

# Cameron invokes murdered MP in neck-and-neck Brexit race

◉ UK PM tweets link to article written by Jo Cox ◉ FT poll of polls puts both sides on 44%

GEORGE PARKER — LONDON

David Cameron has invoked the memory of the murdered Labour MP Jo Cox to press the case for Britain staying in the EU, amid signs of tensions in the Leave camp as the referendum campaign enters its final week.

The prime minister tweeted a link to an article written by Cox shortly before she was stabbed and shot last week, saying: “Jo Cox’s strong voice in the campaign to remain in the EU will be badly missed.”

With opinion polls suggesting the race is neck-and-neck after a swing to Remain, pro-Brexit campaigners argued publicly over the tone of their campaign, amid criticism that its focus on immigration had created an ugly mood in Britain.

The House of Commons will be recalled today to pay tribute to Cox, whose alleged killer Thomas Mair told a courtroom on Saturday his name was “Death to traitors, freedom for Britain”.

The recall of Parliament comes as legal experts have warned of constitutional chaos after a vote for Brexit because the primacy of EU law is enshrined in the devolution agreements of Scotland, Wales and Northern Ireland. Westminster MPs would need the consent of the devolved parliaments and assemblies.

Seeing such consent would be likely to enrage Scottish voters, a majority of whom, polls suggest, are likely to vote in favour of remaining in the bloc, and would fuel demands for a second independence referendum.

Cox’s death led to the suspension of the referendum campaign, putting the brakes on a recent Leave surge. “We had momentum until this terrible tragedy,” said Nigel Farage, leader of the UK Independence party, on ITV’s *Peston on Sunday*.

But the murder has also dramatically changed the terms of the debate ahead of Thursday’s vote, with Mr Cameron



The ‘Big In’ event in London’s Hyde Park yesterday aimed to rally support for the Remain campaign

Andrew Holt

claiming the Leave camp has created a hostile and intolerant climate in the country through its focus on immigration.

Along with its principal message that Brexit will inflict serious harm on the economy, the Remain campaign is now trying to associate itself with the public revulsion felt over the murder of the 41-year-old Yorkshire MP.

An online poster shows a torn Union flag with the accompanying slogan: “Remain kind, remain open, remain inclusive, remain tolerant, remain together. Vote Remain.”

Chris Patten, the former Conservative chairman, writes today in the Financial Times that while it would be a “reckless untruth” to link Ms Cox’s death to the

Leave campaign, he accuses Mr Farage of peddling “filth”.

Turning his fire on the two senior Conservatives leading the Brexit campaign, he said: “The ruefully sanctimonious Vote Leave campaigners Michael Gove and Boris Johnson may want to reflect on some of the company they keep and the arguments they use.”

With polls appearing to turn against Leave, Mr Gove distanced himself from a poster unveiled by Mr Farage last week depicting Syrian refugees at the Slovenian border with the slogan “Breaking Point”, saying that he “shuddered” when he saw it.

Mr Farage retaliated by saying that his poster was no more “strong” than an official Vote Leave poster claiming that

Turkey was about to join the EU and that Britain would be subject to a new wave of immigration.

The FT’s poll of polls puts the sides level on 44 per cent, but politicians and business have learnt not to put too much faith in opinion polls, leading to great uncertainty over Britain’s future. Turnout on Thursday will be key in a vote that could determine Mr Cameron’s future as prime minister as well as the country’s European destiny.

Much of this weekend’s opinion polling was carried out before Cox’s murder, suggesting that there was already a “flight to the status quo” under way, as voters took stock on the potential risk of a Brexit to their personal finances.

Additional reporting by Sarah Gordon

## Briefing

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Uncertainty over the UK in Europe after the EU referendum has triggered a 70 per cent decline in the volume of mergers and acquisitions deals involving British groups. — PAGE 13

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Henrique Meirelles, Brazil’s new finance minister, plans to take an ambitious step and use a constitutional reform to freeze budget spending to tackle the root of the country’s recession. — PAGE 2



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National Bank of Abu Dhabi and First Gulf Bank are in talks to merge to become the region’s largest lender, potentially sparking rationalisation, as oil-producing nations weather a price slide. — PAGE 14

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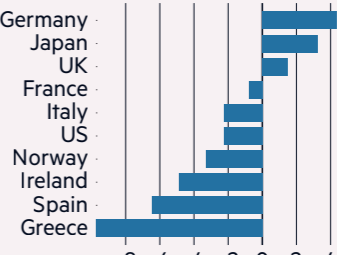
Volvo Cars and Chinese owner Geely are looking to deepen co-operation, including exploring driverless technologies, as they prepare to launch their first small cars based on a common platform. — PAGE 16

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Thomas Buberl, the surprise winner in the race to be chief executive of French insurer Axa, is drawing in a new team to implement his five-year plan to cut costs and boost growth. — PAGE 16

## Datawatch

### Change in employment rates (15-64 years) Q1 2008–Q1 2016



Source: OECD

The share of the population aged 15 to 64 in employment is below pre-crisis levels in the average of the OECD countries, with Greece the worst performer. Employment rates are higher than in 2008 in Germany, Japan and the UK.



## KPMG leaves Fifa over trust and reform issues

Analysis ► PAGE 2

|            |         |              |          |
|------------|---------|--------------|----------|
| Austria    | €3.60   | Macedonia    | Den220   |
| Bahrain    | Din7    | Malta        | €3.50    |
| Belgium    | €3.60   | Morocco      | Dh43     |
| Bulgaria   | Lev750  | Netherlands  | €3.60    |
| Croatia    | Kn2750  | Nigeria      | Naira715 |
| Cyprus     | €3.50   | Norway       | Nkr24    |
| Czech Rep  | Kc100   | Oman         | ORI50    |
| Denmark    | Dk52    | Pakistan     | Rupee280 |
| Egypt      | E220    | Poland       | Zl18     |
| Finland    | €4.10   | Portugal     | €3.50    |
| France     | €3.60   | Qatar        | QRI5     |
| Germany    | €3.60   | Romania      | Ron17    |
| Gibraltar  | €2.70   | Russia       | €5.00    |
| Greece     | €3.50   | Saudi Arabia | Ria5     |
| Hungary    | Ft990   | Serbia       | NewD420  |
| India      | Rup995  | Slovak Rep   | €3.60    |
| Italy      | €3.50   | Slovenia     | €3.50    |
| Kazakhstan | US\$550 | Spain        | €3.50    |
| Kenya      | Ksh300  | Sweden       | SKr27    |
| Kuwait     | KWD150  | Switzerland  | Sfr590   |
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# Ad chief urges Madison Avenue to seek out ‘street savvy’ creative talent

MATTHEW GARRAHAN — NEW YORK

The new chief executive of ad agency J. Walter Thompson has called on the advertising industry to look beyond top university graduates for creative talent in favour of people who can connect better with consumers.

Tamara Ingram’s warning is a departure from recruitment practices in most industries, such as banking, which prioritise graduates from business schools and elite educational institutions.

Advertising risks losing its connection with consumers, she said. “You don’t need a university degree, you don’t need the education . . . you need the talent. We have to employ people who reflect the world . . . we have to go from the street to the street,” she said.

Ms Ingram — who replaced Gustavo Martinez as JWT’s chief executive in

March following a lawsuit accusing him of workplace harassment, which he denies — said advertising had lost some of its “street savvy” as the industry had “professionalised”.

Talented people have done well in advertising once they have broken into the industry; “but we’re not meritocratic in the way we bring people in. When I started in this industry a long time ago there were people from the mailroom who succeeded. I believe that authenticity of hunger and closeness to people meant that [creative] work was better.”

Ms Ingram went to private school and graduated from the University of East Anglia. Her first job at a film company in London included cleaning toilets.

Ms Ingram warned the industry to learn from the rise of populist political candidates in Europe and the US, where voters rejected polished politicians

without real world experience. “There has been a huge disconnect between politics and people.”

For companies not in the business of creativity, university graduates continue to make up the bulk of new employees. Technology groups are increasingly competing with Wall Street for the brightest MBA graduates while law and accountancy firms tend to hire exclusively from universities. Goldman Sachs’ summer internship is available only for university students while Amazon seeks to “hire the brightest minds from the best universities globally”.

At JWT, which is owned by WPP, the world’s largest marketing and communications group, hiring practices will be changed to ensure the company can recruit from a broader pool of talent, Ms Ingram said.

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## World Markets

| STOCK MARKETS     |          |          |       | CURRENCIES   |         |         |           | INTEREST RATES   |        |       |      |
|-------------------|----------|----------|-------|--------------|---------|---------|-----------|--|--------|-------|------|
|                   | Jun 17   | Jun 10   | %Week |              | Jun 17  | Jun 10  |           |  | price  | yield | chg  |
| S&P 500           | 2071.22  | 2096.07  | -1.19 | \$ per €     | 1.125   | 1.130   | € per \$  | 0.889  | 100.09 | 1.62  | 0.03 |
| Nasdaq Composite  | 4800.34  | 4894.55  | -1.92 | \$ per £     | 1.430   | 1.433   | £ per \$  | 0.700  | 102.19 | 1.27  | 0.03 |
| Dow Jones Ind     | 17675.16 | 17865.34 | -1.06 | £ per €      | 0.787   | 0.788   | € per £   | 1.271  | 104.67 | 0.02  | 0.00 |
| FTSEurofirst 300  | 1280.11  | 1308.83  | -2.19 | ¥ per \$     | 104.285 | 106.905 | ¥ per €   | 117.305  | 102.68 | -0.17 | 0.00 |
| Euro Stoxx 50     | 2849.17  | 2911.11  | -2.13 | ¥ per £      | 149.074 | 153.194 | £ index   | 84.481   | 101.41 | 2.43  | 0.03 |
| FTSE 100          | 6021.09  | 6115.76  | -1.55 | € index      | 87.130  | 87.899  | \$ index  | 99.519   | 103.07 | -0.57 | 0.00 |
| FTSE All-Share    | 3309.39  | 3366.91  | -1.71 | Sfr per €    | 1.081   | 1.088   | Sfr per £ | 1.374  |        |       |      |
| CAC 40            | 4193.83  | 4306.72  | -2.62 | COMMODITIES  |         |         |           |  | price  | prev  | chg  |
| Xetra Dax         | 9631.36  | 9834.62  | -2.07 |              | Jun 17  | Jun 10  | %Week     |  |        |       |      |
| Nikkei            | 15599.66 | 16668.41 | -6.41 | Oil WTI \$   | 48.14   | 48.95   | -1.65     | Fed Funds Eff  | 0.37   | 0.37  | 0.00 |
| Hang Seng         | 20169.98 | 21297.88 | -5.30 | Oil Brent \$ | 49.27   | 50.44   | -2.32     | US 3m Bills  | 0.27   | 0.26  | 0.01 |
| FTSE All World \$ | 260.44   | 265.32   | -1.84 | Gold \$      | 1290.70 | 1275.50 | 1.19      | Euro Libor 3m  | -0.28  | -0.28 | 0.00 |
|                   |          |          |       |              |         |         |           | UK 3m  | 0.57   | 0.57  | 0.00 |
|                   |          |          |       |              |         |         |           | Prices are latest for edition Data provided by Morningstar |        |       |      |

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INTERNATIONAL

Recession

Brazil plans budget freeze for up to 20 years

Tough fiscal policy will end uncertainty, says new finance minister

JOE LEAHY — BRASÍLIA

An ambitious constitutional amendment to freeze budget spending would cut the uncertainty over public finances that is the root cause of Brazil’s deep recession, according to the country’s new finance minister.

“With this kind . . . of tough fiscal policy . . . everyone will be able to project the numbers,” Henrique Meirelles said in an interview with the Financial Times. “A lot of the uncertainty is coming down.”

The plan to eliminate real increases in budget spending for up to 20 years is the central plank of a series of reforms — from fiscal policy to rules on pensions and the operation of Petrobras, the scandal-hit state oil company — that the government of interim president Michel

Temer is rushing through congress. Elevated to power by an impeachment process brought against President Dilma Rousseff for allegedly manipulating the budget, Mr Temer is staking his leadership on stabilising the economy and stemming an alarming rise in public debt.

Once a fast-growing emerging market, Brazil’s gross domestic product shrank 3.8 per cent last year and is expected to decline by the same amount this year.

Many blame Ms Rousseff’s government, which through the granting of ad hoc tax breaks and intervention in the economy sharply increased gross public debt to 67.5 per cent of GDP from just over 52 per cent in mid-2014.

The uncertainty over Brazil’s public finances has left the country with credit default swap spreads, a measure of the likelihood of default, of 345 basis points.

This was down from highs of near 500bp earlier this year during the politi-

cal crisis leading up to the impeachment, but still above other emerging markets with similar credit ratings, such as Russia with 258bp.

Mr Meirelles said this measurement could fall rapidly if confidence returned. “If it comes [down] to half of what it is today [that would have an] effect on interest rates and . . . together with



Henrique Meirelles, Brazil’s finance minister, says the country’s recession is internally driven

GDP growth, total public debt [as a] percentage of GDP might stabilise and drop before people expect it,” he said.

“But I don’t like to make projections because I prefer to try to at least under-promise and over-deliver.”

He said he hoped the budget plan would pass congress by the end of the year, saying he encountered little resist-

ance when he presented it to leaders representing 340 congressmen from the 513-seat lower house.

Mr Meirelles is a veteran of Brazil’s 2003 financial crisis, when he was central bank governor under the then nascent administration of the leftwing former president Luiz Inácio Lula da Silva.

But he said the current emergency was different: 2003 was a balance of payments crisis, not a budgetary problem. Today, with \$370bn of foreign exchange reserves, Brazil’s external accounts were more solid, he said. The problem, instead, was one of unsustainable fiscal deficits.

“This recession is not externally driven,” he said, contradicting the view of the Rousseff government that the downturn was caused by the global financial crisis. “It’s domestically driven.”

He insisted that his government’s aim was to deal in “facts” and provide an accurate assessment of the situation.

Football

KPMG’s concern over Fifa reform programme led to exit

MURAD AHMED AND HARRIET AGNEW LONDON RALPH ATKINS — ZURICH

KPMG, which resigned as auditor of Fifa last week, did so after concluding that the new leadership of world football’s governing body was not serious about reform in the wake of a devastating corruption probe, according to documents seen by the Financial Times.

Correspondence sent in May between Gianni Infantino, the Fifa president, and senior executives from KPMG Switzerland shows the “big four” accountancy firm expressed concern that his management team would not do enough to “fully implement” the sweeping reforms Fifa had agreed in response to a bribery scandal.

A person familiar with KPMG’s thinking said the firm, which had been Fifa auditor for more than a decade, decided it “did not have trust that the new management would do what they said they were going to do to improve governance”. KPMG’s role as auditor “was therefore not tenable”.

Fifa declined to comment. A person close to its leadership accused KPMG of seeking reasons to ditch an account that had damaged its reputation, saying: “Where were they for the past 12 years when money was being misused and Gianni wasn’t part of Fifa?”

KPMG Switzerland did not respond to requests for comment.

Mr Infantino was elected in February, when Fifa delegates also voted to approve a reform programme to provide more transparency in its finances.

Last year, the US justice department indicted more than 20 Fifa executives on corruption charges. Swiss authorities also launched a criminal inquiry into alleged bribes paid to football executives. Sepp Blatter, Fifa’s president for 18 years, resigned after the investigations.

Among the reforms was the creation of a more powerful secretary-general, with authority over the day-to-day running of Fifa in a move designed to strip power from the presidency.

In the letter dated May 2, Roger Neininger, the board chairman of KPMG Switzerland, and Alex Fähndrich, audit expert, wrote to Mr Infantino, cited the reforms and said: “Any dilution, either in form or in substance may, in our view, expose Fifa to potentially negative reactions from stakeholders and the public.”

Later that month, Fifa appointed Fatma Samoura, a 21-year veteran of UN programmes in Africa but with no previous experience as a senior company executive or in sports administration, as secretary-general.

KPMG’s letter also expressed concerns over proposals to increase funds to national and regional football associations. During his presidential campaign, Mr Infantino pledged to invest £1.2bn in football development. KPMG wrote that there was “an increased risk of funds being misused as some of these entities may not yet have the organisational structure, governance and/or possibilities to spend significantly more money in an appropriate way”.

A person close to Fifa’s thinking said new safeguards had been put in place to prevent misuse, adding that KPMG “were prejudging [the reforms], as no additional funds have been provided yet”.

Britain in Europe

Polls swing to Remain as rival UK campaigns regroup

GEORGE PARKER — LONDON

The UK’s House of Commons will pay tribute today to the Labour MP Jo Cox, who was killed last week, as parliamentarians put on a display of cross-party unity in defence of democracy.

Away from the private grief and the sombre mood at Westminster, politicians and financial markets are making cold calculations about how the murder of Cox in her Yorkshire constituency on Thursday will affect Britain’s biggest political decision for a generation.

“We had momentum until this terrible tragedy,” said Nigel Farage, leader of the UK Independence party, yesterday, confirming that the suspension of campaigning after Cox’s death had halted the surge towards a Leave vote.

Financial markets responded to the grim news last week by recording a sharp rise in sterling, reflecting the belief that a Remain vote was more likely. Opinion polls released at the weekend suggested these instincts were correct, all of them showing a swing towards Remain, although much of the polling was carried out before Cox’s death.

A Survation poll for The Mail on Sunday showed the Remain camp moving into a 45-42 point lead; YouGov in The Sunday Times gave Remain a 44-43 lead; while Opinion in The Observer put the two sides level on 44 each — as does the FT’s poll of polls.

Cox was a supporter of Remain and a campaigner for refugees. Thomas Mair, her alleged killer, told a courtroom on Saturday that his name was “Death to traitors, freedom for Britain”. But the political ramifications of her murder are complex and hard to distil.

The one area of consensus on both sides was that the suspension of the campaign helped Remain, which had started to look increasingly panicky as polls swung towards Leave.

George Osborne, the chancellor, was ridiculed last week by his opponents for threatening an emergency “punishment Budget” to inflict more austerity on the country if it voted for an EU exit. The pause in the campaign allowed Mr Osborne and David Cameron, the prime minister, to regroup and to return



Eurosceptic justice minister Michael Gove, left, with pro-Remain Labour leader Jeremy Corbyn. Mr Gove said the UK Independence party’s anti-immigration poster had made him ‘shudder’

Jeff Overs/EPA

to the fray with a more measured tone.

Mr Cameron yesterday tweeted a link to Cox’s final article in support of Britain’s EU membership, while the Remain campaign has stepped up its criticism of the strident anti-immigration message adopted by some in the Leave camp.

Mr Cameron has focused on a poster unveiled last week by Mr Farage showing desperate refugees on the Croatia-Slovenia border and headlined “Breaking Point”. “Are we going to choose Nigel Farage’s vision — one which takes Britain backwards, divides rather than unites and questions the motives of anyone who takes a different view?” Mr Cameron said in The Sunday Telegraph.

Michael Gove, the Eurosceptic justice minister, admitted he had “shuddered” when he saw the poster. Mr Farage replied that the official Leave campaign, to which Mr Gove belonged, had put out

“very strong posters” suggesting Turkey was about to join the EU, with millions of migrants heading for Britain.

The squabbling between the rival wings of the Brexit campaign suggested a squeamishness over some of the language and a feeling the immigration rhetoric may have gone too far.

Anthony Wells of polling group YouGov said the swing towards Remain was part of a long-awaited trend in which voters “move back to the status quo option”. Polls were picking this up before Cox’s murder, he said.

Behind the headline numbers, YouGov found a big rise in the number of people who feared they would be worse off as the result of a British exit — up to 33 per cent from 23 per cent a fortnight ago. That suggests Mr Osborne’s ridiculed “Brexit Budget” may have had some resonance, vindicating the chan-

A Survation poll showed Remain with a 45-42 point lead; YouGov gave Remain a 44-43 lead; while Opinion put the two sides level

cellor’s view that many voters are only now seriously tuning into the debate.

John Curtice, professor of politics at Strathclyde university, said he believed the poll movements were not surprising: “We are expecting there to be a swing towards Remain at some point.”

But he thought Cox’s death would have an impact on the result that was “something approximating to zero”, as people who agonised about the nature and implications of social discourse on society were not the kind of swing voters who would determine the outcome.

Mr Cameron’s team are not so sure but both sides accept Thursday’s vote is too close to call. The impact of Cox’s death on the result will be the subject of fierce debate for years to come.

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Legislation

Lawyers warn of constitutional ‘havoc’ if Britain leaves EU

SARAH GORDON — LONDON

Lawyers with an eye to their own interests might be excused for voting to leave the EU on Thursday, for the process of untangling Britain from the web of European legislation would take years and could create constitutional mayhem.

“EU law is part of UK law and its adoption has given UK citizens, companies and public authorities rights and duties,” said Professor Sionaidh Douglas-Scott, a constitutional law expert at Queen Mary University of London.

“Repealing or amending them would be a complex and demanding process. Serious detriment and havoc will be caused to the British constitution in the process.”

A further complication is the fact that some of the key pieces of legislation incorporating EU law into UK law are written into devolution statutes for Scotland, Wales and Northern Ireland. This could put Westminster on collision course with devolved assemblies, especially in Edinburgh.

By convention, Westminster must seek the consent of the Scottish parlia-

ment for legislation on devolved issues. Any attempt by a UK government to force through changes without such consent would be likely to provoke outrage in Scotland — where polls suggest a majority intend to vote to remain in the EU — and thus boost support for a second independence referendum.

Other important political agreements are also highly dependent on EU law. The Belfast or “Good Friday” Agreement of 1998 includes provisions based on the ECA and the European Court of Human Rights.

In addition to potential constitutional wrangles between England and the rest of the UK, extricating Britain from the EU’s legal embrace would require identifying which laws were no longer applicable or needed to be redrafted once Britain had left the EU, and which existing EU laws should be revoked or replaced.

“The UK would have to decide which parts of EU law it wished to keep and which to jettison,” said Philip Wood QC, head of Allen & Overy’s global law intelligence unit. “Antitrust, financial regulation and pensions would be only examples of numerous complex areas.”

Simon Gleeson, partner at Clifford

Chance, described the resources required to enshrine Brexit within UK legislation as “monumental”. He said: “It will be simply impossible to do any comprehensive review of EU legislation before any reasonable exit date.”

In the event of a Leave vote, identifying which laws to repeal or which regulations to undo would be far from easy.

‘Antitrust, financial regulation and pensions would be examples of numerous complex areas’

The simplest option for the government — to translate existing EU law into British law in a single “Brexit Act” is possible in theory, but is likely to be politically unpalatable. “The degree of pruning [of EU law] could be highly political since the electorate might be saying they wanted to leave the EU, not take it with them,” says Mr Wood.

There are also EU laws — such as rules on enforcement of judgments and the allocation of jurisdictions — which cannot be transposed wholesale because

they must be reciprocated by Britain’s EU partners.

Other laws would also require the agreement of Britain’s former partners in the bloc. “Passporting”, which allows financial services groups based in the UK to operate without further authorisation across the EU, is one example.

“Some of the rules are premised on the fact that there is access to a wider European market, for example regulation of financial institutions,” says Martin Coleman, a partner in a global law firm and a member of the pro-Remain Lawyers In for Britain.

The nature of the UK legal system poses particular challenges for those wanting to roll back existing EU legislation because much of it has been incorporated into British law, tested in the courts and thus become part of case law. This means that, even if a statute is removed, its principles — for example on legislation governing workers’ rights — would remain in force.

“If the courts have concluded that the correct approach to X is Y, if you just take the statute away, that approach will continue,” says Mr Gleeson at Clifford Chance.

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INTERNATIONAL

# Rajan exit from RBI unnerves India investors

Loss of bank chief raises questions over New Delhi’s commitment to reforms

AMY KAZMIN — NEW DELHI

Central bankers are rarely likened to James Bond, the fictitious British spy. But Raghuram Rajan, the respected Reserve Bank of India governor credited with restoring the country’s macroeconomic stability, is not your typical emerging markets central banker.

His 2013 appointment, which came as India was being buffeted by runaway inflation and its currency was sliding, roused euphoria in the business community. India’s biggest business daily published a Photoshopped image of Mr Rajan in 007-style action, brandishing a pistol made of rupee notes, with the headline “Name’s Rajan, Game’s Bond”.

Since then, Mr Rajan — a former International Monetary Fund chief economist widely known for his prescient, forthright warnings of the 2008-09 global financial crisis — has been seen in an almost heroic light for his assured handling of India’s macroeconomy, including persistently high inflation and his tackling of its bad debt problem.

But Mr Rajan’s larger-than-life image, his plain speaking and his willingness to tackle tough issues head on may well have cost him his job.

At the weekend, he said he would return to the University of Chicago when his three-year-term as governor ended on September 4. It had become apparent that Prime Minister Narendra Modi was reluctant to offer Mr Rajan the customary two-year extension granted to all RBI governors in the two decades since India’s market liberalisation began.

“Everybody is shocked,” says a New Delhi-based policy analyst, who asked not to be identified given the issue’s sen-

sitivity. “None of us have an adequate explanation. This is going to hurt.”

Mr Modi has kept silent in recent weeks as Subramanian Swamy, an influential lawmaker from his ruling Bharatiya Janata party, publicly attacked Mr Rajan for “wilfully wrecking” the Indian economy and for being “mentally not fully Indian”.

Mr Rajan, in a weekend letter to RBI staff, said he had been open to staying on to see through the reforms he had begun, but that “on due reflection and after consultation with the government” he was returning to his “ultimate home in the realm of ideas”.

Some political analysts in India suspect the prime minister viewed Mr Rajan’s global profile as competition to his own, rather than as an asset that bolstered his government’s credibility.

Mr Rajan was also criticised by some industry groups for his initial hawkish stance on inflation as they clamoured for lower interest rates, though he has since cut rates by 150 basis points.

Perhaps most crucially, he antagonised some powerful Indian business groups with his denunciation of crony capitalism and the pressure he put on state banks to get tough with stressed borrowers long accustomed to pliant state banks sweeping their problems under the carpet.

The New Delhi-based analyst says: “He has clearly made some people unhappy in the right wing of the BJP, but that’s just a cover — always look for an economic reason. There are big industrial groups who have been hurt by his policies — not on interest rates, but on cleaning up the banks and cleaning up the people who have caused the non-performing assets at the banks.”



Bank another day: RBI governor Raghuram Rajan was likened to James Bond. His announcement of a return to academia has shocked observers

Danish Siddiqui/Reuters

Timeline

Central banker's three-year mission

**Aug 2013** Raghuram Rajan appointed governor of the Reserve Bank of India for three-year term. Takes the helm on September 5

**Sept 2013** Appoints expert committee to revise and strengthen monetary policy

**Oct 2013** Raises interest rates to combat inflation, frustrating businesses already unhappy with high cost of capital

**Jan 2014** Expert committee proposes formal inflation-targeting framework for monetary policy, setting a goal of 4 per cent, plus or minus 2 percentage points

**Apr 2014** RBI issues first general Indian banking licences since 2004. It later issues batches of licences for new types of banks, including small finance banks and payments banks

**Jan 2015** RBI cuts interest rates, starting a cycle of easing still under way

**Mar 2015** RBI and finance ministry agree inflation-targeting framework

**June 2016** Mr Rajan announces he will return to the University of Chicago when his three-year term as governor ends on September 4

India’s financial markets are expected to be jittery today as investors digest what many will take as a bitter disappointment, especially given other global political and economic turmoil, including nervousness surrounding the UK’s referendum this week on EU membership.

Jahangir Aziz at JPMorgan says: “In a world which is so volatile and [where there is] already a large degree of uncertainty, people gather around or are attracted to stability and he [Mr Rajan] has epitomised that.”

Mr Aziz says much will depend on who is appointed to replace Mr Rajan and how they view the reforms he championed, including inflation-targeting as the main monetary policy objective, cleaning up the banking sector and efforts to open the state-dominated banking system to greater competition.

Arun Jaitley, finance minister, tweeted on Saturday that the government would shortly announce Mr Rajan’s successor.

Until then, the “uncertainty will be around whether there would be continuation of the same kind of monetary pol-

‘Somebody who is perceived well and has done a good job — what could be the reason for not giving him an extension?’

icy; whether the banking sector clean-up will be pushed forward with the same kind of enthusiasm Raghu has displayed and whether [his replacement] believes in expansion of new banks and new kinds of banks,” Mr Aziz says.

But analysts also say Mr Modi’s willingness to cut loose such a respected figure will prompt investors to take a closer look at his administration, particularly the degree to which rhetoric about transforming India’s economy is matched with action.

The chief Asia economist of a western investment bank says: “It reflects on the government. Somebody who is competent, perceived well and has done a good job — what could possibly be the reason for not giving him an extension?”

“It will give people pause for thought,” says James Owen, senior partner for India and South Asia for Control Risks, which advises western businesses. “For me, this is about what this says about the ability of the government to see through its reform agenda.”

**Huge setback for reform** page 9

# BREITLING *for* BENTLEY

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INTERNATIONAL

South America

# China recasts loans deal with Venezuela

Envoys seek assurances from opposition on debt in case president falls

LUCY HORNBY — BEIJING  
ANDRES SCHIPANI — MEDELLÍN

China is renegotiating billions of dollars of loans to Venezuela and has met the country’s political opposition, marking a shift in its approach to a nation it once viewed as a US counterweight in the Americas.

Venezuela is facing one of the worst crises of its 200-year history, with a collapsing economy and political deadlock stoked by the oil price slump. China, which is Caracas’s biggest creditor and has lent the country \$65bn since 2005, has already extended the repayment

schedules for debts backed by oil sales.

Beijing has also sent unofficial envoys to hold talks with Venezuela’s opposition in the hope that, if President Nicolás Maduro falls, his successors will honour Chinese debts, sources on both sides of the negotiations said. Its recognition of Mr Maduro’s fragile position and the rising clout of the opposition, led by Henrique Capriles, is another sign that the diplomatic noose is tightening around Caracas’s socialist government.

“One fact we shouldn’t overlook is that Venezuela really doesn’t have the money,” said Guo Jie, a Latin America expert at Peking University. “I think there will be a rational solution for both parties, be it loan repayment extension or a loan restructuring.”

Fears that Venezuela might default on its internationally traded debt continue

to rattle markets, where its bonds trade at distressed prices. The benchmark 2022 bond currently yields 33 per cent.

Venezuela wants a grace period whereby the country would pay only the interest due on Chinese loans, Reuters reported this week. But China also wants approval from the opposition-held national assembly, thus tying the opposition to any deal.

José Guerra, an opposition member of the legislature’s finance commission, confirmed the talks. “It is true that some [opposition] lawmakers and consultants have met with the Chinese . . . Both sides want a close-up,” he said.

One aim of the talks was to “maintain a relationship [looking] probably at a post-Maduro era,” he added.

“We are willing to work . . . with Venezuela to carry out more pragmatic co-

operation across the board including financial co-operation based on equality and mutual benefit,” the foreign ministry said.

Mr Capriles has toured South America seeking support for a constitutionally allowed referendum, which could remove Mr Maduro from office but which has been stymied by the government-controlled electoral council. He this week met the presidents of Argentina and Paraguay and Brazil’s foreign minister, José Serra. Peru’s president-elect, Pedro Pablo Kuczynski, last week said his government would take a tough line on Venezuela’s democratic abuses.

The International Monetary Fund forecasts that the Venezuelan economy, which earns 95 per cent of its export revenues from oil sales, will shrink by 8 per cent this year, while inflation will reach

480 per cent. Imports have more than halved over the past five years, leading to acute shortages of basic goods and sporadic food riots.

BancTrust, a Latin American investment bank, said a Chinese debt restructuring could free up cash equivalent to about 650,000 barrels of oil per day, thereby “alleviating [national] cash flow needs . . . [which] might help the government to improve staple goods supply”.

One Chinese oil industry insider, who believes it is in the country’s long-term interests to accept “looser” conditions, said: “Certainly the terms of the [Sino-Venezuelan] debt will have to be renegotiated. But there’s no way it could be totally overturned.”

*Additional reporting by John Paul Rathbone in London and Luna Lin in Beijing*

Nationalist shift

# State should buy Poland’s foreign-owned banks, says deputy PM

HENRY FOY — WARSAW

Poland should buy up banks owned by foreign investors, the country’s deputy prime minister has said, as part of a push by the country’s rightwing government to reduce the influence of overseas capital in the economy.

Poland’s ruling Law and Justice party, which came to power in October on a broadly nationalist and Eurosceptic agenda, has moved swiftly to increase state control over previously independent or apolitical institutions. It has also recently begun a push to increase the state’s role in business sectors, startling investors who fear Poland is turning away from free-market principles.

Foreign capital “definitely has too much power” in the Polish banking industry, Jaroslaw Gowin said, arguing the state should act to increase the level of Polish ownership as part of a programme of “economic patriotism”.

“We should use the opportunity that some of the foreign banks are in trouble, and move to renationalise them,” Mr Gowin told the Financial Times.

Poland’s large and dynamic banking industry, one of very few in Europe to avoid crisis and bailouts after the 2008 financial crisis, is roughly 60 per cent owned by foreign investors. Some, including the local units of Austria’s Raiffeisen and Italy’s UniCredit, are considering an exit.

“In that transition phase, the Polish state may buy up these banks . . . but only to privatise them later,” Mr Gowin said. “[But] if I had a choice to sell a bank to a foreign investor or a Polish investor, and if the conditions are comparable, even if the Polish investor is my steadfast opponent, of course I would prefer to sell it to the Pole.”

Other big foreign lenders in Poland, such as Citi, Santander and Portugal’s Banco Millennium, have not declared an interest to sell their assets.

Mr Gowin stressed that Poland was still keen to encourage foreign investors, as have other members of government. But he argued that overseas businesses had been given too many privileges in Poland, such as tax breaks to encourage them to invest, and that the government should accordingly act to give Polish investors an advantage.

“Over the past 25 years, Polish businesses were treated as second-class by their own government . . . They were discriminated against compared to foreign investors,” he said. “Polish politicians cannot tolerate overt and blatant discrimination against Polish businesses any longer.”

Warsaw has implemented a banking tax and is set to raise a levy soon on the retail industry, which is also majority-owned by foreign investors.

Analysts have warned that a shift towards a more statist, nationalist economic model could harm the country’s prospects, while investors have sold down Polish equities, debt and its currency since the new government came to power.

“We are often viewed as the bad guys abroad, but that is mainly because we are fighting for the rights of the Polish economy and the Polish state,” said Mr Gowin.

Election. Upheaval

# Marxist economist makes bid for power in Spain

Alliance with Podemos could put Alberto Garzón’s United Left party on course to govern

TOBIAS BUCK — MADRID

The most popular politician in Spain is a 30-year old Marxist economist who wants to abolish the monarchy and believes that capitalism will ultimately collapse under the weight of its own contradictions.

It is a peculiar result, as Alberto Garzón himself is first to admit. “Something is happening in this country when someone like me — who is a Communist, who wants a republic — emerges as the most valued politician in the polls,” the leader of Izquierda Unida, or United Left, says in an interview.

That sense of upheaval in Spanish politics is likely to be confirmed in Sunday’s general election. Polls suggest Unidos Podemos, the leftist alliance that brings together Mr Gárzon’s group and the bigger Podemos party, is on course to win 25 per cent of the vote. That would make Unidos Podemos, or United We Can, the second-biggest bloc in parliament, and turn the recently formed alliance into a genuine contender to lead the next Spanish government.

“This is not just a repetition [of the inconclusive 2015 vote]. This is a new election that can change the political landscape. We actually have the chance to govern,” says Mr Garzón.

The rapid rise of Unidos Podemos is not least because of him. In Mr Garzón, the alliance has a youthful and articulate politician who connects well with disenchanted younger voters. At the same time, he does not provoke the sharp antagonism that has been directed at Pablo Iglesias, leader of Podemos. The latest poll by the state-run CIS research institute says Mr Garzón is the most highly rated party

leader in Spain, well ahead of prime minister Mariano Rajoy and Mr Iglesias.

The two men at the centre of Unidos Podemos get on well but have distinct personalities and styles of campaigning. Mr Iglesias is a passionate and emotional public speaker, who knows how to whip up a crowd. Mr Garzón — who has published books on Spain’s recent economic crisis — prefers a calmer, more didactic approach.

In ideological terms, too, there are differences. “We are more orthodox. We continue to believe in class struggle and we believe that capitalism is an economic system that has to be overcome. They [Podemos] are post-Marxists,” says Mr Garzón, before adding: “But we have the same trajectory, the same roots.”

In electoral terms, the alliance with Podemos makes sense. One of the quirks of Spain’s voting system is that it severely punishes smaller parties such as Mr Garzón’s United Left, which includes the Communist Party of Spain.

When Spain went to the polls in December, it won 4 per cent of the vote but less than 1 per cent of seats in parliament. By running on a joint list, the two parties will convert more of their votes into seats — and stand a good chance of toppling the Socialists (PSOE) from their position as the main party on the Spanish left.

To govern, however, Mr Iglesias and Mr Garzón would need the support of the Socialists — who are likely to face the difficult choice between backing either Mr Rajoy’s Popular party (PP) for government, or their new rival on the left.

“The Socialists will be the key,” says Mr Garzón. “If the Socialists allow the PP to govern it is likely that big business will be relieved. But they will have set their party on a course towards decomposition. Their social base would never understand it.”

According to Mr Garzón, a government led by Unidos Podemos would not



**Tipping point: United Left’s Alberto Garzón is connecting with disenchanted younger voters as Spain prepares to vote**  
Pau Barrena/AFP/Getty Images

push for radical or instant change to Spain’s social and economic model. “We know that capitalism won’t end overnight,” he says.

Instead, the group would aim to create 300,000 jobs through a public works programme, financed by raising taxes on capital income and closing tax breaks and deductions for businesses. “Pretty classical social democratic measures,” argues Mr Garzón.

At the same time, Unidos Podemos would join the broader effort by countries such as Greece, Italy and Portugal to shift the EU’s economic policy towards a more expansionist stance.

“Brussels has to understand that if they continue to apply austerity politics in Spain our social emergency will get worse, which only helps the rise of fascism — as we are already seeing in Austria and other EU countries,” he says.

Another flashpoint with the European Commission would be the fate of Bankia, the sprawling financial group that had to be nationalised at the height of Spain’s financial crisis. Madrid signed

‘We know that capitalism won’t end overnight’

an accord with Brussels at the time to re-privatise Bankia by the end of next year.

“That clause has to be renegotiated,” says Mr Garzón. He wants Bankia to remain in state hands as an “instrument” to provide finance to strategically important sectors such as renewable energy and biotechnology. It forms part of a broader plan for more state intervention in the economy and less reliance on the power of markets.

“If we leave the market to operate freely our economy will be pushed further into low value-added sectors, for example construction,” says Mr Garzón.

Whether Unidos Podemos will get the chance to put its plans into practice depends first on Spanish voters and then on the readiness of the Socialists to back the alliance’s bid for power.

The odds may appear long, but Mr Garzón is convinced that Spain — and the rest of Europe — is finally shifting his way. “The only way to save the EU is through our policies,” he says. “If the austerity policies continue, the EU will implode.”

France

# Hollande faces primary before re-election push

ANNE-SYLVAIN CHASSANY — PARIS

France’s governing Socialist party is to hold a primary election to choose its presidential candidate for next year’s polls in an attempt to help François Hollande unify his deeply divided camp before seeking re-election.

The party’s national committee decided unanimously on Saturday that a primary open to socialists and their government allies would take place in January, three months before the presidential elections. If, as expected, Mr Hollande runs for a second term, it will be the first time that an incumbent president undergoes a primary contest for a party nomination.

The decision caps months of wrangling over whether to hold such a primary, which is enshrined in the party’s bylaws. Mr Hollande wanted to avoid a competition and his loyalists pushed to change the party’s rules.

But his approval ratings are so abysmal and the centre left so divided that it became impossible for him to dodge the process.

Bowing to the inevitable, Mr Hollande is now betting on the primary as an opportunity to neutralise rivals, especially Arnaud Montebourg, the former

economy minister and socialist firebrand with presidential ambitions.

“The Socialist party is seeking, rightly, to unite the left with this primary . . . because we need to be present on the second round,” Manuel Valls, France’s prime minister, told Le Journal du Dimanche newspaper yesterday.

Rebels in the party, up in arms against the French president’s pro-business policy shift, have pushed for primaries open to the far left and the Green party at the risk of setting up Mr Hollande for a humiliating defeat.

Most opinion polls suggest Mr Hollande would not qualify for the presidential election, expected in May, and would come third behind Marine Le Pen, the far-right leader, and the centre-



François Hollande: betting on the party primary to neutralise rivals

right nominee, whether Nicolas Sarkozy, the former president, or Alain Juppé, the former prime minister.

More worrying for Mr Hollande, one survey released last week suggested he would attract fewer votes than Jean-Luc Mélenchon, the far-left politician.

“Why would it be so demeaning to go back to the French to defend his ideas, to explain his action?” Mr Valls said, when asked about Mr Hollande having to compete with other party candidates for the nomination. “That’s democracy.”

Detailed rules for the primary have not yet been established and Mr Mélenchon and the Green party have already said they would not take part, but party rebels voiced their satisfaction.

“If in effect we have a primary, it means there is no natural candidate,” said Benoît Hamon, a socialist MP and a former education minister who stepped down when Mr Hollande sharply changed political direction in 2014 and appointed the pro-market Mr Valls as prime minister.

Mr Hollande will try to use the primary to re-establish his authority over a rebellious party that has denied him of a majority in parliament on three occasions for key reforms, including the contentious labour bill.

Japan

# Okinawans protest against US bases after woman’s killing

LEO LEWIS — TOKYO

Tens of thousands of Japanese staged an impassioned protest against US military bases in Okinawa yesterday as anger intensified over the suspected rape and killing of a local woman by a former US marine employed at the Kadena air force base.

The demonstrations, in which thousands held placards that read “enough is enough”, highlighted the difficulties faced by Shinzo Abe, prime minister, as he sought to navigate both a strained US-Japan relationship and embittered domestic politics in Okinawa itself.

Mr Abe, whose attempts to reinterpret Japan’s pacifist constitution have been received badly in Okinawa, faces explicit calls from locals for a complete pullout of the US military.

At the same time, both Tokyo and Washington find themselves increasingly wary of China’s increased assertiveness over rival territorial claims in the South and East China Seas.

Okinawa, part of the Ryukyu island chain that stretches 1,000km from Taiwan to Japan’s mainland, is the corner-

stone of the US military presence in Asia. The perception that the bases on the island bring noise, crime, pollution and other burdens to local civilians, are a simmering source of discontent.

In recent years, that has been amplified by plans — hotly resisted by residents — to relocate one of the US bases, Futenma, to a different part of the island. The 1996 decision to close Futenma was itself triggered by local outrage and mass demonstrations. The previous year, a 12-year-old schoolgirl was raped by three US servicemen.

The death of 20-year-old Rina Shimabukuro, whose body was discovered last month, has reignited those furies. The main suspect, who is under arrest, is a former US serviceman who had been working as one of thousands of US civilian contractors based on Okinawa.

Despite efforts by the US to calm the situation this month — by ordering military personnel on Okinawa to observe a 30-day period of mourning that banned them from drinking alcohol outside their base — a US sailor was arrested shortly afterwards following a suspected drink-driving-related car crash.

Three refugees

AN FT SPECIAL PROJECT

Germany received more than 1m migrants last year, and is now struggling to house, feed and integrate them into society.

The FT is following the journey of three Syrian refugees — family man Nazir; Ahmad, who is at risk of deportation because of one fingerprint; and Aziz, who hopes to attend university in Germany. All three face different futures in the country they want to make home.

FT Read more on ft.com/threerefugees



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FT WEEKEND SPECIAL REPORTS

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## FT BIG READ. VOLVO

Dismissed as a \$1.8bn gamble by Geely, the Swedish carmaker is back in profit and expanding in China and the US six years after the takeover. But some question if it is big enough to survive against its German rivals.

By Richard Milne and Christian Shepherd

There is nothing exceptional about the shiny grey chassis on display in western Sweden. Its wheels, suspension and engine are all where you would expect to find them. But it stands out because of what it represents: tangible evidence of progress in one of the most daring industrial stories of recent years.

Known as compact modular architecture, it is a shared platform destined to underpin the small vehicles made by both Volvo Cars, the Swedish premium manufacturer, and its owner Geely, the Chinese mass-market brand. “This is a bridge between the two companies,” says Mats Fagerhag, head of the joint venture that created the platform. “Everything is nice words before you start a common project and face hard facts.”

Geely’s purchase of Volvo from Ford in 2010 was, at the time, one of the most high-profile takeovers by corporate China and it still serves as a test case for Beijing’s industrial ambitions as well as its financial power. The deal remains part of the debate that rages over China’s overseas acquisitions, which are often subject to heavy European and US scrutiny.

Geely has already known both bad and good times in its short stint as Volvo’s owner. Within months of the deal the Swedish carmaker threatened to follow its compatriot Saab into administration after a slump in 2011-12, but has since rebounded after a series of bold moves in both Sweden and China.

Its profit margins are currently within touching distance of those of the big three German brands – Audi, BMW and Mercedes – but its sales are only about a third of their level at 503,000 cars in 2015 – a record – but still short. Its first new models under Chinese ownership – including the XC90 luxury sport utility vehicle and the S60 saloon – have garnered good reviews, helping overcome its reputation for building boxy but safe cars.

Next year, it will demonstrate the benefits of the shared platform with Geely by rolling out its small car range in the US, where it has previously struggled to make profits, as well as China.

Some observers remain to be convinced that Volvo is big enough to survive in such a cut-throat industry. Although it ranks number five among premium manufacturers, it remains outside the world’s 30 biggest carmakers. Every vehicle launch is critical.

“The suspicious view [of the Chinese] has gradually disappeared,” says Christer Karlsson, professor at Copenhagen Business School. But he adds: “Is this sustainable? Their biggest challenge remains their size. They cannot risk a product line going wrong.”

Hakan Samuelsson, the Swedish company’s chief executive, says the single most important decision Geely took to strengthen Volvo was to “make it more independent”.

‘Volvo got a stable owner, a faster track to China, new governance and the resources to develop new technology’

He says Li Shufu, the founder and chairman of Geely, “took Volvo out of a big company and transformed it from a division [of Ford] to a real company. That gives you an energy boost.”

Mr Li is more succinct: “We gave them back their freedom.”

### Risk taking

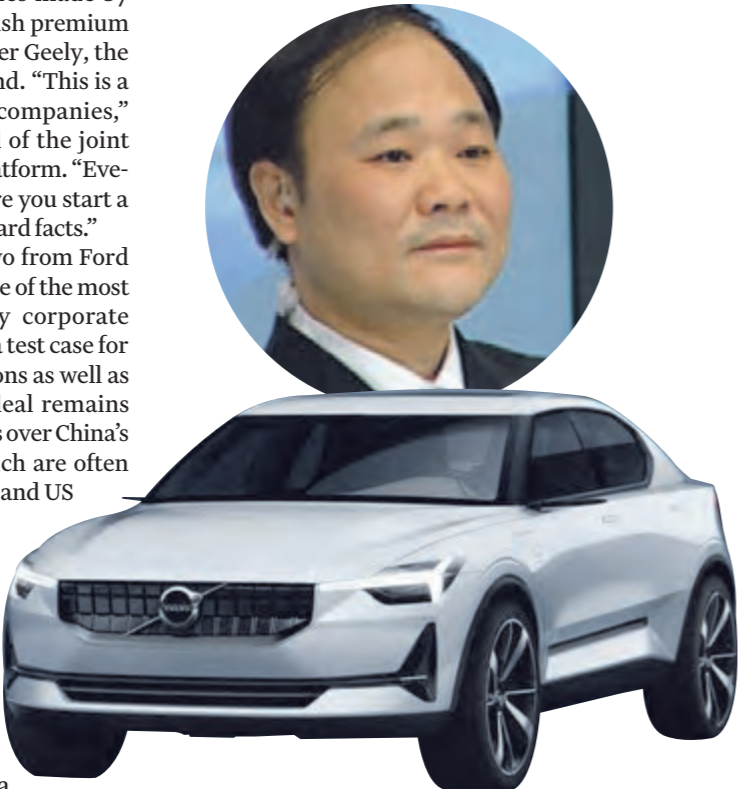
To appreciate the scale of Volvo’s revival you need to go back to 2010 and Geely’s \$1.8bn takeover of the loss-making Swedish marque. After recording a pre-tax profit of SKr1.2bn in 2011, it was plunged into crisis in 2012 after a collapse in European sales led to a pre-tax loss of SKr915m.

“People both inside and outside of Volvo were so scared,” says Thomas Ingenlath, head of design at the company. “They thought it would go down the drain.”

Mr Li, who began his career making cameras, then refrigerators, motorcycles and finally cars after getting a manufacturing licence from a Sichuan prison, admits the acquisition was never a sure thing. “There was a risk, and the risk was very big,” he says, speaking in his office at Geely’s headquarters in Hangzhou, a city 160km south of Shanghai in Zhejiang province.

In 2012, Volvo’s board – headed by Mr Li – acted decisively, even brutally. It fired Stefan Jacoby as chief executive as he lay in hospital recovering from a stroke. Mr Li says the move was due to

Left: Li Shufu, Geely and Volvo chairman. Right: Hakan Samuelsson, Volvo chief executive. Centre: a Volvo chassis, flanked by its S40 (left) and S60 models



\$1.8bn

The price Geely paid Ford to buy Volvo in 2010 as it sought access to new technology

\$9bn

Invested by the Chinese group in Volvo product and engine developments as well as new platforms



503,000

Volvo’s record annual car sales – still short of rivals such as Audi, BMW and Mercedes-Benz

82,000

Volvo cars sold in China – now the biggest market for the marque ahead of the US and Sweden

### Speed read

**US sales** Volvo will roll out its small car range, based on the shared platform, in the US and China next year

**Technical advance** When Geely took over it sold fewer cars than Volvo but it put a premium on access to technology

**Market stalling** Although China’s car market, the world’s biggest, has slowed, some sectors remain buoyant

“It’s just like going to school,” he says of the joint research centre in Gothenburg, where Volvo and Geely employees are developing the small car platform. “Geely has now learned how to learn.”

The joint company, China Euro Vehicle Technology, employs 1,900 workers in Sweden and China and underlines the nature of the co-operation between the two carmakers. It is producing the joint platform and some shared components for Volvo, while Geely will use CEVT to design its small cars and develop related technology.

The platform will come with five possible air-conditioning systems. The Volvo version will have six internal temperature sensors while the most basic model – solely for Geely’s use – will have just one. The suspension will be rubber-insulated to give Volvo drivers a smoother ride but bolted in for Geely customers, says Mr Fagerhag. At the same time, Geely – which will reveal its new range of small cars later this year – will get its hands on more advanced technology.

“For Geely, the upside is access to the technology,” says Mr Samuelsson who describes the deal as a grand bargain. “Volvo got a stable owner, a faster track to China, new governance, and the resources to develop new technology.”

### Measuring up

The Volvo chief executive says Mr Li is very supportive when engaging in board discussions, but less interested in micro-management. That is confirmed by Peter Mertens, Volvo’s head of R&D, who notes that Geely has not demanded a dividend, instead investing all the cash flow back into the business. In all, SKr75bn (\$9bn) has been spent by Geely developing new models, engines and a second platform already in use in Volvo’s larger 60 and 90 models.

The company still faces questions over whether it is big enough to survive. Its revenues of SKr164bn last year were a fifth of BMW’s, while it sold under a quarter of the German’s 2.25m cars. “We are so small, we have to be nimble to survive,” says Mr Mertens.

Volvo has tried to turn this challenge into a positive. Unlike its German rivals, which have a large number of model

‘Geely has shifted Volvo from being a marginally global company situated in Scandinavia to being a global one centred in China’

variants, Volvo is focused on just three model families: small, medium and large cars, which in turn are in three varieties of SUV, saloon and estate.

Mr Mertens calls it the leanest carmaker in the world: it has just one engine family, two platforms and four types of transmission. By contrast, Volkswagen is known for its complexity, with its latest Golf hatchback having 117 different types of steering wheel and 341 different front seats to choose from.

Development times have also been slashed. Five years ago, it took Volvo 44 months to develop a new car. That is now down to 30 and Mr Mertens wants to reach 20 by the end of the decade.

Mr Samuelsson argues that economies of scale are less important for a premium carmaker than a mass-market one. “It’s not the number of cars; it’s the number of dashboards, the number of door handles, the number of panels. The big challenge for us is to have higher prices [for our cars],” he adds.

Volvo wants to reach sales of 800,000 cars a year by 2020, implying annual growth of about 10 per cent.

Mr Li is more ambitious. Outside his office window is a large sign for a Mercedes-Benz dealership and he gestures at it as he talks of his plans for Volvo to challenge Audi, Mercedes and BMW.

“If combined efforts are made, I believe Volvo can catch up, or even overtake, its competitors,” says Mr Li. “The world changes every day.”

# Remaking the marque

“not being satisfied with his management strategy and achievements”.

In came Mr Samuelsson, a Volvo board member whose executive experience came from trucks, not cars. “It was a very unsettling time,” says one veteran Volvo manager. “There was some concern about what Geely was up to.”

Mr Li then criticised Volvo’s design, particularly interiors that were seen as “too Scandinavian”, only days after Mr Samuelsson had emphasised Scandinavian design as one of the carmaker’s strengths. The chairman denies the tension affected business. “Even a married couple have different opinions,” he says.

Mr Samuelsson’s first priority was to staunch the losses. He launched an

aggressive SKr1.5bn cost-cutting programme that reined in spending on consultants, IT and marketing. He also focused on boosting sales in China – the world’s largest car market – where Volvo, due partly to a lack of brand awareness, continued to struggle despite the help of its new owner.

“The most important thing [Geely] has done is to help Volvo become a China-centric company,” says Bill Russo, a Shanghai-based consultant. “Geely has shifted Volvo from being a marginally global company situated in Scandinavia to being a global one centred in China.”

Volvo is now reaping the rewards. China is its biggest single market, selling 82,000 cars in the country last year

compared with about 70,000 each in Sweden and the US. And although the once rapid growth in China’s car market has begun to slow, some sectors remain buoyant – SUV sales grew nearly 45 per cent in the first quarter of the year.

Meanwhile, Volvo’s operating profit margin reached 7.5 per cent in the first quarter of this year, close to its long-term earnings goal of 8 per cent of sales. It recently sold its first ever bonds, a step towards a stock market listing that some see as the long-term goal for Geely.

### Rescue job

The takeover was not just about rescuing Volvo. It was also about saving the Chinese company. Founded in 1997,

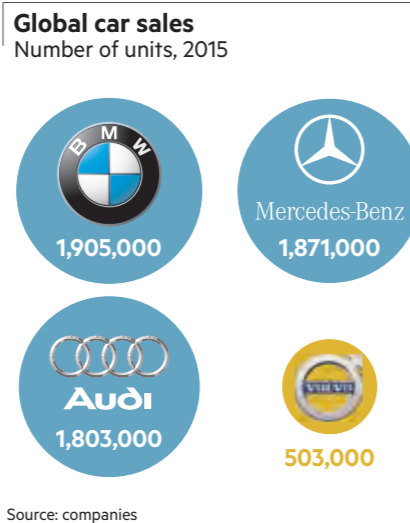
Geely – the name is similar to the Chinese word for lucky – was the country’s first non-state carmaker and is now listed on the Hong Kong stock exchange. Mr Li still owns 42 per cent through his Zhejiang Geely Holding Group, which in turn owns 100 per cent of Volvo.

But at the end of 2009, when the Volvo deal was first agreed, Geely had size issues of its own. It was China’s 12th largest carmaker – although the second biggest private player – selling just 327,000 vehicles. Throw in quality problems and fierce local competition and it is easy to see why Geely’s international ambitions – Volvo sold more cars and had bigger revenues than Mr Li’s company – were treated with scepticism at the time.

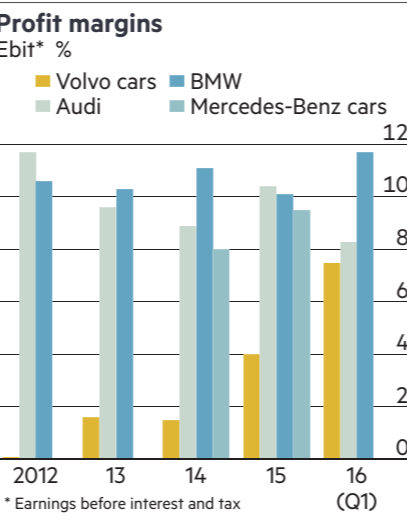
For Mr Li the Volvo deal allowed Geely to stave off two existential threats. “Geely Auto was too small and its technology development capabilities were too poor,” he says.

He rejected the idea of a joint venture, the favoured model for co-operation between Chinese and foreign carmakers. The Chinese side, he says, tends to chase the technology and prestige while the foreigners pursue profits. “It may develop very quickly, but actually there is a lot of friction in the partnership.”

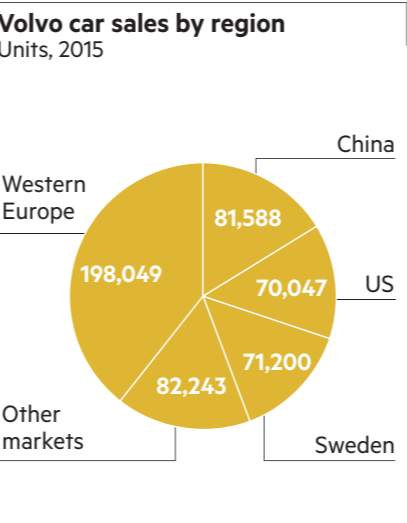
Mr Li compares the efforts of Chinese companies to get their hands on new technology to someone trying to buy an academic qualification without attending any of the classes. And he says he wants Volvo to educate Geely.



Source: companies



\* Earnings before interest and tax



### Luxury brand Made in China, sold in America

The wood and light inside the factory building are meant to bring to mind a Scandinavian shipyard. But this Volvo factory, one of its newest, is not in Sweden but in Chengdu, a city in China’s Sichuan province known for its spicy food and panda population.

The plant is home to a big experiment in the car industry: Volvo is exporting premium cars, made in China, to the US.

“We are the only luxury manufacturer that is exporting a China-produced car to the US,” says Luc Semeese, the general manager of the plant.

The decision to export the S60L – the most luxurious version of Volvo’s midsize saloon – to the US, where it is known as the S60 Inscription, is a “calculated risk”, admits Peter Mertens, Volvo’s head of research and development. But with 3,500 cars from Chengdu sold in the US last year – 5 per cent of the factory’s total output – It appears to be paying off. Sales of 7,000 are forecast this year. It is part of

Volvo’s plans to be a true global carmaker, which includes building a new plant in South Carolina scheduled to begin production in 2018.

Volvo is insistent that the Chinese factory is little different from those in Sweden or Ghent in Belgium. “This is not a Chinese plant; this is a Volvo plant that happens to be in China,” says Mr Semeese. It also has a second manufacturing plant and an engine factory in China.

The Swedish carmaker has imported



everything from the corporate culture to a brand of automatic bolt tightener and the method for reporting manufacturing errors.

But there are differences.

China’s cheaper labour force

means that some jobs can be done by hand rather than by machines. Once finished the S60 Inscriptions are loaded on to trucks bound for Shanghai, where they are shipped to four US ports. And “Made in China” appears nowhere on the cars. *Christian Shepherd*



# FINANCIAL TIMES

‘Without fear and without favour’

MONDAY 20 JUNE 2016

## Brexit dominates fears for the global economy

Central banks can limit market turmoil, but not long-term damage

The sentiment guiding international investors and policymakers over the last week could perhaps best be expressed by a sharp indrawn breath. As one opinion poll after another suggested that a majority would vote for Britain to leave the EU, Brexit has emerged as the biggest short-term risk bar none for the global economy.

The result has been a flight to safety in markets, a display of caution from central banks, and frenetic activity behind the scenes to prepare for the turbulence that could follow next Thursday’s referendum.

Added to existing questions over US and global growth, Brexit worries have fuelled a rally in the safest sovereign debt, pushing yields on German, Swiss and Japanese debt further into negative territory and sending the yield on 10-year US Treasuries to a four-year low. A sell-off in Europe’s periphery suggests investors are having renewed doubts over the EU’s institutional stability. Polish bonds are suffering from calculations that poorer members would receive less from Brussels if the UK’s departure cut the funds available.

This is nothing compared with the volatility that is likely in the immediate aftermath of the vote. Sterling – already the weakest of any major currency against the dollar this year – would be the first casualty of a decision to leave. A stampede into havens such as the Swiss franc and yen could cause problems for countries already struggling with uncomfortably strong exchange rates. There would also be a more diffuse effect on confidence, which even the US Federal Reserve felt obliged to factor into its decision this week to leave interest rates on hold.

Little wonder that other central banks are also playing it safe. The Swiss National Bank left interest rates unchanged on Thursday, warning of the uncertainty the referendum cre-

ates. The Bank of Japan, which kept policy unchanged despite weaker inflation, may have felt a rate cut would have little effect, given external pressures on the yen and government debt. Better to keep its powder dry in case it needs to ease after the referendum.

Policymakers are poised to act, however, if they need to stop markets seizing up or spiralling into a panic. The Bank of England has already begun additional liquidity auctions to prevent banks running out of funds; and has swap lines in place with other central banks to ensure access to foreign currency. The ECB has also made it clear it is ready to backstop liquidity and limit strains on the banking sector – and other central banks would be likely to take similar, co-ordinated action.

These are tools honed in the global financial crisis, which should leave policymakers relatively well equipped to cope with the referendum’s immediate fallout in markets. However, this would merely be short-term damage limitation. Central banks could not prevent a vote for Brexit inflicting long-term damage on the UK and global economy.

The shock would of course be greatest in Britain – and the BoE has made it clear that it may not be able to alleviate this simply by cutting interest rates. If sterling fell sharply, policymakers could face a combination of stalling growth and rising inflation that would involve difficult trade-offs.

Yet Brexit threatens many other countries. Close trading partners such as Ireland and those with big investments in Britain, such as the Netherlands, are most exposed, but no country is likely to gain. The OECD estimates losses to the EU overall could total 1 per cent of GDP by 2020. The single market would be smaller and the EU less stable. There is little central banks could do to mask or mitigate that reality.

## China looks like a bully in South China Sea row

But the US must ratify international rules if it is to exert pressure

At some point in the coming weeks an international arbitration court in The Hague will rule on whether China’s expansive claims to virtually all of the South China Sea are legitimate or not.

Beijing has rejected the proceedings brought by the Philippines, a rival claimant in the disputed waters, as illegal and illegitimate even though they are being conducted under the auspices of the United Nations Convention of the Law of the Sea (Unclos), which China has signed and ratified.

No matter the outcome of the arbitration, China will come away from this case looking like a bully that thumbs its nose at international rules.

But the Philippines and other governments with overlapping claims to the South China Sea – Malaysia, Brunei, Vietnam, Taiwan and Indonesia – could hardly be called winners.

Almost straight after Manila brought the case to arbitration in 2013, China launched a programme of island-building, land reclamation and militarisation of tiny rocky outcrops in the most disputed part of the busy waterway.

That has given China airstrips and military facilities throughout the disputed region and a boldness born from the inability of any country or countries to effectively oppose it.

US officials have complained loudly, claiming Beijing is building a “great wall of self-isolation”. But apart from soundbites and the odd “freedom of navigation” patrol in the region, Washington has struggled to look anything other than impotent and reactive as China accelerates its strategy of “salmi-slicing” – taking a series of small actions that do not individually provoke a strong response.

The actions of counter-claimants in the region have been shambolic at best.

Just last week a show of unity over China’s territorial ambitions collapsed after the Association of Southeast

Asian Nations retracted a statement expressing “serious concerns” over events in the South China Sea just hours after it had been issued. The U-turn followed a meeting between Asean foreign ministers and their Chinese counterpart and showed just how effective Beijing is at exploiting divisions within international blocs.

There are also growing signs China’s ruling Communist party is much less worried about what the rest of the world thinks of it.

The Chinese foreign ministry has said nearly 60, mostly tiny, countries support its decision not to take part in the South China Sea tribunal, but five of those have since publicly denied this. The eight countries that have publicly stated support for Beijing – Afghanistan, Gambia, Kenya, Niger, Sudan, Togo, Vanuatu and Lesotho – hardly confer international legitimacy.

But Beijing’s claims of global solidarity are meant for domestic consumption, not an international audience.

In a similar vein, the recent verbal assault by China’s foreign minister on a Canadian journalist asking about human rights abuses played quite well with the nationalist crowd at home.

As The Hague prepares its ruling, the Philippines, and other claimant countries, must do a better job of presenting a common position on territorial disputes in the region if it is to counter the narrative Beijing presents to its people.

But a much more effective way to undermine China’s claims of immunity to international arbitration would be for Washington to immediately start the process of ratifying Unclos. Along with the likes of North Korea, the US is among 30 countries globally that have not ratified the treaty. Its continued refusal to do so allows Beijing to quite easily turn the tables and portray Washington as the real bully thumbing its nose at international laws.

## Why a dynamic Europe must include the UK

Sir, We believe in Europe. We believe the UK should be part of the EU. We believe in a Europe that leads, a Europe that is dynamic and prosperous, but, for Europe to be all of those things, it must include the UK. Without it, both sides will lose.

If there is a country that is Europe’s face to America and the world, it is the UK. Without the UK, the EU loses a connection to global financial markets, global trading partners and global influence that no country on the continent can match. Without the UK, our companies lose some of Europe’s best hotspots of innovation and entrepreneurship.

If the regional history of the past 100 years has taught us anything, it is that the countries of Europe are better working together than going their own ways or, worse, working against each other. Together, over the past 50 years, the nations of the EU have risen to the challenges of Soviet power, American economic dominance, the economic miracle in Asia and new geopolitical threats. From this vantage point of great success, it becomes too convenient for some people to forget the past and to believe one can be better off alone. The EU deserves better.

Through its struggles, a united Europe has built a legacy of economic strength, social justice and political freedom. Its future deserves the hard work of compromise and negotiation, of facing issues and resolving challenges. We can commit to building a better EU for all of our citizens or we can coast on what generations have built for us and, as long-demolished barriers rise again, sputter into irrelevance.

As the leaders of companies whose resources, workers and clients span many countries across the EU and the world, we are both concerned by the possibility of a fractured Europe and uniquely positioned to help prevent it. By contributing our voices to the debates about our economic, regulatory and social policies, we can make Europe – all of Europe – an attractive destination for investors, one that safely and securely welcomes all who would help build its future. Committing to this vision isn’t a decision, it’s a moral imperative. But first, it requires a choice to stand and work (not fight) it out. So committed, a stronger Europe can better help other regions in earlier stages of development accelerate their own journeys and build a more connected world. But none of this is possible without the strength and leadership a committed UK can provide.

This week, you face a decision. Europe and the UK can be a loose collection of gears, or they can become an even mightier engine for jobs and progress. Together forward, with the UK as a vital part of the EU, we believe that anything is possible and that the continent’s brightest days stretch out before us. We believe in Europe and we believe in the UK. We hope you will too.

**Robert Gogel**  
*Editor-in-Chief, The State of the European Union*  
(Chief Executive, Integreon)  
**Jacques Guers**  
*Chairman, European Executive Council*  
(Corporate Vice President, Global Operations, Xerox)  
**Denis Zervudacki**  
*Founder, The State of the European Union*  
(Chief Executive, DZA)

## EU project must go back to first principles

Sir, Your editorial “Britain should vote to stay in the EU” (June 16) about the EU referendum was deeply disappointing. I had expected that, especially on such an important question, a respected journal would rise above playground name-calling. The problems at stake do not reduce to a choice between “liberal internationalism” (is that the rather protectionist EU?) and “pinched nationalism”, or between “an open trading system” (the EU again?!) and marginalisation. (Why should an independent UK be marginal in world terms, given its significant economic and defence clout?) The electorate faces a grave and difficult choice to which your editorial contributes virtually nothing. Your concluding paragraphs announce that the “positive

case for Britain in the EU is easily made”, but then seems to rest on the argument that inside the EU we are best placed to reform that “admittedly imperfect” organisation.

The extremely thin results of David Cameron’s efforts to amend the terms of the UK’s membership of the EU demonstrate yet again the near impossibility of securing any radical change in how the EU operates. The EU is based on a misconceived ideal of a supranational European order whereas what Europe needs is a framework for international co-operation to which I believe that the various European national electorates would readily warm. The so-called European project must be taken back to first principles so that, within a framework of international co-operation, national

political accountability can be secured and retained.

It is regrettable that, to try to help start such a process, the UK probably must face some of the economic and financial disadvantages that the Remain campaign is predicting. However, against these must be weighed the profound importance of securing properly accountable democratic political systems – the UK’s departure might lead to the beginning of such a rethink. It is with that hope that I have already voted to leave the EU. It is a great pity that, as your editorial did rightly say, the debate has been so “depressingly transactional” and has rarely addressed these far more important questions.

**CR Cann**  
*London NL, UK*

## Negativity over Turkey’s accession is deplorable

Sir, As a Turkish citizen with high regard for European values and ideals, I find it deplorable that Turkey’s EU accession process has been treated in such a negative manner during Brexit debates, and most recently in your editorial “Britain should vote to stay in the EU” (June 16).

It is worrisome that the Financial Times has also joined the train in this respect, with its negative predictions on Turkey’s accession process together with a cynical quote on the name of its largest city, which are completely out of context. Such discourse shows that we have indeed come a long way from postwar European idealism.

It seems that the spirit of European integration, particularly following the end of communism, has been replaced by cynical scaremongering. I would not have expected a serious newspaper such as the FT to base one of its Remain arguments on keeping Turkey out of the EU.

**Tansug Ok**  
*Geneva, Switzerland*

Sir, Your editorial (June 16) was the best piece I have so far read on the EU referendum.

**Hugh Wotherspoon**  
*Carshalton, Surrey, UK*

## Now let’s harness the impetus of Laudato Si’

Sir, Stephen Foley and Adam Samson note Pope Francis’s call for new approaches to financial investing (“Blessed returns”, The Big Read, June 17). Indeed, Saturday June 18 marked a year since the Pope published his landmark encyclical Laudato Si’, calling for a major rethinking of how society defines progress, not just in the financial markets but in all areas of our development.

Laudato Si’ has been lauded by politicians from across the spectrum. MPs rolled out the superlatives in a House of Commons debate on the encyclical, presidents praised the letter in their opening speeches to the Paris climate talks in December, and leaders from French president François Hollande to the UN’s Christiana Figueres acknowledged the debt owed to the Pope’s “clarion call”.

The UK government has been unambiguous about the importance of Laudato Si’, with energy secretary



Pope Francis: landmark encyclical

Amber Rudd crediting it for helping to create the momentum needed to deliver the Paris agreement. Now we must harness the impetus generated by Laudato Si’. The Sustainable Development Goals and the Paris agreement were adopted in the encyclical’s wake; governments – including the UK – must deliver on promises they made in these processes.

This week’s Africa Energy Forum in London is an opportunity for the UK government to reiterate its commitment to decentralised and primarily renewable energy services in developing countries. These will provide the cheapest and most reliable access to electricity for the majority of the one in five people who are currently without access to electricity. If we are to deliver on the encyclical’s call to redefine our notion of progress, this opportunity must not be missed.

**Neil Thorns**  
*Head of Advocacy, CAFOD*

## Specialist buyers are out there

Sir, Nicola Ralston (Letters, June 16) asks how an illiquid investment can be turned into a liquid one. The answer is to talk to someone who specialises in buying illiquid investments of the type in question. In our case it’s venture capital and no doubt there are specialist buyers in all areas of alternative investment. These are established markets: for example that for secondary transactions in private equity as a whole is worth more than \$30bn a year.

**Hugh Stewart**  
*Managing Partner, Shackleton Ventures, Winchester, Hants, UK*

## A union man’s view of the future of work

### Book review

By Martin Sandbu



**Raising the Floor: How a Universal Basic Income Can Renew Our Economy and Rebuild the American Dream**  
By Andy Stern  
(Public Affairs, \$26.99)

When Andy Stern stepped down as president of the US Service Employees International Union in 2010 he set out, he writes, to understand the future of work. This inevitably involved making sense of the past and present, too, and in particular the scale of the socio-economic demotion of a large group of Americans whose middle-class lifestyle had once seemed secure.

It took the policymaking establishment a long time to wake up to this economic pain – time that could have been spent addressing it rather than preparing the political field for populists such as Donald Trump, the presumptive Republican presidential nominee. The evidence has long been visible on the ground – or, for that matter, in the songs of Bruce Springsteen – but there is an awful distance between such a lowdown view and the bird’s-eye perspective of those in positions of power and privilege.

So this book makes a refreshing change. Stern, who also served on US President Barack Obama’s fiscal responsibility commission, is a card-carrying member of the establishment but his union career has kept him at the coalface of the economy.

*Raising the Floor* is a personal book. It consists largely of his reflections on meetings with important thinkers, businesspeople and activists. With a nugget of understanding taken from each about how working lives are being transformed, it reads almost as a *Bildungsroman*. Then there is the folksy wisdom of an author translating

his interlocutors’ theories into more grounded terms.

There is much to like about the result. Stern is unfailingly inclusive as he tries to capture the plight of workers. He does not limit his concern to the fallen blue-collar aristocracy. He is equally worried about those (many of them members of his union) who never enjoyed the American dream in the first place. There is no anger here about US workers forced to compete with foreigners and barely even a mention of global competition except as a consequence of new technology creating larger marketplaces.

Technology, as Stern sees it, overwhelms everything else, including the American dream itself. While he is persuaded that automation and information technology will make many jobs obsolete and thereby hurt workers, he does not suggest holding back technological change. He describes his glee at outsourcing the transcription of an interview to the Philippines – the gig economy is his obsession – and excitedly lists futurists’ prognoses for the next big innovations such as 3D-printers that can produce concrete houses.

His focus is not only on income inequality and the disappearance of jobs but also on the social meaning of “having a job”. He points out that the organisation of “work” into well-defined full time “jobs” is unique to the heyday of industrial society. What is special today, he says, is not that

technology takes over work humans were once paid to do, but rather that it takes much of the work that we will continue to do out of the social context of a steady job. He might as well have said: “I have seen the future, and it is piecework.”

Stern is unblinkered about the union movement itself. There is a dig at its hostility to part-time and “gig” workers seen as a threat to the full-time permanent employee. He looks for policies to make the unpredictable lifestyle of a gig worker more tolerable – above all, universal basic income, where a regular cash amount is given to every citizen regardless of whether or not they work.

Connoisseurs will learn little new about the concept here, but both they and the uninitiated will find useful a comprehensive condensed history of UBI – although it was written before the Swiss voted this month against introducing the policy. Stern’s main argument is invigorating. He sees UBI as more than merely a remedy for stagnant or falling living standards – in his view it is also a way to transform the inevitable divorce of “work” and “jobs” from an oppressive and precarious process into liberating freedom of choice.

Exciting, too, is Stern’s reporting on efforts to build a campaign for UBI in the US. *Raising the Floor* aims not just to understand the future of work, but to change it.

*The reviewer is the author of the FT’s Free Lunch column*

# Comment

## European values are more important than economics



If you live in Italy or Spain, it is easy to defend the EU. You can simply point to the many common policy areas, point out a small list of achievements and rest your case. Yes, there is a rise in Euroscepticism in these countries. But if they held a referendum on EU membership we would not doubt the outcome. The EU has become part of their political DNA.

It is harder to make the pro-European case for the UK. But I will try. The case is hard because Britain has opted out of almost all the important EU policy areas: the euro; the Schengen zone of passport-free travel; justice and home affairs; and the charter of fundamental rights. Earlier this year, David Cameron managed to add a few more when he got his special deal in the European Council. His government will be able to dock in-

work benefits to EU citizens. And the prime minister managed to absolve the UK from the goal of political integration and “ever closer union”.

So what is the British electorate being asked to vote on this Thursday? From a British perspective, the EU consists of a single customs area and a single market. They are important to the City of London and large industrial companies. But they are just not important to everybody. If Remain wins, the UK would remain on the outer sphere of the inner circle. If Leave wins, the country will join the inner sphere of the outer circle.

There is a positive case to be made for the inner circle. Not only do the various countries of the EU have common interests, they also have shared values. Even in its current desolate state, the EU is a more powerful vehicle to protect and to project those values globally than national governments.

What are those values? I find it hard to beat the motto of the French Revolution: *liberté, égalité, fraternité*. You might prefer different terms and list them in a different order.

I would transcribe them as follows: freedom paired with openness and tol-

erance; equal opportunity; and a strong defence of the public good. The latter could encompass more far-reaching notions of income distribution and social protection. Different countries have different preferences. But all EU countries have in common a strong idea of a public sphere.

*Liberté, égalité, fraternité* is clearly not the slogan of China or Brazil. One of the features of financial globalisation

Many emerging countries have shunned Europe and chosen a finance-based US-style model of capitalism

has been a rise in inequality of labour incomes. Another has been a renaissance of authoritarian regimes. Many of the emerging countries have shunned the European social democratic economic model in favour of transactional, finance-based US-style capitalism.

Most Europeans still enjoy high degrees of social protection, education and health services that are free at point

of use. The EU has managed to hold on to most of these, more or less. But it has failed to become a model for the world.

That was different back in the last decade of the 18th century. The French Revolution became the defining moment in the history of the west because intellectual and economic progress at the time critically depended on a value shift. It would have been impossible to sustain the industrial revolution in the 19th century with the authoritarianism of the 18th century. The values of the French Revolution eventually found their way into political and legal systems of almost all European countries, including the UK, where the writer Thomas Paine set out the principle of inalienable rights. These ideas influenced many political reforms, starting in the UK with the Representation of the People Act 1832. They also underpin the EU’s charter of fundamental rights.

So if you, like me, distrust the vastly exaggerated and implausible economic claims made by the Remain campaign, then consider an alternative line of reasoning: our values are under threat from people like Russian president Vladimir

Putin, from Donald Trump if he were elected US president, and from bigots everywhere. They are under threat from global corporations that avoid paying taxes, and from countries that fail to respect climate agreements.

The value argument is not meant in a purely defensive sense. It is not just the protection of values that matters, but also their global projection. The EU has had successes. Its policy towards its immediate neighbourhood is far from perfect, but its soft power approach has helped democratic transition and economic development in many central and eastern European countries. When Russia annexed Crimea, the EU managed to impose sanctions and will probably renew them. If, or rather when, the Russian economy collapses, their cumulative effect will have played a role.

It is a shame that the Remain campaign has wasted so much time focusing on economic benefits of EU membership. The EU is, of course, an economic construction. But EU membership is not fundamentally about economics. It is about our way of life.

munchau@euointelligence.com

## Rajan’s departure is a huge setback for reform in India

OPINION  
Eswar Prasad

The announcement that Raghuram Rajan will leave his position as governor of India’s central bank, the Reserve Bank of India, in September could send tremors through India’s financial markets. Even if immediate reactions are muted, the longer-term effects will be more telling.

When he took the position in September 2013, the rupee was in free fall, the economy was stalled and inflation was in double digits. Mr Rajan proved to be the steady hand the economy needed. He tackled inflation and strengthened the financial system. His deft stewardship of monetary policy won the confidence of domestic and foreign investors, allowing him to manage the balancing act between controlling inflation and supporting growth. Under his tenure, the RBI has taken important steps to develop financial markets, improve their regulation and broaden access to the banking system.

The clean-up of bank balance sheets is the next key task for the RBI. This will require public funds to recapitalise the banks but also changes to their incentive and governance structures. Damaged bank balance sheets have constrained their ability to lend and support economic activity. Not having a strong central bank governor who understands banking and can stand up to the political pressures – from bankers and those eager to maintain the status quo – could stymie progress.

Mr Rajan’s major virtue, and an unforgivable fault in the eyes of government acolytes, was that he did not sign

A sequence of shocks, coupled with investor nervousness, may stoke capital outflows

up to the triumphalist view of India as the fastest-growing major economy. He wisely pointed out its growth was built on shaky foundations and deep-rooted reforms were necessary to shore up the economy. He pointedly questioned whether the benefits of India’s growth were being disproportionately cornered by political and economic elites.

Mr Rajan also refused to declare premature victory over inflation, rightly arguing that cutting interest rates was not the right tonic to bolster growth. Rather, he emphasised that, while monetary policy can provide a stable foundation, durable growth requires far-reaching reforms to financial markets, tax and expenditure systems, labour laws, land acquisition policies and stifling government regulations.

The change at the RBI’s helm exposes India to negative investor sentiment at a time of global economic uncertainty. The country is now in a better position to withstand external turmoil than when Mr Rajan took office. India has a large stock of reserves, has shown that it can cope with exchange rate volatility and needs less foreign financing as its current account deficit has shrunk. But all of this can turn on a dime. A sequence of shocks beyond India’s control, coupled with investor nervousness about the course of economic and financial policies, may stoke capital outflows.

Ad hominem attacks lobbed at Mr Rajan signal that the government is not receptive to messages that focus on harsh economic realities. It is disturbing that independent, analytically based technocratic policymaking that fails to hew closely to the government’s economic and social agenda does not seem welcome.

Another broader issue matters greatly for India’s long-term economic and social development. No individual ought to matter so much to the credibility of an institution or the government’s policies. The concern about Mr Rajan’s impending departure shows the parlous state of India’s public institutions.

The RBI is the only one widely seen as credible and competent and the government’s unwillingness (or inability) to keep Mr Rajan on is a blow to the bank’s perceived independence and to the broader institution-building that India needs. The RBI is a strong and storied institution but Mr Rajan’s untimely departure will leave scars that could end up scarring the Indian economy.

The writer is a professor in the Dyson School at Cornell University and a senior fellow at the Brookings Institution

## Going to war with America’s gun lobby



Guns don’t kill people, chants the gun lobby. People do. As with other catechisms, this one is deaf to evidence. No matter how much the latter piles up, the gun manufacturers usually get their way. The US Senate is poised to defeat a very modest proposal to ban individuals who are on the FBI’s terrorism “no fly list” from buying guns. Such a step would be the natural outcome of any reasonable debate. But opponents of America’s gun culture are up against two unshakable obstacles: intense faith in guns as a symbol of freedom and the reach of the lobbyists’ dollar.

In regulatory terms, this month’s Orlando massacre that claimed 49 lives will barely amount to a blip on the radar. No laws will change. It is a scandal that I feel strongly. In December 2012 the US experienced its worst-ever massacre of young children when 20 six-year and seven-year olds and six adults were mown down at Sandy Hook elementary school in Connecticut.

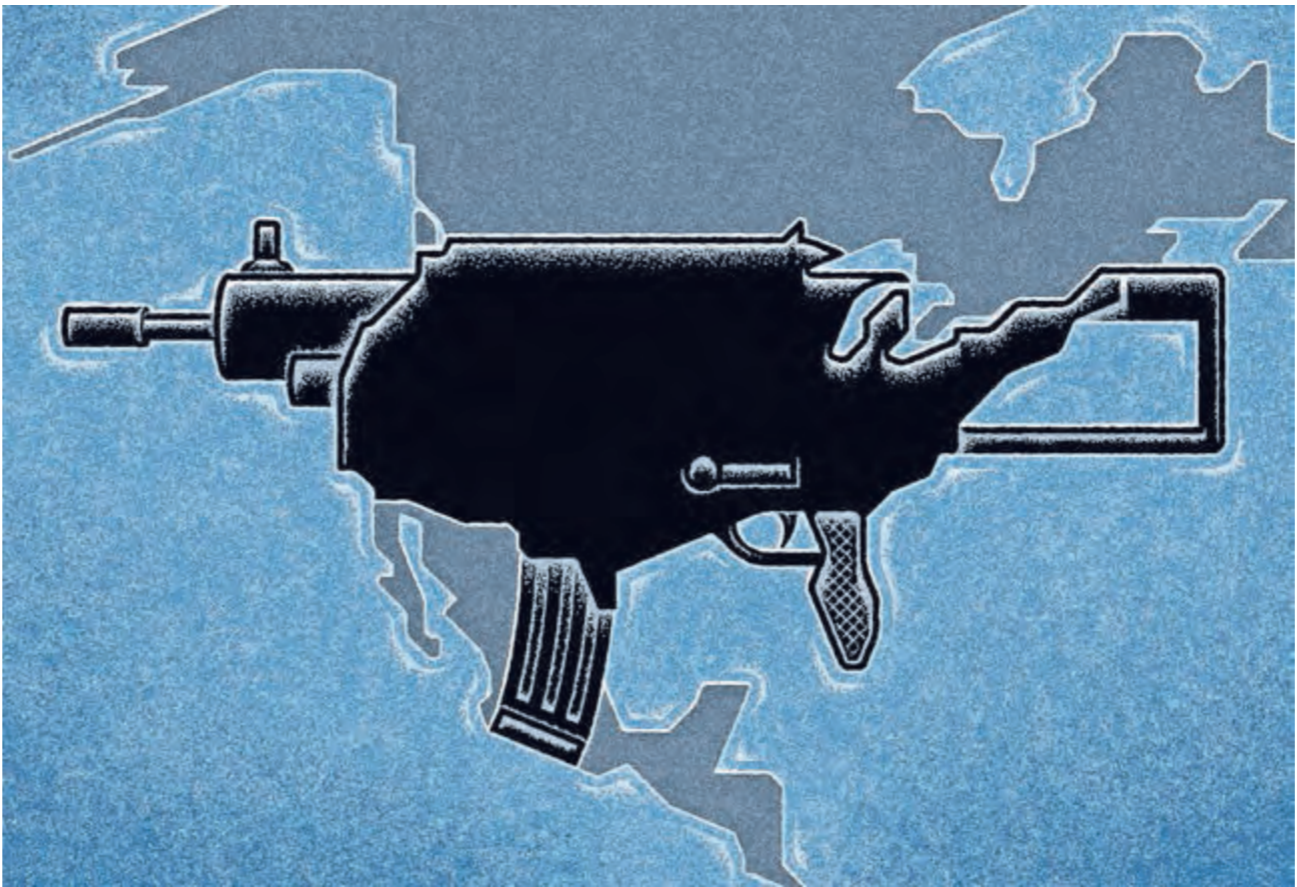
By eerie coincidence, that day was my daughter’s sixth birthday and she had 19 friends of the same age at our house to celebrate. It drove home the extremity

of what had taken place in Sandy Hook.

I shared the visceral national reaction to the slaughter of innocents and the expectation that things would now have to change. In retrospect that was hopelessly naive. Had US law changed, last week’s Orlando massacre would not have taken place – or at least not on the same scale. The shooter, Omar Mateen, used the same semi-automatic AR-15, a killing machine designed by and for the US military, that Adam Lanza, the Sandy Hook killer, had used. Mateen had bought his AR-15 a week earlier in Florida. Lanza borrowed his from his mother’s armoury, having first pumped four slugs into her skull with another weapon.

But the details hardly matter. The one fact that screams out repeatedly is that almost anyone in America can walk into a gun store and buy a machine that is explicitly designed to take the largest number of lives in the shortest possible time. Why do calls for reform keep falling on deaf ears? Part of the answer is religious-style zeal. Faith is terrifically effective at filtering awkward messages into the junk folder. A sizeable minority of highly motivated Americans believe the second amendment’s right to bear arms is a guarantor of their liberty. Any attempt to modify it – even by depriving terrorist suspects of their right to bear arms – is thus an attack on everyone’s freedom.

As a result, there are as many as 8.2m assault-style weapons at large in the US, which almost certainly exceeds that of any uniformed armoury in the world,



barring the Russian and Chinese militaries. That is without mentioning the more than 300m estimated smaller firearms in US homes.

Most AR-15 owners are doubtless trustworthy. Even leaving aside that they may harbour less stable types in their homes – as was the case with Lanza – a minority have a questionable grasp on reality. Anyone who tries can easily track down highly-armed Americans who believe the government is plotting to disarm them to pave the way for foreign takeover.

Whether that takeover will come in the guise of federalist socialists, the United Nations, or the Illuminati, is beside the point. The US is home to its fair share of political fantasists. Many just happen to be armed to the teeth.

The fact is that almost anyone can walk into a US gun store and buy a killing machine

Since Barack Obama became president, there has been a sharp rise in membership of fanatical organisations. A US civil rights group has uncovered 1999 invoices from one such group, the neo-Nazi National Alliance, that addressed publications about homemade weapons to Thomas Mair, who is charged with the murder of a British Member of Parliament, Jo Cox.

There has also been a big rise in the number of US born Muslims and American converts who support radical Islamist groups such as Isis.

Which brings us back to freedom. Only an Orwellian state could possibly reach into the lives of hundreds of thousands of potential fanatics, such as Mateen or Lanza, and figure out what they might be plotting. Even then, the best software cannot read people’s minds.

The rational step would be to deny them the means to execute their nihilistic fantasies. America has curbed its gun enthusiasm before. It can do so again. In 1994, the US banned the sale of assault weapons. The law was allowed to lapse

in 2004. Such weapons have been used in the majority of mass shootings since then. Polls show a big majority of Americans support reimposing that ban. Yet there is close to zero chance that their representatives will pay heed. The latter are in hock to the clout of the National Rifle Association and big gun companies, such as Smith & Wesson, whose share price soared after the Orlando massacre. Gun company shares usually jump after mass killings on unfounded fears of a legislative backlash.

What, then, should the sane majority do? They must out-fanaticise the gun lobby. The NRA’s answer to mass shootings is that everyone must arm themselves. It is a recipe made in hell. The sane majority must respond in greater force. Communities should picket every gun store and besiege every lawmaker’s office until the law changes. This is America. Change can still come from the grass roots – just ask the gay community. But people must want it badly enough for it to happen.

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## Our pluralist democracy is strong but we have to nurture and protect it

OPINION  
Chris Patten

did not know Jo Cox, for whom tributes and prayers will be offered in Westminster today. She was clearly a fine and brave Member of Parliament, cut down at the very start of what would have been a distinguished career. She was a woman of whom our country can be very proud. And – whisper it not in the editorial offices of some of our newspapers – there are many more MPs like her.

Cox was a public servant with a strong sense of moral obligation to the disadvantaged of the world. You know, the sort of people who feature in posters unveiled by Nigel Farage, leader of the UK Independence party. “Blessed are the poor” and all that wishy-washy stuff that we can apparently no longer afford.

She knew that this country is strong partly because of its extraordinary cul-

tural, religious and racial diversity; like my own great grandparents and three mixed-race grandchildren. Cox thought that to be a “do-gooder” was not a term of abuse. What, after all, would a community of “do-badders” be like?

She clearly knew that life is a mountain range of predicaments and that we stand the best chance of climbing over them if we work together trying to build a consensus, not to tear one another to shreds.

Referendums, alas, are not about the search for an accommodation. That is why I have always hated them, and opposed their introduction. In a parliamentary democracy even in an election campaign you are pushed back all the time to the middle ground. That is of course where virtually every government pitches its tent; in practice that was true about Margaret Thatcher’s administrations most of the time.

This referendum campaign on the EU, however, has delivered nasty divisiveness in industrial quantities. As always happens when nationalist sentiment is whipped up, sooner or later the whole debate turns on conspiracy and race.

Identity politics slithers on to the agenda.

No one will surely argue that members of the two Brexit campaigns, Vote Leave and Grassroots Out, are responsible for Cox’s death. That would be a reckless untruth. But what sort of context has been created by some of what has passed for debate in these past weeks about immigration, Turkey and the Syrian refugee crisis?

Use the internet and look at the front

Vote Leave campaigners Gove and Johnson may want to reflect on some of the company they keep

pages of some of our mendacious tabloids, above all the Express. It is implied that the British people may have to take things into their own hands.

The worst of the filth on immigration has been whipped up by Mr Farage. Not surprising, perhaps. But as the Leavers’ case for leaving the EU on economic

grounds was lost – even after claiming that a conspiracy of experts should not be believed – immigration and associated issues have come to take centre stage in an unpleasantly deceitful and hypocritical way.

The ruefully sanctimonious Vote Leave campaigners Michael Gove and Boris Johnson may want to reflect on some of the company they keep and the arguments they use, as should some of their Conservative colleagues in the Ukip-lite faction of the Brexit campaign.

Britain is a wonderful country. An extraordinary mixture of people and cultures has created a great pedigree. We are tolerant and decent with a worldwide reputation of understanding the values of a pluralist democracy.

We are, for heaven’s sake, respected around the world. Is that a bad thing? Perhaps we should discount this because it does not have a price tag.

But when we do turn to money, this decent, civilised country is also doing remarkably well. When I first got into politics in the 1970s, we were the sick man of Europe, and we lagged behind

Germany, France, Italy and others. Now we have one of the continent’s strongest economies and probably will become the biggest and strongest of all within the next 15 years or so. We have great universities and cultural institutions. We are a global magnet for the talented and the hardworking.

We have, moreover, an enviably strong democracy capable of giving a lead to others. We should have the confidence to lead in Europe, open to the world that Cox and so many others (particularly among the young) have sought to embrace. This is what our universities have done in recent years and it is a major reason for their success.

Yet the veil between our mature democracy and crude populism has been rent. I hope we can stitch the pieces together again. If we do, the killing of a brave young mother will be the principal reason.

If not, God help us.

The writer is chancellor of the University of Oxford, a former chairman of the Conservative party and was the last governor of Hong Kong

BUSINESS LIFE

The plainly extraordinary rhetoric of Sir Philip Green



Lucy Kellaway  
On work

Sir Philip Green, in some ways, is my ideal man.

Last Wednesday he was cross-examined for nearly six hours by British MPs, about the sale of BHS, the company's luckless pensioners, his tax status and his character. I couldn't watch the whole thing as his boorishness got too much so I read the transcript instead. As I considered his words, divorced from the obnoxious sulking and harrumphing, an unwelcome thought occurred to me. Sir Philip uses language in the way I wish all business people did.

His sentences are short. His words are mostly one or two syllables. Sometimes a lack of formal education lets him down, and he says "hopefully" too much, but otherwise it is as close to perfect an example as I can think of.

In six hours there were no key deliverables, no reaching out to stakeholders, not even any value-adds. Instead, this was how he summed up his position: "We have run these companies properly . . . We could have taken the brands offshore and charged a royalty. We didn't. We could have routed. We haven't . . . Where we made money, we paid tax here."

For the past few years I have had a linguistic pin-up boy. His name is Wan Long and he founded Shuanghui, the

biggest producer of meat in the world. In 2013 I read a piece about him in the Financial Times in which he was quoted saying: "What I do is kill pigs and sell meat." I stared at these words, jaw slack with admiration. As a description of what a company does, I have never seen anything neater and clearer. Since then I have asked myself with every sentence I write: would Wan Long approve? If not, I rewrite it.

Last week Sir Philip out Wan-Longed Wan Long and kept it up all day. Clear language, I had thought, gave people nowhere to hide. It makes everything straightforward. And yet here he was giving one of the least straightforward performances I have ever seen.

This has brought on a crisis of worldview for me. Does it mean it does not matter if business people use language clearly or not? Is a man who talks straight no better or worse than one whose speech is a tangle of value-adds and going forwards?

Last week The Economist published a piece about how Donald Trump uses the simple, clear political language recommended by George Orwell to bad ends. Clear language may expose lies, but if enough Americans can't spot them, Mr Trump's "looseness with facts" and demotic style become an advantage.

With Sir Philip, the same does not quite apply. He wasn't talking to a credulous American public but to suspicious MPs. And he was not lying.

My evidence for the latter point comes from Sir Philip himself. "I am not a liar," he said — twice, before going on to say "I'm not going to tell you lies", "I am not going to tell you any lies" and "I don't tell lies".

In case the penny still hadn't dropped, a further nine times he prefaced remarks with "to be honest with you" or "to be perfectly honest".

It then occurred to me that the best way to make sense of his character was to search for the most popular words and phrases. One of his favourites is "respect" — no fewer than 39 times did he claim to have respect for his questioners. Yet seldom in that committee room has less respect been shown. Sir Philip asked his own questions, patronised the women, told one MP not to stare and another that he looked better with his glasses on.

His next most favourite word was "blame". In the course of his evidence, Sir Philip declined to blame other people 21 times. "It's not my style to blame anybody else," he said, while at the same time doing just that. As he stuck the knife in, he praised his victims, talking of a "lovely journalist"

There you have it. A hat trick. Honesty, ignorance, and nailing someone else

or "she's a lovely lady" while fingering the person running the BHS pension fund.

Yet the most popular phrase of all was "I don't know". In the normal course of events, chief executives never admit to not knowing anything, for fear of looking weak. Instead they hum and haw and look pompous and pretend to be all-knowing at all times. When in the dock not knowing becomes your safest bet. There was no limit to what Sir Philip did not know last week. He uttered the phrase a full five dozen times.

So why did he decide to live in Monaco? "To be honest with you, I don't know. Someone suggested it." There you have it. A hat trick. Honesty, ignorance, and nailing someone else.

Sir Philip's words are good. The syntax is great. But the repetitions tell you everything you need to know about his character. And what is that?

With the greatest respect to Sir Philip. He is a lovely man and it is not my style to lie or be rude. But to be perfectly honest (and knowing that our libel lawyer — and his — will be reading this), respectfully here is my answer: I don't know.

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Monday interview. Richard Solomons, CEO, IHG

Staying power

The hotel group chief is under pressure to join a dealmaking boom, but he has so far resisted, writes Murad Ahmed

Richard Solomons has chosen a table at the furthest corner of the club lounge on the top floor of the InterContinental London Park Lane hotel. The vantage point provides great views of the city.

"Don't be flattered," he jokes. "This is my normal seat."

Perhaps that is because the spot also allows him to see all who approach. Yet some accuse the chief executive of Inter-Continental Hotel Group (IHG), operator of brands such as Holiday Inn and Crowne Plaza, of failing to spot the disruption coming up from behind in the hotel industry.

Mr Solomons, 54, a former investment banker, spent nearly two decades at IHG before taking the helm in 2011. Under his stewardship, the FTSE 100 company has seen consistent growth, its share price rising about 50 per cent.

But a downturn could be on its way. Analysts say the hotel industry's upward cycle has peaked. The large hotel groups survived the financial crisis by selling off property and becoming primarily hotel managers rather than owners — a strategy pioneered by IHG.

Since then, occupancy and room rates, particularly in the US, have reached record highs. Across the sector, revenue per available room, the industry's preferred metric, is 13 per cent higher in the US than it was in 2007, the last peak in the cycle.

'You can always buy growth. Is that better for your customers and shareholders? If it's not, it's not'

In response, hotel groups are racing to add scale by consolidating. IHG is the world's largest hotels group by room numbers. But it will soon be overtaken by Marriott, which has agreed a \$13.3bn deal to acquire US rival Starwood, following a bidding war with China's Anbang Insurance. (Mr Solomons notes how industry insiders call the combination "Marwood", but suggests "Starbang" would have "sounded a little better from a marketing perspective".)

French hotelier Accor bought the owner of the Fairmont, Raffles and Swissôtel chains for \$2.9bn at the end of last year. According to Dealogic, hotel deals totalled \$35.5bn globally in 2015.

Mr Solomons is unruffled by the action in rival boardrooms. "Why am I under pressure to do a deal?", he says, before noting that IHG did acquire the boutique hotels operator Kimpton for \$430m in cash in December 2014.

He touts the company's organic growth, such as plans to sign up a further 1,300 hotels under IHG's umbrella. He has launched a luxury brand, Huaxi, in China. The company is working on digital initiatives designed to persuade travellers to book directly through IHG's sites rather than online travel agents.

The bullishness belies the fact Mr Solomons considered launching a bid



Branded hotels are still a force to be reckoned with despite competition from Airbnb, says Richard Solomons  
Charlie Bibby

for Starwood. He refused to comment at the time, but regulatory filings and people familiar with the matter revealed that Mr Solomons and IHG senior staff met several times with Starwood representatives last year.

When asked about this, he starts by saying "we never confirmed whether we were involved or not involved" in a potential deal for Starwood, before I point out that the filings and our reporting proved that IHG's interest was serious.

He changes tack. "I think you'd be surprised if we hadn't looked, given that we're one of the top four players in the world." So was the deal too expensive? "You can always buy growth. Is that better for your customers? Is that better for your shareholders? If it's not, it's not."

Hotel groups such as IHG increasingly have to deal with the effect of internet challengers. One of them, Airbnb, is turning homeowners into hoteliers, matching travellers with people with second homes and spare rooms to rent out.

As muzak tinkles above Mr Solomons' table, just like it does in hundreds of similar executive lounges around the world, he talks about Airbnb's marketing pitch. The company helps travellers avoid the identikit tourist experience by staying with locals instead. Is the San Francisco-based start-up changing how people travel?

"They have a nice website," he says. "They have made it easy to book [short-term home rentals] and easy to use. But over the last 10 years — and the numbers have probably changed now — branded hotels have grown faster than the short-term home rental market."

Still, Mr Solomons suggests regulators — from consumer rights watchdogs to city housing authorities — need to do a better job of scrutinising Airbnb's model. He believes the site is increasingly used by professional landlords to skirt round rules in many cities and countries about where rooms can be offered for short stays.

"You live in one apartment, there are five others on your floor, and they're all owned by a professional Airbnb land-

CV

**Born** 1961, London

**Education** University College School, London and University of Manchester

**Career**

1985: Qualifies as chartered accountant with KPMG, then works in investment banking with Hill Samuel in New York and London

1992: Senior roles at Bass, including chief operating officer of the Americas Hotels division. Bass later becomes IHG

2003-2008: Oversees the separation of IHG from Six Continents and the IPO of the Britvic soft drinks division

2008-2011: Interim president, Americas

2011: Appointed chief executive, IHG

**Interests** Motor racing, mountain biking, skiing

lord, you've basically got a hotel in your apartment block," he says. "That's pretty disruptive and we couldn't do that."

Airbnb tells its landlords to abide by local property laws on short-term stays.

Online travel agents such as Priceline and Expedia have also made it easier for travellers to book over the web, at the same time eating into hotel companies' margins by charging steep commission. Greater scale could help IHG's battles with online travel agents, because more hotel rooms could allow it to negotiate smaller commission fees with these internet groups.

Mr Solomons insists this theory is a red herring, saying customers using these sites are more likely to be price sensitive than "brand loyal".

Unable to offer cheaper rates than online travel agents, hotel groups offer perks such as digital check-in and free meals if they book directly through their websites. In this way, hoteliers hope to create repeat customers, who are more valuable to the company.

"There's a very large group of people who want to have an interest in being loyal to a brand," he says. "We see it in every walk of life . . . They have got confidence in the brands. You build that confidence. You build trust."

A leader's character has a big effect on a company's culture, but Mr Solomons is reluctant at first to discuss his personality. "I like to talk about my business, not me."

But his favourite pursuit suggests a competitive streak. Mr Solomons drives a 1965 BMW 1800 TiSA, and has raced at tracks such as Silverstone and Goodwood in the past couple of years.

"We talk a lot about winning," he admits, adding that an organisation of IHG's size cannot be run by dispensing orders from the top.

Which corporate leaders does he admire? He suggests Steve Jobs, the late founder of Apple, but adds, "Do I admire some of [Jobs's] business approach, his style? Not really."

"[Sir] Martin Sorrell [the high-profile founder of WPP, the advertising group] was incredibly helpful when I took over . . . I admire an awful lot of what he's done. But I don't think that I want to be like them."

Sir Martin is a leader who relishes dealmaking, helping him to build the world's largest advertising company.

Mr Solomons says he will hold to a different path.

"We have about 5 per cent of the world's hotel rooms, and about 13 per cent of the future pipeline," he says. "That's a pretty big business. We just don't need to do defensive deals to get bigger for the sake of being bigger."

Working smarter

Why you should accept your first public-speaking invitation

EMMA DE VITA

For many people, an invitation to speak at an event for the first time — or to chair one — is a daunting prospect. For a start, it involves the potentially contradictory experiences of being both the centre of attention and trying to keep an audience focused. It may also seem like an unwelcome distraction when you already have plenty of your own work to do.

However, saying yes to the right invitation helps raise your personal profile, broaden your network of contacts and leads to serendipitous opportunities.

Speaking at events is an effective way to work on your reputation and network, says Mark Falcon, founder of Zephyre, an advisory firm focusing on financial services, tech and telecoms. "It is an investment you need to make for the sake of your personal brand," he says.

Mr Falcon typically speaks at one or two events a week, having carefully chosen which invitations to accept.

In previous roles at mobile operator Three and the UK's Payment Systems Regulator he turned down three or four invitations weekly. He avoids what he calls "identikit" conferences where the same people will be having the same conversations because he will neither learn anything nor meet anyone new or interesting.

Also, he says, if you accept too many invitations to speak, not only is there a danger that you will run out of things to say, but also that the events take up too much time.

Kathryn Jacob, chief executive of cinema advertising company Pearl & Dean, says she is most likely to agree to speak at an event if she particularly wants to meet one of the panellists or speakers. She then prepares for meeting them by doing careful research to find any interesting anecdotes or experiences she can ask them about and so strike up a friendly conversation.

"Engaging with others over mutual interests is a great way of making new [business] relations," says Colin Hudson, director of career development at Cranfield University School of Management.

Chairing an event showcases your expert knowledge, your confidence about speaking in public and being put on the spot, as well as your negotiation and diplomacy skills. Being able and willing to attract other panellists and delegates to take part can be a way of demonstrating your influence in your sector. "If others are willing to join you, it shows a level of professional trust," says Mr Hudson.

He also recommends speaking at charity events, as a way to both contribute and to meet people who share your concerns on an issue.

"Rallying together to support a cause shows a philanthropic attitude and adds an ethical dimension to your profile above and beyond your personal and professional goals," he says.

When should you turn down an invitation? One good reason would be when you do not have enough time to prepare properly, says executive coach Miranda Kennett. But she urges: "Don't avoid it from nervousness. Whoever has asked you clearly thinks you are up to it."

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Feedback

Sarah O'Connor wrote last week that the gig economy is neither 'sharing' nor 'collaborative', as the terminology associated with it implies. Readers responded online.

You could argue that there is a sharing of profit caused by a lowering of the barriers to entry; instead of one entity taking the full revenue for 100 rooms being rented, there are 100 individuals who are able to take a portion by renting their room on Airbnb. The revenue is being shared among more people. Less applicable to Uber, I'd admit, as being a taxi driver works in a similar way, though you could say the

so "collaborating", and grouping them all together is a bit simplistic. Pretender

The business model of these networks is top-slicing, so I'd favour "the top-slicing economy". They are not doing much sharing . . . It's not all bad, far from it, but I wonder whether the clunky machinery of competition policy / abuse of dominance is up to the task of meeting exploitation concerns. Jenkins

ARTS

# Fiennes’s summer of discontent

THEATRE

**Richard III**  
Almeida Theatre, London  
★★★★★

Sarah Hemming

We are peering into the grave here – literally, at the outset. Rupert Goold’s sleek, dark production is prefaced by a little modern prologue: a recreation of the disinterment in 2012 of Richard III’s bones from beneath a Leicester car park. There is a striking disconnect between the moment when an archaeologist holds up the curved backbone of the real Richard and the moment when Shakespeare’s version of that monarch steps out of the shadows, his mind more twisted than his spine, to inform us that he plans to play the villain.

Gone are the bright arc lights and the forensic suits – we are plunged into an inky, monochrome world: a country left poisoned by civil war and become the playground of a tyrant. The black in Hildegard Bechtler’s set is punctuated only by the golden gleam of the crown, the purple of the bishop’s shirt, the red of the murderers’ hands and the white of the skulls that pop up on the back wall to keep tally of Richard’s haul.

This is the pit into which Ralph Fiennes’ lean, bitter Richard draws us. In Goold’s staging, he is a man forged by his times: the twisted product of a vicious, vengeful period. Shakespeare’s tragedy comes over as a timeless cautionary tale, compered by Richard as he revels in this disturbing account of his reign.

Some Richards are playful, charismatic and almost perversely admirable. Fiennes brings out the character’s sardonic wit, but he is a cold fish, chilling in his contempt for others and vicious in his misogyny.

His deep self-loathing bubbles out in rejection of anything emotionally



**Compelling: Ralph Fiennes in ‘Richard III’. Below right: Andrew Westfield and Tom Gill in ‘First Light’**  
Marc Brenner  
Manuel Harlan

touching – family, friendship, religion. It is a compelling performance. Around him, Goold subtly blends past and present to depict characters mostly too bent on their own agendas to spot the danger until too late. James Garnon’s affable Hastings is preoccupied by his mobile phone, Finbar Lynch’s shrewd Buckingham is set on his own advancement. Meanwhile the women, wrecked by grief, wail or rage impotently, with Vanessa Redgrave making a fascinatingly quiet, deranged Queen Margaret.

The production is a bit monotone, as well as monochrome. It drags in places and the staging of Richard’s pre-battle crisis is peculiarly uninspired. But this bleak, bitter reading powerfully suggests that ugly times breed ugly minds.

To August 6, [almeida.co.uk](http://almeida.co.uk)

PERFORMANCE

**En Avant, Marche!**  
Sadler’s Wells, London  
★★★★★

Louise Levene

Alain Platel’s latest work, *En Avant, Marche!*, made in collaboration with NTGent, arrived at Sadler’s Wells kilted with praise from the 2016 Edinburgh Fringe. The show, directed by Platel and Frank Van Laecke, is billed, without irony, as “a deeply moving tribute to the world of brass bands” and is performed by 12 professional actors, dancers and musicians together with a uniformed brass ensemble hired locally (the stage version of Mark Herman’s 1996 film

*Brassed Off* tours on a similar principle). Brass bands work best outdoors (give or take the Royal Albert Hall) and many of the piece’s absurdly self-indulgent 100 minutes are given over to London’s amateur Heroes Band oompah-ing their way through Elgar’s *Nimrod* and Holst’s *Jupiter*. They also play Verdi (“Let me know who wins,” as Michael Caine’s Harry Palmer would say).

The story, such as it is, muses on daily life, art and mortality and is held together by the Flemish actor and singer Wim Opbrouck who plays an ageing trombone player demoted to the cymbals after a diagnosis of epithelioma leaves him with only eight months to live. This grim prognosis is conveyed in a dazzling, foul-mouthed monologue in which Opbrouck code-switches between five languages with the ease of a Swiss *maitre d’*. Meanwhile his traumatised widow-to-be (Chris Thys) cries a great deal but soldiers on with her baton-twirling act.

Opbrouck has a lot of charm and a great many talents – mouth-trumpeting, water-spouting (a nod to Pina Bausch’s *Viktor*) and the ability to gargle “God Save the Queen”. While this undeniably varies the mix, these are not skills people pay good money to see (au contraire in most cases, I would imagine). And yet it is Opbrouck who earns the show its third star because, despite his shambling shape, he is a surprisingly handy hoover and extraordinarily light on his small neat feat. His *pas de deux* with a trained dancer (Hendrik Lebon) got the biggest cheer of the night although, to be fair, the (thin) house was very well disposed to start with – the merest fart earned a belly laugh.

[sadlerswells.com](http://sadlerswells.com)



THEATRE

**First Light**  
Minerva Studio, Chichester, West Sussex  
★★★★★

Ian Shuttleworth

Dramatic commemorations of the first world war continue. To coincide with the centenary of the beginning of the Battle of the Somme on July 1 1916, Chichester presents a new play by Mark Hayhurst that sidesteps the usual topics by considering those young men who were shot for desertion. He tells a largely imagined version of the story of two real-life privates from the “Manchester Pals” infantry company who left the front line but were arrested at Dieppe, tried and executed.

The gravestone of Albert Ingham is unique in carrying the legend “Shot at dawn” (hence the title), constituting all but a declaration that he was executed. Hayhurst intercuts scenes of Ingham and Alfred Longshaw serving on the front and deserting with an equally invented account of Ingham’s father’s campaign to be allowed the controversial epitaph.

David Moorst is a delight as the whip-smart, wisecracking Longshaw, but the twin foci are Tom Gill as Bert Ingham, an innocent who finds strength and resolve at the very end, and Phil Davis as his father, George, red-faced, unsmiling and unable even to explain his determination. Director Jonathan Munby copes with the early disappearance of most of the troops (killed in the first “big push”) by having them execute a series of drilled scene-changes.

There are a lot of these, as Hayhurst does not believe in leaving anything merely implied, much less altogether unsaid. As with his earlier success *Taken at Midnight* (which transferred briefly to the West End last year), he spells everything out at the expense of dramatic flow; Munby’s scenographic tactic makes a virtue out of necessity.

It’s also a little uncomfortable that the pair of plays currently in performance in Chichester’s two spaces utilise 32 actors in all, of whom only two are female: Kelly Price and Amelda Brown, who play Ingham’s sister and mother respectively. It would be problematic to cast across genders in such naturalistic war dramas, but there really needs to be some levelling-up later in the season.

To July 2, [cft.org.uk](http://cft.org.uk)

## Journey to the ‘broom cupboard of death’

Capital punishment is among the subjects explored in a new weekly column on the best podcasts

PODCASTS

Fiona Sturges

If you’re one of the many millions of listeners of the popular US podcast *Radiolab*, the news that it has launched a new spin-off series, *More Perfect*, about cases currently running through the US Supreme Court, might well have put a spring in your step.

For more than 10 years, *Radiolab* has been in the business of reflecting on matters scientific and philosophical with a lightness of touch that has made it the envy of producers everywhere. Any worries that the inner workings of the Supreme Court might prove too dry even for twinkling *Radiolab* host Jad Abumrad (his partner-in-podcasting Robert Krulwich is sitting these episodes out) were quickly extinguished. Two episodes in, I’m hooked.

The first, entitled *Cruel and Unusual*, took in the political history of the death penalty, end-of-life ethics and a visit to a comically shifty man in

Acton, west London, who was working out of the back of a driving school in what reporter Karen Duffin archly called a “pharmaceutical broom cupboard of death”.

The programme described how Maya Foa, a researcher at the UK-based human rights organisation Reprieve, discovered that a dearth of sodium thiopental (pictured below), a drug used in the lethal injection in the US, had prompted various states to look to Europe (including the aforementioned broom cupboard) for fresh supplies.

Over the next five years, Foa went on the trail of the drug, exposing the companies that were illegally exporting it to the US and, one by one, shutting down the supply lines. After a series of highly publicised, painfully botched executions, a tense discussion took place in the Supreme Court about drug formulas, methods of execution and, in the words of one Supreme Court justice, the “guerrilla war against the death penalty”.

This episode, along with a follow-up programme – about a constitutional conundrum that drove one of the court’s justices to a nervous breakdown – had all the hallmarks of a *Radiolab* production: smart storytelling,



fastidious and wide-ranging research and stylish sound design made from overlapping voices, looped effects and ambient soundscapes (it should be annoying but it’s not). Most of all, there was the same humanity, curiosity and narrative twists and turns that run through all *Radiolab* projects. This is what makes it the podcast to which all others aspire.

Similarly characterised by smart production and unusual stories is the American show *Love + Radio*, which, while a new season is being put together, is celebrating some classic episodes. It is currently highlighting *Man in the Road*, which tells the story of a miner and game show enthusiast named Melvin who came across a bloodied man in the road and had his life forever altered.

This week also sees the return of National Public Radio’s *Invisibilia*, with a second season about the intangible forces that shape our behaviour. It can’t come soon enough.

FT

Podcast  
FT books editor Lorien Kite, Spotify economist Will Page and FT pop critic Ludovic Hunter-Tilney discuss the new age of music  
[ft.com/books](http://ft.com/books)

CLASSICAL MUSIC

**Yevgeny Sudbin**  
Wigmore Hall, London  
★★★★★

Harriet Smith

From the insanity that is late-night shopping on London’s Oxford Street on a sticky summer evening, Yevgeny Sudbin drew us into the alluring world of 18th-century Madrid and the sonatas of Domenico Scarlatti. These are works that Sudbin treats freely in translating them from harpsichord to piano, beginning languorously with the D minor Sonata. It was in the C major Sonata that he began to dazzle, using the repeats as daring flights of fancy.

It was clear from the outset of Beethoven’s final sonata, the mighty C minor, that Sudbin was master of all he surveyed, replacing a sense of struggle, of victory hard won, with an opulent sound-world. The craggier elements

tended to be underplayed, though the rare moments of quietude were beautiful. For the otherworldly variations that form the second, final, movement, again there was a suspicion that Beethoven’s gruffer side had been sanitised somewhat. The outlandish, jazzy third variation was a tad po-faced.

He prefaced *Gaspard de la nuit* with his



Alluring: Yevgeny Sudbin

own arrangement of the “Lacrimosa” from Mozart’s unfinished Requiem, turning a snippet into an edifice and revelling in the resulting sonorities.

When Ravel wrote *Gaspard* in 1908, he set out to “caricature Romanticism”. Yet in Sudbin’s reading, we were made acutely aware of the piece’s debt to that very movement, and to Liszt in particular. Pedalling freely (sometimes too freely), he drew great arcs of sound from the keyboard in the watery evocation of the nymph Ondine; while the tolling B flats of the gallows depicted in the second number attained at times a voluptuousness rather than the stark desolation suggested by Aloysius Bertrand’s poem.

For Ravel’s monstrous, shape-shifting gnome of the final piece, Sudbin replaced fingery definition with myriad colours, suggesting a particularly smooth-talking sprite. Like the Beethoven, the pianism was peerless, but the repertoire seemed somewhat at odds with Sudbin’s nature.

[wigmore-hall.org.uk](http://wigmore-hall.org.uk)

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# Talking Tech

## Keeping it simple is the next big thing

Lucy Kellaway last week tackled technologists for inventing “smart” solutions to non-existent problems – in fact not even problems, more like minor inconveniences.

I would be out of a job if I damned all innovative products, although a lot of stuff today does feel superfluous. I don’t blame the crowdfunding-hungry young techies, nor their Kickstarter backers. But another tentative truth that could propel me into a new career as an Uber driver is that most of our gadgetry needs have already been solved. Think about it; what else do you honestly need your phone to do?

With consumer tech having gone as far as we need for now, and creative new ideas like smart homes not exciting many buyers beyond Palo Alto, we should be looking at big technology projects. For one, there’s my hobby horse – flooding the centre of Australia to create an inland sea and turning the continent into a huge farm to feed the world.

But that would be a big ask for some kids in a Shoreditch WeWork, so the struggle continues for new products that largely happy consumers need, even if they don’t realise it.

The latest thing I’m picking up is a trend for gimmick-free back-to-basics tech; gimmick-free could be a gimmick itself, in which case we’re in a weird feedback loop, but there are three new products I believe have real integrity rather than just being stylistically retro.

While looking at the first in New York, the phrase “mindfully simplified” popped into my head. “Mindfulness” is huge these days, but my variant only scores two hits on Google, so I claim it as original; let others make their millions from it.

Those others may turn out to be two young guys from Detroit, Adam Leeb and Patrick Paul, whose Freewrite is a \$500 smart, cloud-connected typewriter that looks like something from a 1970s *Star Trek* set.

Freewrite reduces a writer’s distractions to almost zero. You can’t email, check Twitter, even manipulate text or spellcheck. There’s just some big, tactile controls, a clicky old-school



Reverting to type: Freewrite cuts a writer’s distractions to almost zero



Jonathan Margolis

keyboard and an e-ink screen like a Kindle’s so you can write outdoors.

Your words are fed, via WiFi as and when you connect, to utilities such as Google Drive, from whence you can retrieve, edit and prettify in Word or whatever on a normal computer.

The idea of Freewrite is to make you think more about the writing process and therefore do it better. It also encourages you, so say thousands of writers lining up to buy it, to splash down text and more text, rather than Tweet and play Angry Birds for hours, followed by typing a single paragraph and deleting it.

“It’s not a reinvention of the typewriter,” says Mr Leeb, an MIT graduate and former Macquarie Bank analyst. “We don’t mind people calling it retro, but that obscures what it is, which is a very specialised writing tool.”

I have to say, having written a bit, that I prefer dealing with distractions to letting a pile of things-to-do mount up, jenga-like. The sceptical me sees Freewrite as culturally appropriate only in the US since it’s there that wordiness – which I fear it may incite – is next to godliness. But it is certainly the poster child for mindful simplification.

Another comes from the German

camera maker, Leica. Its latest model, the M-D (£4,500-ish plus lens), is digital but without an LCD screen, so you can’t immediately see the photos you take, ergo you will concentrate more on your technique.

Controversial, and again, as a keen photographer, I am semi-minded to buy the concept. I do totally get what Leica UK’s managing director Jason Heward means when he argues that the M-D “brings back the fascination and expectation associated with film”.

Another mindful new product, with knobs on, literally: after seeing Freewrite, I went from their corner of someone’s SoHo office uptown to the swanky launch of a new radio brand called Como. Como’s Tom DeVesto reintroduced proper turning controls and dials in 2000 at his former radio company, Tivoli. It was a revelation for Dyson-touting consumers driven nuts by menus and screens.

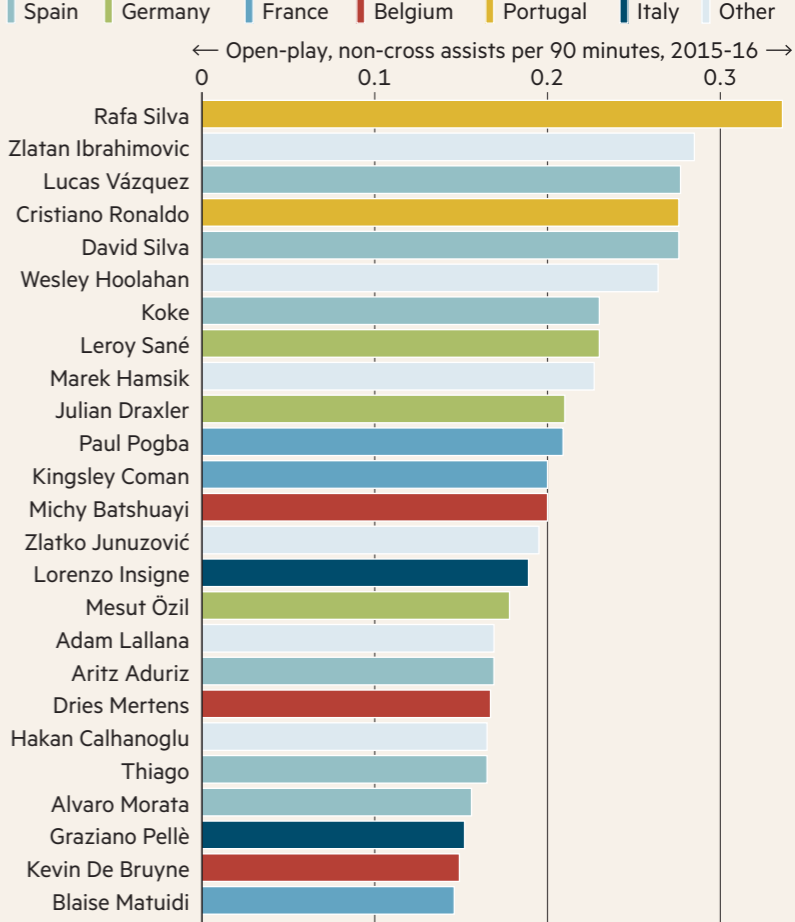
The Como range not only has knobs, but you can also get online music from Spotify, internet radio, et al without the tiresome modern need for an attendant smartphone and app. Truly evolutionary.

[jonathan.margolis@ft.com](mailto:jonathan.margolis@ft.com)  
[@TheFutureCritic](#)

## The Baseline

### The most creative players at Euro 2016

As the European Championships progress, and teams play increasingly strong opposition, tighter matches mean players who can conjure a chance for a teammate from nothing become increasingly valuable



Showing players with at least 1,000 minutes in 2015-16  
Source: FT research FT graphic: John Burn-Murdoch

### JOHN BURN-MURDOCH

Creativity is important at any level of football, but perhaps no more so than at international tournaments, where the high stakes lead to tightly contested matches, particularly as the tournament progresses.

We can see the impact of this in the fact that there are fewer goals per game in international tournaments than in any of Europe’s top leagues or continental club tournaments, and the scoring rate falls further again in the move to knockout matches.

Meanwhile, Europe’s most prolific goalscorers find the net much less frequently for their countries than for their clubs, whereas the players with the most assists tend to create

goals at a similar rate for club and country. One way of interpreting this is that the ability to create goals seems to rely on individual skill, whereas scoring goals is as much a function of teammates’ creativity as it is the striker’s own talent.

Bringing the two together, we can reasonably conclude that an international team gains more from having a creative midfielder laying on opportunities for the forwards, than it gains from having a clinical striker who may simply not have any scoring opportunities created.

At Euro 2016 Spain has six of the top 25 players taking part in the tournament ranked according to the number of goals created over the past year per 90 minutes played.

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MONDAY PRIZE CROSSWORD

No. 15,271 Set by DANTE

A prize of The Good Word Guide by Martin Manser and How to Sound Clever by Hubert van den Bergh will be awarded for the first correct solution opened. Solutions by Wednesday June 29, marked Monday Prize Crossword 15,271 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday July 4.

ACROSS

1 Study group combining business with pleasure (7,5)

10 It's obvious I've been set back by depression (7)

11 Second at the finish, terribly sore (7)

12 The point of growing roses (5)

13 Begins hunting like a sea-wolf (8)

15 Inspectors' appraisal fools people, in a way (10)

16 Big game shot (4)

18 Tree that grows up to a point (4)

20 Wrongly briefed about the finish but made allies (10)

22 Flying is not yet fully developed (2,3,3)

24 Capital required to get a new car on account (5)

26 Eve late, may get a lift (7)

27 Scheme to get a pub returned in the bay (7)

28 Upset due to threats, but resolute (5-7)

DOWN

2 Threatening ring with MI intelligence (7)

3 The clever head raises enthusiasm (8)

4 Writing up of school register (4)

5 Joke appeals to a worker on the railway (10)

SOLUTION 15,259

The winner's name will be published in Weekend FT on July 2

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# Companies & Markets

FINANCIAL TIMES

Axa's dark horse New chief wastes no time shaking up the ranks — PAGE 16



Missing link The perverse incentive behind Nadella's LinkedIn bet — JONATHAN FORD, PAGE 14

## UK M&A deals plunge on Brexit fears

British companies shunned as takeover targets but bankers predict surge in dealmaking if Remain camp wins

**JAMES FONTANELLA-KHAN** — NEW YORK  
**ARASH MASSOUDI** — LONDON

Britain's share of global merger and acquisition activity has tumbled to a record low, as dealmaking freezes amid the uncertainty over the UK's membership of the EU.

The volume of deals involving UK targets is down almost 70 per cent this year compared with the same period in 2015, with the \$57.6bn spent on transactions accounting for only 4 per cent of worldwide M&A.

Global M&A volumes have fallen just

20 per cent from a year ago, according to Thomson Reuters data.

The slowdown is a contrast to 2015, when the UK was home to a number of large takeovers including Royal Dutch Shell's \$52bn purchase of BG Group, the oil and gas company.

The biggest deal struck this year, the £21bn all-stock merger between the London Stock Exchange Group and Germany's Deutsche Börse, does not hinge on the outcome of Thursday's referendum. However, shareholders are set to vote on it next month, and ana-

lysts believe a British exit from the EU would hurt the prospects of the combination winning approval.

"Brexit has had a real impact on M&A activity in the UK and also in Europe more broadly," said a senior M&A adviser at one of Europe's largest investment banks. "Nobody wants to do deals when they don't know whether their target will be in or out of the world's largest single market."

The pace of big leveraged buyouts across Europe has also faltered this year, according to the Centre for Man-

agement Buyout Research, with private equity firms pointing to the EU vote as a chilling factor.

Appetite for M&A across Europe could be significantly affected if the UK chooses to leave, according to 1,421 deal professionals surveyed by Intralinks.

"In a Leave scenario, I think M&A in Europe is going to turn very negative," said Wilhelm Schulz, head of Europe, Middle East and Africa M&A at Citigroup. European M&A, which is typically dependent on UK activity, is down 24 per cent from a year ago.

By contrast, a vote to remain in the EU could unleash a series of deals, according to bankers spoken to by the FT, as companies pursue ambitions they had put on hold ahead of the vote.

One senior Wall Street M&A banker, however, noted that the steep drop in sterling that is expected in the event of a Brexit might galvanise takeover activity involving British companies as multinationals take advantage of the cheapening of UK assets.

**Editorial Comment** page 8  
**Chris Patten** page 9

## Newspapers consider joint advertising sales unit

**DAVID BOND** — LONDON

Several of the UK's biggest newspaper groups are in talks aimed at finding ways of working more closely in a bold move by the traditionally fierce rivals to combat a brutal decline in print advertising revenues.

The options being explored in conversations between senior Fleet Street executives include creating a single advertising sales operation as the industry faces the biggest crisis since the economic crash of 2008.

Talks have so far involved the Telegraph Media Group, Trinity Mirror and Rupert Murdoch's News UK — owner of The Times, the Sunday Times and The Sun, according to senior newspaper executives. It is not clear if Daily Mail and General Trust, owners of the Daily Mail, or Guardian News and Media, are involved in the talks. Both companies declined to comment. The Financial Times also declined to comment about whether it was party to the discussions.

The discussions are aimed at tackling the sharp fall in print advertising. Last year revenues from display adverts dropped 15 per cent, with publishers reporting similar figures for the first half of this year.

The decline puts more pressure on an industry in which revenue from digital advertising has not grown at a sufficient rate to fill the gap created by falling print revenues.

Any initiative to form a single advertising sales team would potentially make it easier for agencies to buy display advertising space as they would not have to negotiate multiple deals with publishers. While some groups are thought to be reluctant to give up their autonomy, those in favour argue it would help newspapers compete with broadcasters and digital media companies.

"We will always fight each other at the newsstands and for the best stories," said Simon Fox, chief executive of Trinity Mirror. "But in the background there are many ways we can come together to present a more powerful voice to the advertising industry."

However, any move to form a single newspaper advertising operation could attract legal and regulatory scrutiny.

**www.ft.com/media**

## Mechanical movement Japanese 'robot' fund attracts an unlikely breed of investor

The world's first managed equity fund focused on robotics has, less than a year since its launch, proved an unlikely hit with "Mrs Watanabe", the ultra-conservative archetypal investor of Japan's household savings, **writes Leo Lewis in Tokyo.**

The uncharacteristic bet — a wager on a global portfolio of large- to micro-cap stocks that envisions a future-scape of self-driving cars, helper automatons, artificially intelligent drones and human-free factories — has paid off.

Since its launch last August, the Nikko Asset Management (NAM) Global Robotics Equity Fund, has gained just 0.6 per cent. But it has done so against a background of rapidly diminishing confidence in Japan's Abenomics revival programme and slumping domestic shares. The Nikkei 225 Average — the benchmark against which retail Japanese investors tend to judge success — has fallen more than 17 per cent over the period.

"When we originally thought up this fund, we thought this was going to attract young, male investors. Actually, our distributors are telling us that women and older investors are buying strongly," said Naofumi Chiba, the fund's creator. "You have to remember that Japan is a country where people feel very familiar with robots."

The robotics fund's assets are divided roughly in thirds among the US, Japan and Europe, with its top holdings the Japanese factory automation group Keyence and US-based Rockwell Automation. It represents a portfolio of 41 stocks from what its managers say is a potential universe of about 500 equities worldwide.

Launched with assets of about \$1bn, the fund has swelled to nearly \$5bn. The surge has been driven by retail investors lured, in part, by the prospect of a yen-based fund that diversifies them into at least six other currencies. Predictions of the size of the robotics and automation markets vary but Bank of America Merrill Lynch has forecast a \$153bn robot and AI market by 2020.



**Virgin Australia shows its international ambitions**

After surviving an attempted boardroom coup, Virgin Australia's chief John Borghetti delivered a strong riposte: an A\$1bn (\$740m) capital raising to repair the airline's parlous balance sheet, and two new Chinese shareholders — HNA and Nanshan. **Analysis** ► PAGE 14

## Bankers' personalities shape risk taking more than lure of bonuses, claims study

**LAURA NOONAN** — LONDON

The personality and talent of bank executives is more important in shaping the risk taking of the institutions they work for than pay, bonuses or education, an analysis of more than 1,500 top US bankers has found.

Remuneration accounted for a maximum of 4 per cent of the difference in how bankers in similar situations behave, while factors such as education and age accounted for less than 5 per cent of the differences, according to a study by academics in the US, Germany and the UK.

Instead, the research, which examined how the best-paid executives at 165 US-listed listed banks influenced the

performance of their institutions between 1992 to 2010, found their 'style' held far more sway.

'Style', a category including a banker's personality, talent and work ethic, accounted for as much as 72 per cent of the reasons banks behave differently.

The study's findings call into question policymakers' use of pay and bonus curbs as one of the chief tools for safeguarding the financial system and avoiding a repeat of the excessive risk-taking that helped precipitate the financial crisis of 2008-2009.

"The policy implication is that the whole discussion about bonuses and how to regulate bank performance and bank pay doesn't really go to the root of the problem," said Sascha Steffen, one of

the authors and a professor at the University of Mannheim and the Centre for European Economic Research (ZEW).

"Most of the effects that we can analyse can be attributed to the manager specific effect [style] and very little to this compensation effect. This goes completely in the opposite direction of the usual discussion."

The research sought to isolate an executive's style by working out how much of the variance in banks' business models is influenced by the individuals that run them — as opposed to other factors such as geography and a lender's heritage.

Executives' styles are "challenging" to address from a regulatory perspective, the study found.

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|   |            | Snapchat.....                     | 15,FTfm6   |
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|   |            | State Street.....                 | FTfm8,9    |
|   |            | Sun Edison.....                   | FTfm2      |
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|   |            | TNT Express.....                  | 20         |
|   |            | Telegraph Media Group.....        | 13         |
|   |            | Temasek.....                      | FTfm7      |
|   |            | Tesco.....                        | 20         |
|   |            | Trinity Mirror.....               | 13         |
|   |            | UN.....                           | 20         |
|   |            | UPS.....                          | 20         |
|   |            | Ulmart.....                       | 16         |
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|   |            | Unilever.....                     | 15,FTfm2   |
|   |            | Union National Bank.....          | 14         |
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|   |            | Retail & Consumer.....            | 20         |
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COMPANIES

Banks

# UAE royals discuss \$13bn merger

Bank of Abu Dhabi and First Gulf move would set up region's largest lender

MARTIN ARNOLD — LONDON

Two of Abu Dhabi's largest banks have said they are in talks to merge, potentially sparking further rationalisation in the United Arab Emirates as the oil-rich region weathers the oil price slide.

State-owned National Bank of Abu Dhabi and First Gulf Bank, in which members of the ruling family have a significant interest, would surpass Qatar National Bank to become the region's largest lender.

"Each bank has formed a working group made up of senior executive management to review the commercial potential along with any legal and struc-

tural aspects of a merger," NBAD said yesterday. "There is no certainty that discussions between NBAD and FGB will result in . . . combination."

More mergers are expected between Middle Eastern banks if the planned \$13bn tie-up ends goes ahead.

A merger to create a regional powerhouse with \$172bn of combined assets and \$3bn of net profit has been discussed by state shareholders for about a month, according to bankers and lawyers briefed on the situation.

Few details are known but analysts estimate that FGB could pay about \$12.9bn for NBAD, a 14 per cent premium to its market price.

Among the potential deal's "strong merits", wrote analysts at Arqaam Capital, were "diversification, cost optimisation, increased single-party exposures and substantial funding advantages."

NBAD, run by Alex Thursby, formerly of Standard Chartered, is the larger with \$111bn of total assets. But its profits fell last year to \$1.4bn, below those of its faster-growing rival. And first-quarter profits were down 11 per cent as provisions for bad loans rose by three-quarters.

Government deposits have been withdrawn since the oil price decline sparked a cash crunch among departments and state-related companies. But as the emirate's main state-owned institution, it has higher asset quality than FGB, bankers say.

Abu Dhabi, 90 per cent of whose government revenues are from oil, cut spending by a fifth in 2015 and plans a 17 per cent cut this year. The fiscal consolidation is contributing to a rapid economic deceleration in the UAE capital, from 4.3 per cent in 2015 to 1.5 per cent

this year, with widespread job losses

Investment bankers say the decision to merge is likely to have been made by members of the royal family without much input from managers.

Other Abu Dhabi banks are likely to feel pressure to merge, including Union National Bank and Abu Dhabi Commercial Bank. "It is consolidation 10 years overdue," said one banker.

Mubadala Development Company, a state investment vehicle, owns 7.1 per cent of FGB. Sheikh Tahnoun bin Zayed Al Nahyan, a full brother of Mohammed bin Zayed, the crown prince, owns 5.4 per cent.

The Abu Dhabi Investment Council owns almost 70 per cent of NBAD.

"We think this is quite real," said one investment banker. "It could be that it is baked already. But I don't think they've done a lot of work on the details."

**\$111bn**  
Total assets of Bank of Abu Dhabi, which is the larger entity but whose profits fell below its rival

**17%**  
Spending cut planned this year by Abu Dhabi, 90% of whose revenues are from oil

INSIDE BUSINESS  
TECHNOLOGY

Jonathan Ford



## Perverse incentives lie behind Microsoft's LinkedIn purchase

You have a company that has an enviable, if slowly declining, franchise and a woeful record of executing large-scale acquisitions. What do you do if you want to maximise returns?

You might think you would run a tight ship, stick to the core business, and try to wring as much from it as possible. What you wouldn't do is to find a struggling but stratospherically rated company in an almost unconnected area, then punt tens of billions of dollars on buying it without an evident way of earning returns on that cash.

In which case you are clearly not Satya Nadella, for this latter path is the one that Microsoft's chief executive has just chosen. Last week, he launched the tech industry's third-biggest acquisition ever, splashing out more than \$26bn on LinkedIn, an unprofitable professional networking site whose income largely comes from recruitment.

It is a strange move for the world's largest productivity software company. LinkedIn may have a huge network, with 430m registered users. But it is not clear how the business fits together with Microsoft; still less how Mr Nadella can use it to drive the group's future growth.

True, there is some talk about using LinkedIn's data scientists to take its new owner deeper into hot areas such as machine learning and artificial intelligence. LinkedIn's own data cache might help Microsoft to build products that help customers manage customer relationships.

But it is difficult to see many tangible benefits in terms of additional revenue. That matters when LinkedIn, for all its \$3bn of turnover, is still losing more than \$150m a year.

So why has Mr Nadella elected to roll the dice on such an uncertain endeavour? It is hardly as if he is unaware of the risks involved in large acquisitions. After all, it was the failure of Microsoft's \$7.2bn purchase of Nokia's smartphone business that persuaded the group's shareholders to dump Steve Ballmer, giving Mr Nadella his shot at the job.

Nor can he fail to recognise the need to nurture Microsoft's mature if still vastly profitable commercial software franchise, and how that remains the key to its fortunes. Just to give a sense of the unit's importance, it is worth noting that in just the past two years its operating profit increased by \$3.7bn – rather more than LinkedIn's entire turnover in 2015.

But if Mr Nadella knows all this, there are also powerful temptations pulling him in the opposite direction. These are the lavish equity incentives that investors have heaped upon his plate.

Mr Nadella's package means he might end up with a stake of between 1.3m and 4m shares over the next five years. What he ends up receiving depends partly on operating factors, but the biggest gearing effect comes if Microsoft's shareholder returns exceed certain stock market-based targets linked to the S&P 500 index between 2016 and 2021. Hit the jackpot and he could walk away with stock worth more than \$200m at the current market price.

In principle, of course, these incentives do not stop Mr Nadella from maximising cash flows from the commercial software business. In practice, however, they strongly motivate him to find some short-term investment story that will encourage investors to put a very high price on Microsoft's shares. That means diverting some of those cash flows into high-profile acquisitions such as LinkedIn, or investments in exciting but very uncertain ventures such as Microsoft's "augmented reality" project, Hololens.

Mr Nadella is not the only tech company boss to yield to this sort of temptation. Take Yahoo, for instance. Under Marissa Mayer, the internet group spent billions on acquisitions and innovations designed to put rockets under its share price. Yet Yahoo would have done better had it cut these costs back and maximised returns from a search engine business that may have been ex-growth but was still generating \$4bn in revenues a year.

Investors need to think harder about the messages that incentive packages send to managers. In Microsoft's case, these seem designed to encourage Mr Nadella to behave as if he's running an Apple or a Facebook – tech companies that are at the forefront of consumer innovation. In fact, the business he is leading has more in common with HJ Heinz – the owner of a stable of familiar and highly cash-generative staple brands.

Finding a way to match the incentive to the task is the next challenge facing investors in a fast maturing tech sector. That may mean getting more bosses to think like Warren Buffett, and rather fewer to approach the task in the manner of a latter-day Steve Jobs.

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Airlines. Strategic alliances

# Virgin Australia makes its China move

With new Chinese routes and investors, the carrier appears to have got a jump on Qantas

JAMIE SMYTH — SYDNEY

Virgin Australia's chief executive, John Borghetti, faced a crisis a few months ago when a large shareholder tried to oust him over his refusal to rein in an expensive growth strategy.

The 60-year-old executive survived the attempted boardroom coup and last week delivered a strong riposte: a A\$1bn (\$0.74bn) capital raising to repair the airline's parlous balance sheet, and two new Chinese shareholders – HNA and Nanshan. "I'm definitely sticking around," he said.

Air New Zealand, which pushed Virgin's board to sack Mr Borghetti, is selling most of its 22.5 per cent stake in Australia's second-biggest airline.

The deals will ensure Virgin remains a viable competitor to Qantas Airways, which retains 63 per cent of the domestic market. They also reflect the international ambitions of Chinese airlines, which are seeking partners to exploit a tourism boom in which 100m Chinese travelled overseas last year.

On international and domestic routes

**Etihad will not mind that fellow shareholder Singapore Airlines was 'blindsided' by HNA deal**



**Virgin Australia has been transformed from a budget carrier into a direct competitor of the 'flying kangaroo', Qantas**  
Brendon Thorne/Bloomberg

"there remains a significant growth opportunity for Chinese and Australian carriers", says Anthony Moulder, analyst at Citigroup. "Chinese visitor numbers to Australia are forecast to quadruple to 4m a year by 2030."

A day after announcing the agreement to sell a 13 per cent stake to HNA, Virgin applied to operate daily flights between Australian cities and Beijing and Hong Kong starting in June 2017, as part of a strategic alliance with the group that owns Hainan Airlines, China's fourth largest by number of aircraft. "China is the future for inbound travel, and this secures our future," Mr Borghetti said.

Since joining in 2010 from Qantas, where he was passed over for the top job in favour of Alan Joyce, Mr Borghetti has transformed Virgin from a budget carrier into a full-service airline competing directly with the "flying kangaroo".

This strategy has benefited consumers, who have enjoyed lower domestic airfares under a duopoly. But the capac-

ity war with Qantas has pushed up Virgin's net debt to about A\$2bn, while failing to deliver sustainable profits.

Virgin reported an underlying loss before tax of A\$18.6m for the three months to the end of March – albeit a 16 per cent improvement on the same period a year ago. Even with its latest cash injection, the group has only a "limited financial buffer" against factors such as volatile fuel prices, foreign-exchange movements and variable demand, warns S&P.

Costs have largely been borne by Sir Richard Branson's Virgin Group, Singapore Airlines, Etihad Airways and Air New Zealand, which own 85 per cent of the carrier. HNA and Nanshan, both privately owned diversified conglomerates, will share that burden.

"This is good news for a cash-strapped Virgin, which will gain the support of Chinese shareholders with a long-term view," says Peter Harbison, executive chairman at Capa, the aviation consultancy. While Virgin's restructuring will

not solve the "revolving door" nature of its share register, it will remove Air New Zealand from its "stamp collection" of stakeholders, he says.

Etihad has yet to commit to taking part in the A\$852m rights issue that forms the backbone of Virgin's capital raising. Analysts say the Abu Dhabi-based carrier may not consider that it has to stump up the cash to maintain its 22 per cent stake in Virgin to achieve its main strategic objective – blocking a takeover bid from Singapore Airlines.

Singapore has long coveted a majority stake in a carrier in the Australian market, which, according to Capa, produces around a fifth of its revenues.

Mr Harbison says Singapore will be the most disappointed by Virgin's tie-up with the Hainan Airlines owner, because it provides an alternative for the Australian group to expand into China. "Singapore was blindsided by the HNA deal," he says.

Some analysts say Virgin's success in attracting Chinese capital could spur

interest from tier-one Chinese airlines in building a stake in Qantas, which has a joint venture partnership with China Eastern and a code share agreement with China Southern.

"China Eastern could protect its long-term interests in the current joint venture by taking a position in Qantas," says Paul Butler, analyst at Credit Suisse.

Foreign ownership in Qantas stands at 44 per cent, which would permit a strategic overseas investor to buy a further 5 per cent, says Credit Suisse. Foreign ownership in the carrier is capped by the government at 49 per cent.

Qantas would not be drawn on whether it would welcome a Chinese strategic investor. But Gareth Evans, chief executive of Qantas International, told the Financial Times he was not concerned about a competitive threat from Virgin's tie-up with HNA and Nanshan.

"We have done a lot of work on having the right relationships in China," he said. "The growth potential is tremendous."

Technology

## India smartphone maker raises dumping alarm

SIMON MUNDY — NEW DELHI

The co-founder of India's biggest smartphone maker has accused Chinese rivals of dumping unsold inventory in India at low prices, in the latest sign of global unease over the knock-on effects of China's slowing economy.

Micromax grew rapidly after the launch of its first mobile phone in 2008, and remains second only to Samsung Electronics in the growing Indian smartphone market.

But it lost ground last year to Chinese rivals whose market share hit 24 per cent in the first quarter, double the level a year before, according to IDC analysts.

Vikas Jain, one of four founders who oversee operations at Micromax, said Chinese producers had sold smart-

phones in India at exceptionally low prices after they were caught off guard by slowing growth at home and in other big markets.

"Most of these Chinese brands were inundated with huge inventories, which they were just not able to put into any other market . . . and India, because of its sheer size, became the obvious choice," he told the Financial Times. "They cut the prices to cost or even below cost."

Mr Jain drew a parallel with allegations of international dumping by Chinese steel producers, though cheap sales of complex products such as smartphones were harder to prove.

He urged the Indian government to resist pleas from Apple that it be allowed to import used smartphones,

arguing this could be a back door for Chinese phonemakers to bring in hand-sets at even lower prices.

Jayanth Kolla, telecoms analyst at Convergence Catalyst, disputed Mr Jain's analysis. Chinese companies such as Oppo, Gionee and Huawei appeared to be building their brands among Indian consumers, he said. This longer-term strategy looked set to yield them four in 10 of all Indian smartphone sales by the middle of next year.

With millions of Indians still buying their first smartphone each month, the country has become a prize for the industry amid stagnation elsewhere. Smartphone sales fell 1 per cent globally in the first quarter, rose only 2 per cent in China, but grew 12 per cent in India, according to Canalsys.

Media

## Ingenious in \$200m China filmmaking tie-up

MATTHEW GARRAHAN — NEW YORK

A Chinese state-backed group has formed a joint venture with Ingenious Media, which has invested in movies such as *Avatar* and *Life of Pi*, to co-produce independent films in a deal worth \$200m.

The joint venture comes as Chinese groups scour Hollywood for media acquisitions, and is the first tie-up between a Chinese and a UK company since a co-production treaty was signed in 2014 to encourage film investment.

Working with Hejing Culture, a group backed by the Chinese government and private investors, would give Ingenious a "great level of access to content distribution in China", said Neil Forster, Ingenious chief executive.

The UK company has invested \$10bn in films since 1998, putting money into action hits such as *Kingsmen: The Secret Service* and *X Men: Days of Future Past*. It has also backed smaller, independent movies such as Oscar nominees *Brooklyn* and *Carol*.

Film and television projects with production budgets up to \$50m will be the focus of the venture. "We're targeting high-quality entertainment projects," said Mr Forster.

With a Chinese co-producer involved, films are likely to qualify for Chinese production status, which means they will receive a larger share of box office revenue than films produced by international companies that are distributed in the country.

Zhang Ziyi, Hejing chief executive,

said the company had preserved and republished many "distinguished Chinese books from ancient times", and planned to adapt these stories into movies having secured their rights.

China's box office has defied the slowing domestic economy, with multiplex construction adding screens to a cinema market that will surpass the US and become the world's largest by revenues in 2017, according to PwC.

Box-office revenues in China grew close to 50 per cent during 2015 to \$6.8bn.

Chinese companies have begun to look to other markets for growth ahead of an easing of the foreign film quota next year, which will clear the way for the mainland release of more movies from overseas companies.

COMPANIES

# JWT’s first female head calls time on ‘Mad Men’ era

## Ingram says greater range of talent is needed for a diversified business

MATTHEW GARRAHAN — NEW YORK

More than 100 years after it dawned on James Walter Thompson that his marketing messages might be more effective if he targeted them at the people responsible for most household purchases — women — the advertising agency he founded has its first female chief executive.

J Walter Thompson, which these days is owned by WPP, appointed Tamara Ingram in March, when she replaced Gustavo Martinez.

Ms Ingram was formerly chief client team officer at WPP, where she was responsible for all global accounts, which include its mammoth Procter & Gamble portfolio, representing close to a third of the advertising group’s \$20bn revenues. While her appointment may have smashed JWT’s final glass ceiling, she says the company — and Madison Avenue — still has a diversity issue to tackle.


This is important because she believes diversity strengthens the link between the agency and consumers.

“We have always been about brand making [at JWT],” she says, in her first interview since starting the job.

But diversifying the company’s talent pool is as important as diversifying its business into new digital platforms and technology, she adds. “And we cannot achieve the diversified business unless we have diversified talent that reflects all the communities we work in.”

This means broadening the mix of ethnicities, sexual orientations and educational and economic backgrounds represented in the workforce. Her chal-

Tamara Ingram, chief executive: industry needs to ‘reflect all the communities we work in’



lenge has acquired extra piquancy in view of the circumstances surrounding the departure of Mr Martinez.

Her predecessor resigned after Erin Johnson, JWT’s head of communications, filed a lawsuit in March in which she accused him of an “unending stream of racist and sexist comments as well as unwanted touching and other unlawful conduct”.

Mr Martinez denies the allegations and has filed a motion to dismiss.

Whatever the outcome of the case, it has focused attention on the gender bias that still pervades advertising 50 years on from the excesses and sexism of the *Mad Men* era, which were recreated in the television series.

Women remain under-represented in senior creative director roles at agencies around the world. A decade ago just 3 per cent of creative directors were women. By 2014 the number had risen to 11.5 per cent, according to The 3% Conference, which pushes for better representation of women in senior creative roles in advertising.

“You need multiple points of view colliding [in] creative work and that won’t happen if you only have dudes,” says Kat Gordon, who founded and runs The 3% Conference. Women, she adds, “have the most influence among consumer categories so it makes sense to have the messaging infused by female sensibility”.

Ms Ingram agrees that the industry needs to improve gender equality. She points to the number of women in sen-

ior positions at JWT: of its 10,000 employees, 47 per cent are women while it has female regional chief executives in places such as Sri Lanka, Egypt, Mexico and Canada. But much remains to be done, she says. “It will never be enough until we have women in 50 per cent of our leadership positions.”

The allegations in the lawsuit against Mr Martinez would have been “depressingly familiar to any woman in advertising”, says Cindy Gallop, who formerly chaired Bartle Bogle Hegarty US and founded IfWeRanTheWorld, which helps companies put corporate social responsibility goals into action. “But it would be a very good thing if this case was the one that blew up the status quo.”

Ms Ingram declines to comment on the lawsuit involving Mr Martinez. But she wants to be “true to the DNA” of JWT, she says, pointing to the strides made by Helen Lansdowne, who became the industry’s first female creative director when James Walter Thompson hired her for the role in 1907.

JWT has a long tradition of innovation. The agency, which started in the US, was the first to expand internationally, opening a London office in 1899. It created the first “test kitchen” for its clients and is credited with popularising the grilled cheese sandwich for Kraft, in the 1920s. Kraft continues to be a client, as does Unilever, which has been with JWT for 114 years.

Like other advertising agencies, the group is grappling with some very 21st-century challenges.

Changes in media consumption and a distracted generation of millennials that does not watch much television create new problems for brands trying to get a message out. “It was marvellous when 100m people were watching one piece of work [on TV], but that was a moment in time,” says Ms Ingram.

However, the internet creates fresh opportunities, she adds. “It’s easier to have your work talked about if you get it right because you have access to billions of people.”

Technological advances and the use of data in advertising have taken the industry to “an extraordinary inflection point”, says Ms Ingram. Big consumer goods companies such as P&G and Unilever are contending with new challenges posed by changing habits and tastes. For example, consumers are becoming more health-conscious, and the growth of online retailing removes the need to tailor advertising campaigns at in-store purchasers.

Innovation in brands and products is crucial, she says. “The consumer goods companies are under enormous pressures . . . I have no doubt that these companies will continue to win but they are under pressure to focus on the bottom line, not the top line — and they need top-line growth to succeed. These wonderful companies will realise that without innovation they won’t do so well.”

There are other challenges. Facebook and newer digital platforms such as Snapchat require a different marketing approach. “We need video that can work silently; we need video that can work in five seconds, rather than 30.”

But the same rules of advertising — including connecting with consumers — apply as much today as they did 152 years ago when JWT was established, says Ms Ingram. “Every brand needs a clear understanding of its purpose and what it stands for.”

