institutions such as Jefferies and Nomura who are out of reach of the US bank regulators. The fall in loans has also resulted from fewer private equity deals occurring because valuations have been expensive and strategic buyers have been aggressive

US leveraged loan issuance



FT graphic Sources: S&P LCD; Thomson Reuters

US LBO loan bookrunner

	2012	Market share		2015	Market share
1	Credit Suisse	10%		Barclays	9%
2	RBC Capital Markets	10%		**Jefferies Finance LLC**	8%
3	Deutsche Bank	8%		Credit Suisse	7%
4	General Electric Capital	8%		Deutsche Bank	6%
5	Barclays	8%		RBC Capital Markets	6%
6	Goldman Sachs	7%		Morgan Stanley	5%
7	Bank of America Merrill Lynch	6%		**Nomura Holdings**	4%
8	UBS AG	6%		BMO Capital Markets	4%
9	**Jefferies Finance LLC**	5%		Citigroup	4%
10	Morgan Stanley	5%		Goldman Sachs & Company	4%

If success has many fathers, regulators — when it comes to the decline in risky merger lending — probably think of themselves as the big daddy. In 2013, the three primary overseers of banks in the US published guidance on limiting the most questionable leveraged loans (junk paper used to finance buyouts). After some false starts, the guidance has shown its teeth and the volume of perilous loans has shrunk considerably in recent years. But whether the rules caused the dip, and what their impact on the financial system has been, remain opaque.

The regulators offered several criteria for what constituted a risky leveraged debt but, ultimately, the rule of thumb became a loan to a company that, post-financing, had total debt of 6 times its earnings before interest, tax, depreciation and amortisation. By 2015, when the guidelines were properly enforced, big banks such as JPMorgan Chase and Bank of America were often already passing on debt-heavy deals that they would have happily underwritten in another era.

In the absence of the Wall Street heavyweights, institutions that did not take deposits and thus fell outside the purview of bank regulators — Jefferies, Macquarie, Nomura — stepped in to finance many of the big leverage deals.

In the aggregate, leveraged loan volume fell sharply after the guidance came into effect both in absolute and relative terms, according to research from the Federal Reserve Bank of New York. Yet the guidelines are just a part of the story. Frothy valuations, cheap investment grade credit and general choppiness in junk finance markets all favoured corporate buyers over private equity funds, which tend to pile on more debt.

Jefferies, Macquarie and Nomura have paid a price for filling the gap. All have announced retrenchments in the US. No matter. New private debt funds, also outside regulators' ambit, are popping up. They cater to institutional investors starved for yield. The Fed has noted that some of these firms enhance their firepower to fund risky deals by borrowing from — oops — big banks. Paternity aside, success can be fleeting.

Negative yields: go to the mattresses

As long as there are mattresses to hide notes in, the case for sub-zero returns will be difficult. With Goldman Sachs' help, Deposit Insurance Corp of Japan has issued notes yielding below zero. Pay ¥100.45 today and two years later you get ¥100 back, with just ¥0.20 in coupons as recompense: Japan's first sub-zero corporate primary issue.

But whatever market or issuer, it is the same mystery. Why would an investor in possession of their senses happily receive less than they put in?

One rationale is the appreciating currency. A dollar buys ¥109.60 today, just 105.60 for delivery in two years. This observation merely bumps the mystery forward, though. A currency that keeps its value is a sign of failing monetary stimulus. Anyone buying negative yielding debt is betting on a contradiction: the central bank continually buying such debt, but the trillions so printed failing to depreciate the yen. This does not feel safe.

Bayer: sellers abound

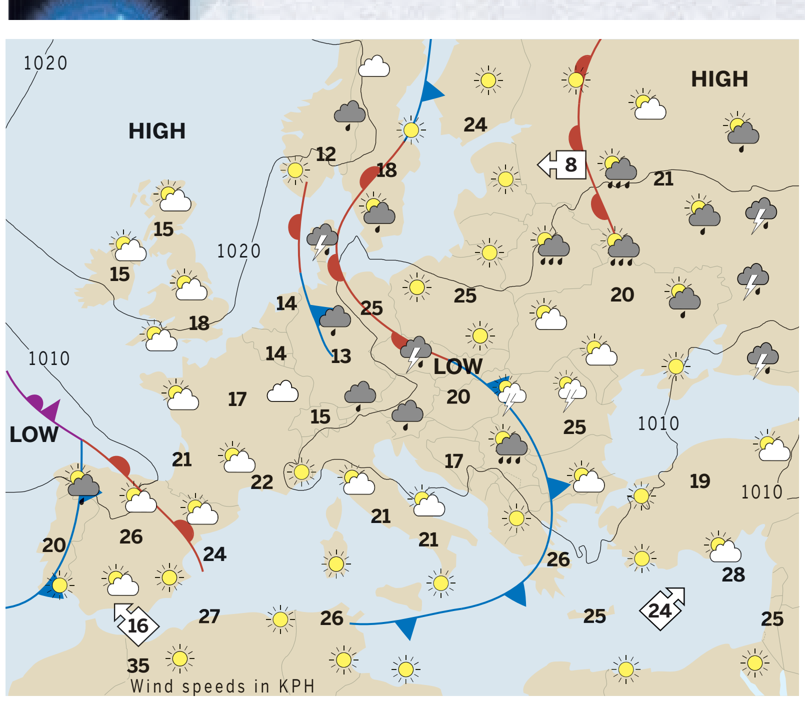
Bayer's annual report states that the main parameters used to manage the group "are the cash value added and cash flow return on investment". In the papers relating to its $122 per share bid for Monsanto, shareholders are instead promised accretion in earnings per share and likely upward re-rating. Alarm bells are ringing; its shares are down 14 per cent in just over a week.

It is offering a $14bn premium over Monsanto's undisturbed equity value, all in cash. It expects cost savings of $1.5bn a year within three years. Taxed and capitalised, they are worth perhaps $10bn. If Monsanto forces a higher offer, that gap will widen; at $125 a share, the shortfall approaches $6bn.

Bayer has historically struggled to generate returns on invested capital that exceed the cost of that capital. Managers have promised this deal will do so within three years. Shareholders, facing a cash call of over €13bn, are right to be concerned.

FT **Lex on the web**
For notes on today's breaking stories go to **www.ft.com/lex**

WEATHER



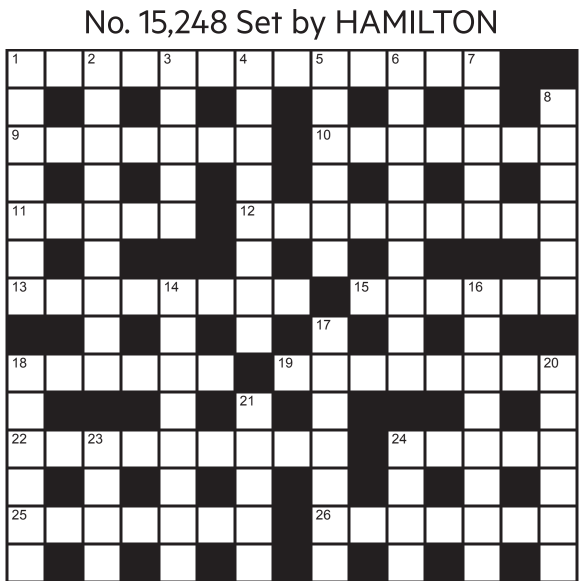
Forecasts by MeteoGroup
Warm front Cold front Occluded front Wind speed in KPH

Today's temperatures Maximum for day °C

Abu Dhabi	Sun	40	Malta	Sun	24
Amsterdam	Cloudy	14	Manila	Thunder	33
Ankara	Fair	19	Miami	Cloudy	30
Athens	Sun	26	Milan	Sun	25
Bahrain	Sun	39	Montreal	Sun	28
Barcelona	Sun	22	Moscow	Shower	21
Beijing	Sun	30	Mumbai	Fair	34
Belfast	Sun	17	Munich	Rain	11
Belgrade	Shower	20	Naples	Fair	21
Berlin	Thunder	25	New York	Shower	22
Brussels	Cloudy	16	Nice	Sun	22
Budapest	Thunder	20	Nicosia	Sun	28
Cairo	Sun	29	Oslo	Rain	12
Cardiff	Sun	18	Paris	Fair	17
Chicago	Cloudy	26	Prague	Thunder	19
Cologne	Rain	15	Reykjavik	Drizzle	10
Copenhagen	Sun	22	Riga	Fair	23
Delhi	Sun	39	Rio	Cloudy	23
Dubai	Sun	37	Rome	Sun	21
Dublin	Sun	15	San Francisco	Cloudy	18
Edinburgh	Cloudy	12	Singapore	Fair	34
Frankfurt	Rain	15	Stockholm	Sun	24
Geneva	Fair	16	Strasbourg	Cloudy	15
Hamburg	Rain	18	Sydney	Sun	21
Helsinki	Sun	24	Tokyo	Sun	28
Hong Kong	Fair	29	Toronto	Sun	27
Istanbul	Sun	25	Vancouver	Cloudy	18
Lisbon	Fair	20	Vienna	Rain	15
London	Fair	18	Warsaw	Sun	25
Los Angeles	Cloudy	20	Washington	Fair	28
Luxembourg	Cloudy	14	Zagreb	Shower	17
Madrid	Fair	26	Zurich	Cloudy	15

CROSSWORD

No. 15,248 Set by HAMILTON



ACROSS

1 Enemy captured sailors' pad, shattering false hopes and expectations (5,8)
9 Clown is expert in no time, which isn't special (7)
10 Bigwigs have Reg thrown out of stagecraft school (3,4)
11 Loads of paper (5)
12 One's going places with time for composer, vigilant at heart (9)
13 A long time heading off philanthropist gripping broken rein (8)
15 Runner eating lunch at first is seen to be on course (6)
18 Fuzzy George is wet . . . . (6)
19 . . . . but the fat Duke is fantastic! (8)
22 Certain since recording that some of it is fake (9)
24 Introducing this animal, primarily inhabiting Central America (5)
25 Eyeing up Heather, who's always in (7)
26 Novice grounded, getting an E in the end (not D) (7)
27 Will one's services be needed after watching horror movie? (13)

DOWN

1 Jeweller who was known as a good egg? (7)
2 Tender embrace for Scotsman returning for a spell in the background (3,6)
3 Fixes and marks locations (5)
4 Make notes on ornamentation, discounting minor repair (8)
5 Fight fish clinging to hook without starting to grimace (6)
6 Knowing ring has it but circle doesn't! (2,3,4)
7 Deception over stealing graduate correspondence (5)
8 Central courts cover confident cupidinous capitalist! (6)
14 Not one idiot in US city is a lightweight (9)
16 The cheek of it – Pip can fly off (9)
17 Generate fresh drink (5,3)
18 Questions the king's misfortunes (6)
20 "Dress will detract from the man" says Spooner (7)
21 Extent to which outside line is no good to horses at the start (6)
23 Costly pickle (5)
24 Indian police HQ in Elizabethan armoury (5)

JOTTER PAD

Solution to Saturday's prize puzzle on Saturday June 4
Solution to yesterday's prize puzzle on Monday June 6
Winners' names will be printed in Weekend FT