# FINANCIAL TIMES

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**Etiquette fret**
Beijing's guide for Chinese abroad — JAMIL ANDERLINI, PAGE 9

**Sizing up SoftBank**
What is Son's next big idea?
BIG READ, PAGE 7

**Cameron's legacy**
Why history will be kinder
VERNON BOGDANOR, PAGE 9

## May becomes UK's second female leader

Theresa May yesterday stood outside Number 10 Downing Street for the first time as Britain's prime minister — the first female in power since Margaret Thatcher resigned 26 years ago.

Less than three weeks after Brexit wreaked havoc on the UK's political landscape, Mrs May was invited by the Queen to take over from David Cameron and form a new government. In her first speech as British leader, she said the UK would create a "bold new positive role for ourselves in the world" and would "rise to the challenge" of leaving the EU.

"We will make Britain a country that works not for a privileged few, but for every one of us," she added.

**May's in-tray** page 3
**Chris Giles & Vernon Bogdanor** page 9

Hannah McKay/PA Wire

# Obama launches trade complaint amid growing tension with China

● WTO case highlights shift in US sentiment ● Move contrasts with softening EU stance

SHAWN DONNAN — WASHINGTON
LUCY HORNBY — BEIJING
ARTHUR BEESLEY — LONDON

Barack Obama has escalated the US's trade battle with China, launching a formal complaint against Beijing as both of his potential successors push the domestic political debate in an protectionist direction on the campaign trail.

The new case brought by the US president with the World Trade Organisation challenges Beijing's export restrictions on key commodities needed by US manufacturers and was accompanied by sharp rhetoric from the White House.

"It all comes down to fair competition — a notion that is fundamental to who we are as Americans," said vice-president Joe Biden.

The complaint is the latest sign that sentiment in Washington, which last year appeared ready to embrace trade deals with the EU and Asia, has become more volatile towards free trade amid rising anger in the electorate.

It also comes as Brussels is moving to ease its own tensions with Beijing. During an EU-China summit in Beijing yesterday, the two sides announced a new working group to monitor pricing and public subsidies to steel mills in China.

Jean-Claude Juncker, European Commission president, said that the new group would be allowed to test Chinese pledges to trim the excess capacity that is swamping world steel markets.

The move is aimed at EU leaders who have linked a resolution of the steel dispute to China's claim for market economy status at the WTO. If Beijing is able to win the status, major economies would be limited in punitive tariffs they could impose for trade violations.

The US filing complains that Chinese duties on nine key commodities — including copper, cobalt, tantalum and tin — are unfair export restrictions that enable Beijing to make important raw materials available to its own manufacturers at artificially low prices.

Mr Obama had hoped that trade would be one of his key economic legacies, particularly a 12-nation Asian trade deal, the Trans-Pacific Partnership, that has languished on Capitol Hill.

The TPP, which covers about 40 per cent of the global economy, is the largest regional trade deal ever negotiated by the US and is seen by its backers as an important component of US strategic efforts to counter what Washington sees as China's increasingly aggressive bid for dominance in the Asia-Pacific.

> 'It all comes down to fair competition — a notion that is fundamental to who we are as Americans'
> Joe Biden

But it has been opposed by presidential candidates, Democrat Hillary Clinton and Republican Donald Trump, threatening what the administration still hopes will be its approval by Congress later this year.

Partly to counter that and the accusation by Mr Trump and other Republicans that it has been weak on China the Obama administration has been stepping up its trade actions against Beijing.

The new case is the 13th brought to the WTO by the Obama administration, which Mr Biden said had moved "more aggressively than any previous administration in history" to take on China and enforce US trade laws.

## Briefing

**▸ Shale tipped as lowest-cost oil**
US shale is the lowest-cost option for future oil production and is likely to attract more investment than competing projects such as deepwater fields, the Wood Mackenzie consultancy, said. — PAGE 13

**▸ Uber forced to withdraw from Hungary**
Car-hailing app Uber is to quit Hungary following the launch of new laws that allow authorities to penalise drivers and block internet access to "illegal dispatcher services". — PAGE 13

**▸ Japan's emperor wants to abdicate**
Emperor Akihito of Japan, aged 82, wants to abdicate "in the next few years". Such a move would be the first for almost two centuries and would shock a country in which he symbolises the stability of Japan. — PAGE 2

**▸ Merkel rival hit by court ruling**
Sigmar Gabriel, one of Angela Merkel's main rivals, was struggling to contain the fallout from a court judgment accusing him of "bias" and "secrecy" in a ruling on a supermarket merger plan. — PAGE 4

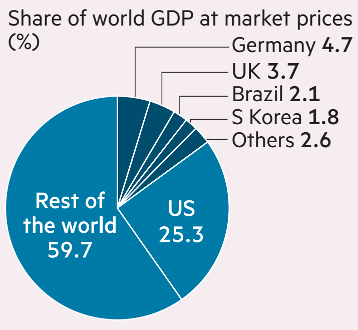
**▸ D Börse shareholders back LSE link**
Deutsche Börse said that the majority of its shareholders had backed its proposed merger with the London Stock Exchange. — PAGE 14

**▸ Foreign troops urged for South Sudan**
International troops are needed to restore peace and prevent a repeat of violence in South Sudan's capital that left hundreds of people dead, one of the warring sides has said. — PAGE 3; EDITORIAL COMMENT, PAGE 8

**▸ Mafia boss Provenzano dies, aged 83**
One of Italy's most notorious mafia dons, who helped establish the Corleonesi clan's dominance by using brutal violence that rattled Italy, has died behind bars at the age of 83. — PAGE 4

## Datawatch

**Countries with female leaders**
Share of world GDP at market prices (%)




The UK is now the second-largest economy with a female head of government, after Germany. Women-led countries produce about 15 per cent of global GDP, which will rise to 40 per cent if Hillary Clinton becomes US president

Sources: IMF; FT research

**Brazil moves to bolster central bank's credibility**
Interview ▸ PAGE 3

# 'Pokémon Go' developer to let retailers sponsor locations on its virtual maps

TIM BRADSHAW — SAN FRANCISCO
LEO LEWIS — TOKYO

**The developer behind *Pokémon Go*, the smash hit mobile game that has taken the US and Australia by storm and sent Nintendo shares soaring 50 per cent, is planning to let companies advertise on its virtual map.**

John Hanke, chief executive of Niantic, which developed *Pokémon Go* in partnership with the Japanese games group, said "sponsored locations" would provide extra revenue on top of in-app purchases of virtual items.

Players of *Pokémon Go* chase the cartoon creatures at "pokestops" on a customised version of Google Maps, finding real-world locations using their smartphones.

Since the game's launch in the US and Australia a week ago, speculation has surged over the game's future power as a cash cow to retailers and other cravers of footfall.

"There are several ways that we see the potential for significant monetisation of *Pokémon Go* by Nintendo, and one of them is certainly the potential for paid advertising or paid deals that encourage players to come to a particular building or store. It is a huge opportunity," said Atul Goyal, analyst at Jefferies.

Niantic's previous game, *Ingress*, involved a similar network of virtual "portals" mapped to on-street locations, where companies paid for in-game promotions in the hope of driving customers to their stores.

In an interview with the Financial Times, Mr Hanke hinted that similar advertisements would soon be coming to *Pokémon Go*. Alongside in-app payments, "there is a second component to our business model at Niantic, which is this concept of sponsored locations", Mr Hanke said, where companies "pay us to be locations within the virtual game board — the premise being that it is an inducement that drives foot traffic".

Advertisers are charged on a "cost per visit" basis, similar to the "cost per click" used in Google's search advertising, he said.

While he would not comment on any such sponsorship deals for *Pokémon Go*, Mr Hanke said: "There will be things that we say about that in the future."

Some US retailers have found that a course positioning of a "pokestop" on their premises has driven a rush of footfall, with some insisting that Pokémon "hunters" buy something before they can play the game in their stores.

**John Gapper** page 9


| | | | |
|---|---|---|---|
| Austria | €3.60 | Luxembourg | €3.60 |
| Bahrain | Din1.7 | Macedonia | Den220 |
| Belgium | €3.60 | Malta | €3.50 |
| Bulgaria | Lev7.50 | Morocco | Dh43 |
| Croatia | Kn27.50 | Netherlands | €3.60 |
| Cyprus | €3.50 | Norway | NKr35 |
| Czech Rep | Kc100 | Oman | OR1.50 |
| Denmark | DKr32 | Pakistan | Rupee 280 |
| Egypt | E£20 | Poland | Zl 18 |
| Finland | €4.10 | Portugal | €3.50 |
| France | €3.60 | Qatar | QR15 |
| Germany | €3.60 | Romania | Ron17 |
| Gibraltar | £2.70 | Russia | €5.00 |
| Greece | €3.50 | Serbia | NewD420 |
| Hungary | Ft1090 | Slovak Rep | €3.60 |
| India | Rup195 | Slovenia | €3.50 |
| Italy | €3.50 | Spain | €3.50 |
| Kazakhstan | US$5.50 | Sweden | SKr37 |
| Kenya | Kshs300 | Switzerland | SFr5.90 |
| Latvia | €6.99 | Tunisia | Din7.50 |
| Lebanon | LBP7500 | Turkey | TL10 |
| Lithuania | €4.30 | UAE | Dh15.00 |



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## World Markets

**STOCK MARKETS**

| | Jul 13 | prev | %chg |
|---|---|---|---|
| S&P 500 | 2148.15 | 2152.14 | -0.19 |
| Nasdaq Composite | 5009.95 | 5022.82 | -0.26 |
| Dow Jones Ind | 18327.36 | 18347.67 | -0.11 |
| FTSEurofirst 300 | 1326.30 | 1330.46 | -0.31 |
| Euro Stoxx 50 | 2934.13 | 2933.44 | 0.02 |
| FTSE 100 | 6670.40 | 6680.69 | -0.15 |
| FTSE All-Share | 3607.61 | 3613.66 | -0.17 |
| CAC 40 | 4335.26 | 4331.38 | 0.09 |
| Xetra Dax | 9930.71 | 9964.07 | -0.33 |
| Nikkei | 16231.43 | 16095.65 | 0.84 |
| Hang Seng | 21322.37 | 21224.74 | 0.46 |
| FTSE All World $ | 270.06 | 269.68 | 0.14 |

**CURRENCIES**

| | Jul 13 | prev | | Jul 13 | prev |
|---|---|---|---|---|---|
| $ per € | 1.110 | 1.107 | € per $ | 0.901 | 0.903 |
| $ per £ | 1.322 | 1.318 | £ per $ | 0.756 | 0.759 |
| £ per € | 0.840 | 0.840 | € per £ | 1.191 | 1.191 |
| ¥ per $ | 104.255 | 104.540 | ¥ per € | 115.759 | 115.721 |
| ¥ per £ | 137.831 | 137.821 | £ index | 79.515 | 78.415 |
| € index | 88.662 | 88.652 | $ index | 100.506 | 100.287 |
| SFr per € | 1.093 | 1.093 | SFr per £ | 1.301 | 1.302 |

**COMMODITIES**

| | Jul 13 | prev | %chg |
|---|---|---|---|
| Oil WTI $ | 44.86 | 46.80 | -4.15 |
| Oil Brent $ | 46.37 | 48.47 | -4.33 |
| Gold $ | 1342.40 | 1357.10 | -1.08 |

**INTEREST RATES**

| | price | yield | chg |
|---|---|---|---|
| US Gov 10 yr | 101.35 | 1.48 | -0.03 |
| UK Gov 10 yr | 106.10 | 0.87 | -0.08 |
| Ger Gov 10 yr | 106.20 | -0.14 | 0.00 |
| Jpn Gov 10 yr | 103.93 | -0.27 | 0.00 |
| US Gov 30 yr | 106.74 | 2.19 | -0.03 |
| Ger Gov 2 yr | 103.33 | -0.69 | 0.00 |
| | price | prev | chg |
| Fed Funds Eff | 0.38 | 0.37 | 0.01 |
| US 3m Bills | 0.29 | 0.31 | -0.02 |
| Euro Libor 3m | -0.30 | -0.30 | 0.00 |
| UK 3m | 0.50 | 0.50 | 0.00 |

Prices are latest for edition — Data provided by Morningstar

INTERNATIONAL

# Beijing's quest for South China Sea allies falters over hardline strategy

## Blunt efforts to win support hurt Asean ties as UN tribunal rules against territorial claims

TOM MITCHELL — BEIJING

When foreign ministers of Asean, the Association of Southeast Asian Nations, gathered to meet their Chinese counterpart in Kunming last month, they were surprised to find their homework had already been done for them.

Chinese diplomats, without prior consultation, handed them a 10-point "consensus" addressing issues such as territorial disputes in the South China Sea and asked them to sign it.

According to two diplomats who were present, the gambit provoked an angry reaction, particularly from the Philippine, Vietnamese and Malaysian delegations.

The incident demonstrated Beijing's struggle to win friends and influence potential regional allies in the run-up to Tuesday's decision by an international arbitration tribunal in The Hague, which dismissed its expansive territorial claims in the South China Sea and backed a series of complaints brought four years ago by the Philippines.

Although the UN tribunal did not rule on which countries owned dozens of contested reefs, many of which have since been transformed into man-made islands, it decreed that none of these was sufficiently substantial to command a 200-nautical-mile exclusive economic zone.

China had thus illegally infringed Manila's sovereign rights to fish and develop energy resources in its own coastal exclusive economic zone, the tribunal said.

Its finding will make it more difficult for the Chinese government to lobby international support. Late on Tuesday, however, the official Xinhua news agency ran a story with a headline hinting at how hard Beijing is still trying: "South China Sea ruling 'biased and legally flawed' [say] Sudan experts".

At home the Communist party has long deployed a Maoist "united front" strategy to isolate and then defeat potential opposition groups. While the tactic is a staple of domestic politics, Beijing is discovering it does not work as well overseas.

In Kunming the angry guests dismissed the "consensus" that was handed to them and drafted a statement of their own expressing concern over developments in the region that they said had "eroded trust and confidence" — a reference to China's island-building activities on contested reefs in the Spratly Islands.

Chinese diplomats had to scramble to defeat the countermotion, drawing on support from Asean allies such as Cambodia and Laos.

Diplomats say that, adding insult to injury, they were subjected to an angry lecture by Liu Zhenmin, a vice-foreign minister responsible for boundary issues and maritime affairs.

"The Chinese over-reached and it backfired," says a diplomat who attended the meeting. "There is a nicer way to say these things but instead their message was, 'We're right and you're wrong'."

Yanmei Xie, a regional security expert at the International Crisis Group, says the Asean foreign ministers, some of whom enjoy the rank of deputy prime minister at home, did not take kindly to being treated as underlings by a Chinese vice-foreign minister.

"That really hardened attitudes against China and contributed to Asean coming up with the joint statement," she says. "Although they later retracted it, the statement was still out there in public."

China's relationship with Asean as a whole is at its "lowest point in years", Ms Xie adds.

It was in many ways a replay of an angry 2010 encounter between Yang Jiechi, China's foreign minister at the time, and his Asean counterparts in Hanoi. "China is a big country and you are small countries, and that is a fact," he said.

Many regional experts cite the exchange as the trigger for US President Barack Obama's military "pivot" to the Asia-Pacific region.

In recent years China's extensive reclamation of contested reefs, turning them into potential military bases within easy reach of the Philippines and Vietnam, has increased regional receptiveness to a more robust US presence. As one US diplomat puts it: "Our attitude is 'OK, you take the rocks — we'll take the region'."

Beijing's efforts to win allies farther afield are also proving difficult.

"Nearly 60 countries support China [on the South China Sea issue]," a foreign ministry spokesman said last month. "Compared with seven or eight countries that hold the opposite position. I think the figure itself speaks volumes."

Xinhua reported yesterday that more than 70 countries and international organisations were in support of "China's principled position".

However, according to diplomats familiar with the lobbying effort, some countries have been surprised to find themselves cited as supporters of Beijing's position. "Slovenia was not happy after it appeared on one state media list, and demanded to be taken off," says a person familiar with the EU member's complaint.

Jamil Anderlini page 9



**Taiping Island, one of the contested Spratly Islands. Left, Liu Zhenmin, China vice-foreign minister, responds to the tribunal ruling yesterday in Beijing. Right, a protest in the Philippines on Tuesday over China's stance**
How Hwee Young/EPA; Dondi Tawatao/Getty

### Satire
### Philippines bears brunt of cartoonists' mockery

In the wake of a UN tribunal's comprehensive repudiation of Beijing's territorial claims in the South China Sea, nationalist Chinese cartoonists saved their poison for print.

Many of the cartoons distributed on Weibo, China's Twitter equivalent, or printed by media outlets depicted the Philippines as a China provincial wannabe and US lackey. One portrayed the island nation begging to be absorbed into the Qing dynasty, only to be denied and ending up leased to the US as a colony in 1898.

Many Chinese believe the Philippines was front-running for the US in its arbitration suit, which argued that Beijing was in violation of its obligations as a signatory of the UN Convention on the Law of the Sea.

Adding to their ire, the US is not an Unclos signatory but has urged China to abide by Tuesday's ruling.

Derogatory depictions were common, including a portrayal of former Philippine president Benigno Aquino III as a monkey. Mr Aquino, who has likened China's behaviour in the South China Sea to German expansionism in Europe before the outbreak of the second world war, initiated the suit in January 2013.

Fuxing Road, a China Daily cartoon, showed a Philippine tarsier, a Southeast Asian primate, boasting to a Chinese panda about having "been there since the 1970s". "Well, we've been sailing and fishing in the South China Sea since before Jesus Christ was born," the panda replies in a reference to its rival's Christian tradition. The cartoon's name is a reference to China's own "road to national rejuvenation". *Tom Mitchell and Michelle Winglee*

### Asia powerhouse

## China to face calls for more stimulus if growth stalls

GABRIEL WILDAU — SHANGHAI

China will report gross domestic product data for the second quarter tomorrow amid worries about the country's economic slowdown and the health of its financial system. Here are the most important points to watch:

**Headline growth**

China's GDP growth has slowed for four of the past five and 15 of the past 20 quarters. The legislature approved a full-year growth target of 6.5 to 7 per cent for 2016, down from last year's target of "around 7 per cent". Actual growth was 6.9 per cent last year and 6.7 per cent in the first quarter. Economists expect 6.6 per cent growth for the second quarter, according to a Reuters poll. If growth falls short of that level, policymakers will face more pressure to increase fiscal and monetary stimulus.

**Real estate**

The revival of China's property market, especially in large cities, has been crucial to enabling China's economy to avoid a hard landing. But growth in property investment slowed in May following four straight months of acceleration, hinting that developers believe the rally may not last. China will release property investment, construction and sales data along with GDP. If activity remains strong it will be a sign that real estate will continue to support growth in the second half.

**Infrastructure**

Despite modest progress towards rebalancing in recent years, investment in fixed assets remains the bedrock of China's economy. Over the past year, however, private investment in new factories and equipment has cratered. In response, the government has deployed state-owned enterprises to boost investment in roads, railways and sewer systems. The GDP data will reveal how much infrastructure investment has contributed to overall growth. If its contribution is high, the government will face a tough choice on whether to pile on more stimulus or allow growth to slip.

**Financial services**

The second quarter of 2015 was the peak of China's stock market bubble. Trading commissions and margin lending boosted profits of securities companies and led to a big contribution to overall GDP growth from financial services.

But trading volumes in recent months have been a fraction of their peaks from last year. The high base of comparison means that year-on-year growth in financial services is likely to fall in the second quarter and may even be negative.

**'Other' services**

Strong growth of services cushioned the blow from the slowdown in China's industrial economy. A broad category called "other" services includes many of the service sectors where growth is thought to be strongest, including healthcare, education and entertainment.

Inflation-adjusted growth of other services dipped from 9.9 per cent in the fourth quarter of 2015 to 8.7 per cent in the first quarter this year. A further growth decline will signal that the potential of services to buffer China's overall growth slowdown is limited.




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### Akihito

## Japan's ageing emperor wants to abdicate, media say

ROBIN HARDING — TOKYO

**Emperor Akihito wants to end his reign and abdicate, public broadcaster NHK reported yesterday, a move that would be without precedent in modern Japan.**

An abdication, which would come in the "next few years", would be the first in Japan in two centuries. It would mean 56-year-old Crown Prince Naruhito, the emperor's eldest son, succeeding to the Chrysanthemum Throne.

Although Emperor Akihito is 82 and has suffered from ill health in recent years, his abdication would still shock a country where he symbolises the stability and continuity of the Japanese state.

The Imperial Household Agency was not immediately available for comment. But NHK often transmits quasi-official information from the palace and is unlikely to speculate on a matter of such national significance.

NHK reported the emperor was reluctant to reduce his official duties or rely on others to stand in for him as he grows older.

He believed the role should be filled by somebody who can carry out its constitutional duties as a symbol of the state, NHK added.

There is no provision in Japan that allows an emperor to abdicate, so legislation would be needed to make it possible.

Increased lifespans mean hereditary rulers often live into advanced old age, giving more reason for abdication. In 2013, Queen Beatrix of the Netherlands abdicated in favour of her son, while Pope Benedict also resigned that year.

Emperor Akihito acceded to the throne in 1989, the 125th in a line of succession that dates back to 660BC, according to genealogy published by the household agency.

Although in earlier eras the emperor was often forced to abdicate, the last to do so was Emperor Kokaku in 1817, when real power in Japan still rested with the military shogunate.

Emperor Akihito has suffered various health problems, including a diagnosis of prostate cancer in 2002 and heart problems last year. He suffered a bout of influenza in February.

However, this year, the emperor and his wife, Michiko, made a state visit to the Philippines, where they paid respects to the war dead of both sides.

Although heavily constrained by his constitutional role, Emperor Akihito has sought to heal the wounds of Japan's history, expressing last year his "deep remorse" on the 70th anniversary of the second world war.

At his birthday press conference last year, the emperor hinted his role was starting to weigh on him.

**Japan's Emperor Akihito, 82, says he is beginning to feel his age**

"I am beginning to feel my age and there were times when I made some mistakes at events," he said.

At a couple of events last year, the emperor spoke at the wrong moment or had to check his schedule.

"It is my intention to minimise such incidents by continuing to do the best I can when carrying out each and every event," he added.

He spoke about the importance of correctly remembering history — a topic where the imperial family often seems at odds with Japan's rightwing revisionists, even though in theory they revere the emperor above all else.

"With each passing year, we will have more and more Japanese who have never experienced war, but I believe having thorough knowledge about the last war and deepening our thoughts about the war is most important for the future of Japan," he said.

Crown Prince Naruhito's only child is a girl, Aiko, who cannot inherit under Japan's male-only succession laws. The second in line to the throne is Prince Hisahito, a child of Emperor Akihito's younger son.

# Brazil fights to end credibility questions over its central bank

## Rumours of political interference in monetary policy persisted under Rousseff

JOE LEAHY AND SAMANTHA PEARSON
BRASILIA

Brazil's government is formulating a constitutional amendment that would for the first time formally enshrine the autonomy of the central bank, the institution's new chief says.

The law would give the central bank licence to use whatever instruments it considered necessary to meet its objectives, which include financial stability and meeting an inflation target set in consultation with the government.

"There is a [bill] that will say explicitly that the central bank is autonomous: we call it operational autonomy," said Ilan Goldfajn, who became its chief last month.

The law, which could go to Congress as a constitutional amendment as early as this year, would aim to strengthen the central bank's credibility in markets by reducing perceptions that it is vulnerable to political interference.

Under president Dilma Rousseff, who has been suspended from power pending an impeachment process for allegedly manipulating the government budget, there were persistent rumours of intervention in monetary policy to meet political goals.

During her government, interest rates were pushed down to record lows even as inflation, Brazil's arch-enemy, was resurgent, undermining confidence in economic policy and culminating in a deep recession.

Mr Goldfajn, who was previously chief economist of Itaú Unibanco, Brazil's biggest private bank, in June took over from Alexandre Tombini, a career technocrat who ran the central bank under Ms Rousseff.

An urbane economist who completed his PhD at the Massachusetts Institute of Technology in the US, Mr Goldfajn also worked for the International Monetary Fund during the Asian financial crisis between 1996 and 1999 and then for the Brazilian central bank between 2000 and 2003.

He said the constitutional amendment would not grant the central bank complete independence because Brazil's inflation target would continue to be set by a monetary council, whose members included the planning and finance ministers.

But it would formalise what he central bank's existing "de facto" autonomy to use monetary policy and other instruments as it saw fit to meet this target.

In other measures, he said the central bank expected to come close to meeting its inflation target of 4.5 per cent by the end of next year. Annualised inflation was 8.84 per cent in June.

Mr Goldfajn said the central bank expected inflation to finish 2017 at 4.7 per cent compared with market forecasts for 5.5 per cent. "I would say the centre of the target next year is completely within our reach," he said.

Once it had met the target, the central bank would begin considering whether to lower it in the longer term, he said, hinting that this might happen after 2018.

"We don't think that 4.5 is the steady state target for Brazil over the long run," he said.

An essential part of this, however, would be the implementation of reforms proposed by the government of interim president Michel Temer to rein in an explosion in fiscal spending in Brazil, such as a constitutional amendment capping increases in budgetary expenditure at zero in real terms.

Other necessary reforms would include overhauling the country's unfunded social security system.

"Even to reach lower inflation next year, it is important to see some reforms," Mr Goldfajn said.

"What is relevant for the economy and for us is the perspective of regaining control of the public accounts."

He said the central bank's other key aim was the full implementation of a floating exchange rate regime.

Under Guido Mantega, Ms Rousseff's former finance minister, Brazil in 2011 fought a currency war in which it sought to weaken its currency, the real, against the dollar. Then, when the currency began to depreciate rapidly, the central bank started a swap programme that helped the market hedge its exposure to the weakening real while preventing a complete crash in the value of the Brazilian currency. At its peak, the central bank accumulated $110bn of these swaps, drawing criticism for the high cost of servicing the contracts.

During March and April, when the real appreciated ahead of the fall of Ms Rousseff, the central bank started unwinding the programme.

Mr Goldfajn said his aim now was to reduce the stock of swaps to zero from $60bn and rely more on the country's robust foreign exchange reserves of $370bn to provide confidence to the markets.

"It [the swaps] is an instrument that is healthy to reduce . . . because it generates perceptions that you are more vulnerable to depreciation; it creates perceptions that you are intervening too much," he said.

"I think it is healthy that you keep only the [foreign exchange] reserves on your balance sheet."


Rising up: demonstrators in São Paulo protest against increasing interest rates. Below: Ilan Goldfajn — Miguel Schincariol/AFP/Getty

British prime minister

# May's in-tray contains challenges on EU, foreign policy and social reform

GEORGE PARKER — LONDON

**Theresa May arrives at the black door of Number 10 Downing Street to be greeted by a daunting set of challenges. The new British prime minister's views on many issues are unclear or even unknown but there are clues as to how she might tackle her in-tray.**

### Brexit

Mrs May is setting up a Brexit department and will seek early meetings with senior EU leaders, notably Angela Merkel, German chancellor, to try to set a positive tone for what could be painful exit negotiations. But she is not looking for a way to sidestep the Brexit vote. "Brexit means Brexit," she said this week.

"There will be no attempts to remain inside the EU, no attempts to rejoin it by the back door and no second referendum."

The big decision is when to trigger the formal Article 50 exit clause (she says it will not be this year). Doing so puts the UK in a weak negotiating position because if no deal is reached after two years, Britain will have to leave the EU anyway. But Tory Eurosceptics will exert huge pressure on her to get on with Brexit.

### Foreign policy

Mrs May wants to build up Britain's trade relationships outside Europe but she will run into an immediate question on what to do about China. Chancellor George Osborne has sought to make Britain "China's number one partner in the west" but Nick Timothy, Mrs May's chief policy adviser, has been scathing about this approach. "What are the Chinese buying with their gold?" he asked in a ConservativeHome article last October. "The first thing on their shopping list is British silence on human rights abuses — and the government has been only too happy to oblige."

Otherwise, expect Mrs May to run an internationalist foreign policy to prove post-Brexit Britain remains outward looking. Given her Home Office background, security and counter-terrorism issues will be high on her agenda.

Like Ms Merkel, Mrs May's style is more about delivery than schmoozing. She is prepared to make enemies, as shown by her refusal to extradite the "seriously ill" Gary McKinnon, wanted by the US for computer hacking.

### Economy

Until recently, Mrs May's views on the economy were obscure but she has surprised some Tories in recent days by setting out an agenda that sounded remarkably like the 2015 Labour election manifesto.

She wants to put workers on company boards, curb executive pay, create a "proper industrial strategy", place controls on hostile foreign takeovers of British companies and launch another crackdown on corporate tax avoidance. She has also binned Mr Osborne's plan to run a budget surplus by 2020, signalling an end to austerity as she tries to improve the lives of working-class voters who overwhelmingly backed Brexit.

Mr Timothy is a guiding force. He idolises Joseph Chamberlain, "the forgotten hero" of the Conservative party, who championed social reforms in the early 20th century. "He gave the party an unambiguous mission: the betterment of Britain's social classes," Mr Timothy said. With Labour on its knees, expect Mrs May to make a push into the traditional territory of the left.

### Airports

A big decision awaits on where to build a new runway for London. Mrs May's Maidenhead constituency lies under the Heathrow flight path and she opposes the construction of a third runway there. Gatwick, the rival airport wanting to expand, has already written to urge her to authorise a second runway there, claiming it will be finished by 2025, which would allow her to open it at the end of a second term as prime minister.

### Social reform

Mrs May is tough on immigration but she also has a liberal reforming side — promoting women in politics, backing gay marriage and tackling "stop and search" by police, which predominantly targets black men.

She wants to bridge the gap between the young and old, the north and the south, and improve the lot of Britain's white working classes. But how brave will she be? Will she end the "triple lock" on pensions that continually boosts the incomes of the elderly while wages stagnate? Will she use the tax system to redistribute wealth or pay for a big public housing programme?

**Notebook** page 8
**Chris Giles** page 9

David Cameron, left, with Theresa May in the Commons yesterday — Reuters

Africa

# South Sudan warring faction calls for international troops

JOHN AGLIONBY
EAST AFRICA CORRESPONDENT

**International troops, preferably under the UN, are needed to restore peace and prevent a repeat of violence in South Sudan's capital Juba that left hundreds of people dead, one of the warring sides has said.**

East African foreign ministers also called for foreign military intervention after deep-seated mistrust between forces loyal to Salva Kiir, South Sudan's president, and Riek Machar, first vice-president, spilled over into five days of fighting that ended on Monday with a ceasefire that was still largely holding yesterday.

James Gatdet Dak, Mr Machar's spokesman, said the first vice-president had withdrawn his forces from Juba and would not return unless foreign troops arrived. "I cannot speculate what would happen if [foreign] troops are not deployed," he said yesterday. "But we hope the international community will do it if they don't want a return to war."

The UN has 12,000 peacekeepers in South Sudan but their mandate is to protect civilians and not intervene in fighting. Ban Ki-moon, secretary-general, has called for a strengthening of the UN mission's mandate but a spokeswoman for the mission to South Sudan said it did not have the capacity to provide a stabilisation force.

The UN Security Council was due to meet yesterday to discuss the situation.

However, many analysts are sceptical about whether a deployment would bring peace or stoke further conflict. Under the terms of an April peace deal that sought to end a two-and-a-half-year civil war between armies led by Mr Kiir and Mr Machar — and involving other armed groups — both men are allowed to keep more than 1,400 troops in the capital.

Mr Machar would "not restart the war", Mr Gatdet Dak insisted. "[But] we believe President Kiir's forces would take the opportunity to go on the offensive and we would defend ourselves."

Neither Mr Kiir nor his spokesman responded to requests for comment. However, the president has ordered his troops to respect the ceasefire and has said he is committed to the peace agreement.

Mr Gatdet Dak disputed this, saying some ministers in the unity government had been intimidated by Mr Kiir's forces since Monday and were staying at home. The death toll in the recent fighting was more than 1,000, he added — which is more than double the amount given by Mr Kiir's spokesman.

**Editorial Comment** page 8

Middle East

# Saudis' muted Eid celebrations blamed on austerity

SIMEON KERR — DUBAI

**After weeks of fasting, affluent Saudis typically spend, feast and travel as they celebrate Eid to mark the end of the holy month of Ramadan.**

Families gather in gleaming malls from Riyadh to Jeddah, picking up bargains and eating out at restaurants.

But this year the celebrations took place in a more frugal climate, one clouded by fragile consumer confidence and a stuttering economy as the oil-rich kingdom reels from the slump in crude prices and the impact of government austerity measures.

"The number one economic worry is the government budget, the cuts in spending and lower revenues," said a government employee who did not want to be named. "Everything else is a product of that — for example, sales in retail have taken a nosedive."

Fewer of his friends were travelling to Europe, he said, as they chose cheaper holidays close to home.

"Austerity is hitting hard, especially on the construction sector and consumer sentiment," said Jason Tuvey, Middle East economist at Capital Economics.

The research consultancy has said Saudi consumer spending growth is slowing sharply, and forecast that it will settle at 2 to 3 per cent during 2018 — a marked fall from the 6 to 7 per cent growth of the past decade. It is a trend that will add to the woes of businesses already grappling with radical government belt tightening.

Output from the private sector, excluding oil-related industries, expanded just 0.2 per cent year on year in the first quarter — its weakest growth since 1990. The trade, hotels and restaurants sector was among the worst performers, contracting 0.8 per cent.

"Our view is that growth should recover a bit in 2017 and 2018, but it will be really subdued as fiscal austerity has to continue for some time to put public finances and the external position on a sounder and more sustainable footing," said Mr Tuvey.

The economic pain brought by austerity comes as Prince Mohammed bin Salman, the deputy crown prince, has launched a highly ambitious $72bn reform programme that seeks to wean the economy off oil by reducing the role of the state and bolstering private enterprise.

Riyadh reacted to low oil prices by slashing government spending — the reduction in the first quarter was 30 per cent. It is burning through its foreign reserves and raising billions of dollars of debt internationally as it tries to finance a yawning budget deficit, while funding an increasingly assertive foreign policy, including a war in Yemen.

HSBC said in a recent note: "Despite a slowdown in domestic demand and cuts in public spending, we expect Saudi Arabia's external and fiscal account balances to remain deep in deficit, driving debt upward and leading to a further fall in reserves."

Hayat mall in Riyadh: retailers nationally have been badly hit — Fahad Shadeed/Reuters

With consumer confidence weak, Saudi retailers have been particularly badly hit by the downturn, with earnings down 45 per cent year on year in the first quarter.

Saudi banks, meanwhile, recorded a 3.4 per cent drop in deposits in May, the largest year-on-year decline for 22 years.

The central bank has allowed lenders to widen loan/deposit ratios to 90 per cent to deal with the liquidity squeeze. But they are still struggling to lend.

"Pressure on the banking system is high," said Mazen al-Sudairi, head of sellside research at Alistithmar Capital, a Riyadh-based broker. "The banks' spare capacity for lending is tightening."

Neighbouring Dubai, the regional financial hub and a favourite destination for Saudis looking to shop or holiday, is feeling the ripple effects.

This Eid the annual wave of Saudi tourists has failed to materialise, leaving rooms empty during what should have been one of the city's busiest periods. "The Saudis didn't come in force this year," said Russell Sharp, chief operating officer of Citymax Hotels.

Revenues per available room were down about fifth across the city, he said.

Last week's co-ordinated terrorist attacks at Saudi mosques contributed to the decline in outbound tourism. With the economic outlook uncertain, hoteliers fear a further dip this summer.

German Social Democrats

# Merkel rival damaged by court ruling

## Gabriel accused of bias and secrecy in decision over supermarket merger

STEFAN WAGSTYL — BERLIN

Sigmar Gabriel, a coalition partner of Angela Merkel and one of the German chancellor's chief rivals, was yesterday struggling to contain the fallout from a court judgment accusing him of "bias" and "secrecy" in a ruling on a supermarket merger plan.

The verdict could damage Mr Gabriel, leader of the Social Democrats, just as he is trying to present himself as a credible challenger to Ms Merkel in next year's parliamentary elections.

As he rushed back to Berlin from holiday to deal with the widening turmoil, the deputy chancellor and economy minister dismissed the court's accusations as "absurd" and accused the judges of mistakes of facts and legal interpretation. He left open the possibility of an appeal.

However, even senior SPD MPs were appalled at the damning verdict on the 56-year-old party leader. One party adviser said: "He made major mistakes that are unacceptable."

The case concerns the proposed rescue merger announced two years ago of the Edeka co-operative group, Germany's largest supermarket chain, with lossmaking Kaiser's Tengelmann, the seventh-biggest operator, owned by the family-run Tengelmann group.

Following complaints from rival chains, the Federal Cartel Office last year blocked the plan, saying it would cut competition in an already concentrated sector. But Mr Gabriel, worried about potential job losses, called in the deal under a rare procedure that allows the economy minister to intervene in competition decisions.

Earlier this year, he approved the merger on condition that Edeka kept open Kaiser's 450 stores for at least five years and cut no jobs for seven.

But competitor Rewe, which was mulling its own Kaiser's bid, appealed to the Düsseldorf Higher Regional Court, which late on Tuesday overruled Mr Gabriel. In a preliminary verdict the judges ruled he had raised "concern about bias" because he had held "secret talks" during the approval procedures with Edeka and Tengelmann bosses.

The court said: "The federal minister . . . should not have made a decision on the granting of approval [for the deal], because his behaviour in the approval procedures has given ground to concerns about bias on his part and of a lack of neutrality."

Mr Gabriel said "normal procedures" had been followed, and other parties, including Rewe, had been fully consulted. He rejected a specific court claim, that he had met the Tengelmann and Edeka bosses together with nobody else present. He said such a joint meeting had never taken place, only separate meetings with the Tengelmann and Edeka chiefs, with ministerial officials in attendance.

> 'His behaviour has given ground to concerns about bias on his part and of a lack of neutrality'
> Court verdict

The SPD adviser said the party would stand by Mr Gabriel. But the affair could yet reopen a debate about his suitability for running against Ms Merkel next year as chancellor candidate.

Mr Gabriel had hoped that, as deputy chancellor, he could broaden his popularity, by pushing vote-winning policies such as easier early retirements.

But with the SPD falling in the polls, the strategy is failing. Like Ms Merkel's CDU/CSU, the Social Democrats have lost ground in the refugee crisis to the rightwing Alternative for Germany.

However, unlike the CDU/CSU, which was in good shape before the migrant crisis struck, the SPD was already in trouble, having won only 25.7 per cent in 2013. Recent opinion polls put the party on as little as 20 per cent, its worst rating.

France. Iconoclast

# Macron hesitates before seeking highest office

ANNE-SYLVAINE CHASSANY — PARIS

**Looking forward: Emmanuel Macron addresses a rally of his En Marche! movement in Paris on Tuesday**
Christophe Petit Tesson/EPA

Emmanuel Macron's first speech as chief of his newly created political party included the typical calls for change, jabs at France's political "system" and promises of electoral victory when the country goes to the polls next year.

Yet the 38-year-old economy minister failed to deliver what his supporters desire most: confirmation that he would step down from the Socialist government to run for president.

Mr Macron's hesitation, during a speech on Tuesday evening in Paris to his new political movement — En Marche! (Forward!) — reflects his unique position in French politics these days.

His youth and iconoclastic approach have generated enthusiasm across the political spectrum. But it is not clear whether he can convert that popularity into votes 10 months before presidential elections.

Announcing a candidacy without a solid electoral base would leave him vulnerable when confronting political heavyweights, including President François Hollande, and to the harsh realities of France's traditional left-right political divide.

"He's keeping his options open as long as possible because his chances to win next year are very thin at the moment," said Bruno Cautrès, a political sciences professor at Sciences Po.

A former Rothschild banker who has not held elected office, Mr Macron was brought into the government by Mr Hollande to help revitalise the stagnant economy.

Attacks on the 35-hour working week and the wealth tax have aroused interest and made him popular among centrist voters.

His pro-business stance and views on the need to tear down regulations that protect vested interests at the expense of "outsiders" have struck a chord with socially minded entrepreneurs and top executives.

But only about 15 per cent of French voters declared in May that they would "most likely" vote for him in 2017, according to a Sciences Po Cevipof study. The percentage rises to 24 per cent for those who earn more than €6,000 a month.

As Prof Cautrès observed: "People find Mr Macron likeable because he is young, new and bright, but his electoral base is far from being a tsunami."

If anything, time on the campaign trail has highlighted Mr Macron's frailties as a candidate. One is his elitist image. During a visit to Lunel, in the south, in May, he was seen telling off a far-left activist who was stalking him. "You're not going to scare me with your T-shirt. The best way to pay for a suit — that's work!" Mr Macron lashed out. (Work, the activist replied, was what he yearned for.)

The minister's reputation took another hit a few weeks later after revelations that the value of his wife's holiday home had been underestimated in the calculation of his wealth tax.

His presidential ambitions have also strained his relationship with Mr Hollande and Prime Minister Manuel Valls while irking Socialist lawmakers.

His party, which promises to transcend France's traditional divide, is a direct challenge to them.

On Tuesday in Paris Mr Macron sought to galvanise his troops and prepare them for the difficulties ahead.

"We are the movement of hope — nothing will stop it," he told 3,000 fans gathered at a venue in the well-heeled 5th arrondissement. "We'll bring it all the way to 2017, all the way to victory."

"Macron, president!" the crowd roared, apparently elated by the three-hour meeting.

Friends and advisers insist that he will probably resign from the government after the summer lull.

With Marine Le Pen, the far-right leader, almost certain to qualify for the second round of the presidential elections, the next leader of France would be the candidate who manages to qualify with her, they argued. "He just needs to attract between 18 and 23 per cent of the votes in the first round," said Mathieu Laine, founder of consulting group Altermind, who is an adviser.

To that end Mr Macron tried on Tuesday to reach out to what he dubbed "immobile France" — those who fear globalisation and worry about the future.

He promised to simplify rules and fight interest groups, such as taxis and unions, which he blamed for maintaining the status quo.

"By protecting, we have created victims, the weakest," Mr Macron said. "When we liberalise, we give them back access."

In other words, Mr Cautrès noted, his electoral challenge was to persuade France's working class that a dose of deregulation and market-oriented policies was the answer to their problems.

GLOBAL INSIGHT

MADRID

Tobias Buck

## For Spain the reality is when, not if, Rajoy takes starring role

Watching Spanish politics at the moment is rather like watching a romantic movie with the sound turned off: you know exactly how it will end but the plot twists that take you there are hard to fathom.

In the case of Spain, it is all but certain that Mariano Rajoy will fulfil his heart's desire and win a second four-year term as prime minister. What is unclear is how he will get there, who will support him along the way, and how long it will take. More puzzling still is what will happen once Mr Rajoy gets to office: will he lead a lasting and stable government, or will there be turbulence and strife from the outset?

Spain's acting prime minister won a surprisingly clear victory in last month's general election, which followed an inconclusive vote in December. His conservative Popular party emerged with 33 per cent of the vote and 137 seats in the 350-seat parliament. Though far from an absolute majority, the PP's lead over its nearest rival is so substantial that an alternative governing majority is in effect impossible.

Mr Rajoy himself fancies the idea of a so-called grand coalition with the centre-left Socialists that could also take in the centrist Ciudadanos party. That option, however, looks increasingly out of reach (even Ciudadanos has ruled out a formal coalition). Failing that, Mr Rajoy is ready to lead a minority government but he wants to secure the advance support of the opposition for several measures, most notably the 2017 budget.

Spain, Mr Rajoy argues, needs stability. To him it makes little sense to win a second term only to face a budget crisis in parliament a few weeks later.

> The Socialists will somehow have to find a way to let him govern once again

The Socialist party (PSOE), unsurprisingly, sees things a little differently. Party leader Pedro Sánchez told Mr Rajoy yesterday the centre-left would vote against his candidacy to lead a new government, and bluntly urged him to seek allies elsewhere.

Most officials and analysts believe the PSOE will ultimately soften its No to an "All right, then, if you must". To be re-elected prime minister, Mr Rajoy needs at least a handful of Socialist lawmakers to abstain (or possibly quite a few more, depending on how his talks with Ciudadanos and other smaller parties go). The only alternative is a third general election, which no one, except perhaps Mr Rajoy himself, can afford.

Unless they want to feel the fury of an already restless electorate, the PSOE will somehow have to find a way to let Mr Rajoy govern once again. The question is when the U-turn will happen — before the August break or after — and what, if anything, the Socialists want in return. One school of thought says this is the moment to extract concessions from the centre-right, on social spending or scrapping recent curbs on the right to demonstrate.

The rival view is that the Socialists must keep as much distance as possible from Mr Rajoy. Allowing him to govern for the sake of political stability is one thing; striking a partial government deal is another. With the far-left Unidos Podemos movement still hard on its heels, the PSOE will be desperate not to appear as if it is betraying its leftwing roots.

Either way the Socialists want a weakened Mr Rajoy to have to fight for every vote in parliament. They may be ready to back him on matters of critical importance — when it comes to avoiding further budgetary clashes with Brussels, for example. But they will also be keen to build occasional majorities without the PP, such as on anti-corruption matters or appointing a head to Spain's much-criticised public broadcaster.

Opposition leaders have grudgingly come to accept that Mr Rajoy has won a fresh mandate to govern. But that, they insist, does not give him the right to expect an easy life. Spain's next legislature may turn out to be a shortlived affair — but it should be a wild one while it lasts.

*tobias.buck@ft.com*

EU security

# Berlin makes push for European co-operation on defence without threat of UK opposition

STEFAN WAGSTYL — BERLIN

**The Brexit vote gives the rest of the EU a chance to increase security and foreign policy co-operation without the risk of London blocking proposals, Germany's defence minister has said in a plea for more joint European military initiatives.**

Ursula von der Leyen's appeal is the latest call from EU politicians to move on from the UK's planned departure, and to find ways to strengthen the bloc and rally public support.

The UK had "paralysed" European efforts to integrate security policy and "consistently blocked everything with the label 'Europe' on it", Ms von der Leyen said yesterday as she launched Germany's defence white paper.

"Europeans are right to expect that the EU tackles the big questions," she said, adding that after the UK's departure "we now have that opportunity".

The paper calls for "permanent structured co-operation in the defence sector", which is allowed under the EU's 2007 Lisbon treaty but has so far not been effectively implemented, partly because of British opposition.

The report, approved by Chancellor Angela Merkel's government, also urged steps that could eventually lead to the creation of an EU army, such as the integration of military capabilities and defence industries. "We are aiming to establish a permanent [European] civil-military operational headquarters in the medium term," it said.

> 'The UK has consistently blocked everything with the label "Europe" on it'
> Ursula von der Leyen

However, objections to such developments have come not only from London — few EU countries have followed up on promises over military co-operation.

Formal military co-operation in western Europe dates back to the formation of the Western European Union in 1954, which predates the EU by three years. However, joint military activities were limited before the WEU was wound up in 2011.

Military co-operation focused on the much larger Nato alliance, where such ventures were built around the huge capacities of the US and its willingness to protect Europe.

With the US urging European countries to take on a bigger share of the defence burden, EU-based co-operation is gathering support. As a practical step, Ms von der Leyen's paper suggests that citizens of other EU countries could in future join the German army, which has struggled to find enough recruits since conscription ended five years ago.

The report builds on pledges made by Ms von der Leyen and other ministers to increase Germany's commitments, including defence spending, which is planned to rise from €34bn in 2015 to €39.2bn in 2020. The German defence budget's share of gross domestic product is 1.2 per cent, well below the 2 per cent Nato target.

Organised crime

# Sicilian Mafia boss who ordered 1992 murder of two judges in Palermo dies behind bars

JAMES POLITI — ROME

**Bernardo Provenzano, one of Italy's most notorious Mafia bosses, has died at the age of 83, after participating in some of the most vicious murders in the history of the criminal organisation, spending 43 years as a fugitive and the past 10 years of his life in prison.**

Along with Salvatore Riina, Provenzano helped establish the dominance of the Corleonesi clan over other Sicilian families during the 1960s, 1970s and 1980s by using brutal violence that rattled Italy and led to an aggressive crackdown by the authorities.

He was captured only in 2006 after police tracked a delivery of laundry to his modest hide-out in a farmhouse outside Corleone, the mountainous Sicilian town where he was born. The arrest was a symbol of the gradual but substantial decline of the Sicilian Mafia. Sentenced to a life term, he died yesterday from a heart attack.

Provenzano had several nicknames, but the one that stuck was "the tractor" — for the way he mowed his victims down. This was earned due to his ruthlessness in a series of attacks stretching back to the so-called Viale Lazio massacre, the 1969 killing of a rival boss, Michele Cavataio.

Provenzano led an extremely violent, if successful, campaign in the early 1980s, known as the second Mafia war, against other clans in Palermo which had taken control of the burgeoning heroin trade.

**Bernardo Provenzano: known as 'the tractor' for mowing his victims down**

Among them were members of the Inzerillo family, which had close ties with the Gambino crime syndicate in the US.

"[Provenzano and Riina] exterminated their rivals and there was a moment in the 1980s when it looked like Sicily could go the way of Mexico and become a narcostate," said John Dickie, professor of Italian studies at University College London.

Provenzano was convicted of ordering the 1992 murders of two judges, Giovanni Falcone and Paolo Borsellino, which perhaps more than any other episode of Mafia violence triggered outrage across Italian society.

But while Provenzano's ruthlessness kept him at the helm of the Sicilian Mafia, or Cosa Nostra, for decades, it also led to much greater scrutiny from Italian authorities.

This pressure, together with mounting disgust within Sicilian public opinion, put the crime organisation on a declining path from which it has never recovered.

Media freedom

# S Africa broadcaster dogged by censorship claims

## Decision to limit coverage of violent protests has led to fears for democracy

KRISTA MAHR — JOHANNESBURG

During white minority rule, the South African Broadcasting Corporation grew into a powerful tool of the apartheid regime as it selectively chose what to broadcast and whether or not to cover protests that raged across the country.

Even if it did report on a demonstration, more often than not the SABC's version of events was sanitised and, with no independent television news rival, it was the medium most South Africans were forced to rely on. It is a history that has meant the press freedom South Africa has enjoyed since it made the transition to democracy in 1994 has been one of the most cherished assets of the post-apartheid era.

But there are growing concerns that those freedoms may be slipping as the SABC has become embroiled in a scandal, amid fresh allegations of censorship at the public broadcaster.

The controversy erupted when the SABC announced it would stop broadcasting footage of the destruction of public property during protests. This prompted condemnation from civil society groups, who said limiting the coverage of the almost daily protests in townships across the country in the run-up to crucial local elections next month was undemocratic.

"It represents a fundamental and clear threat to our democracy," said William Bird, director of Media Monitoring Africa, a group that brought a complaint on the decision to South Africa's independent broadcast regulator. "They're adopting a process or policy that seems to be from 35 years ago."

The controversy deepened when Jimi Matthews, SABC acting chief executive, stepped down last month, saying in a resignation letter the "prevailing, corrosive atmosphere" at the news group had affected his "moral judgment".

Several other journalists at the broadcaster were also suspended or have faced disciplinary action for questioning editorial policies, according to local media reports, which prompted protests outside SABC offices.

The uproar comes at a delicate time for the ruling African National Congress, which faces a tough fight in the August polls, particularly in urban areas, and it will be counting on votes in its rural strongholds where SABC broadcasts play a vital role.

New private stations and satellite TV have meant South Africans do have a wide range of channels to choose from. But millions of poorer South Africans rely on the wide-reaching public news service for radio and television broadcasts, particularly in rural areas.


**A protest in Johannesburg in support of SABC suspended journalists**

Critics have previously complained that SABC coverage has become increasingly biased in favour of the ANC in recent years, an allegation that echoes the way the broadcaster was used by the government under apartheid.

William Gumede, executive chair of the Democracy Works Foundation, said to see censorship being raised at the SABC, whose transformation from a government mouthpiece to a vehicle of free information embodied the idealism of the democratic era, was "heartbreaking". He added: "We are now copying all of the autocratic things that we fought against. It's like the epitome of how things have gone wrong."

The SABC has said it is wrong to characterise its decision not to cover the protests as censorship, saying it was made as part as effort not to "glamorise" the destruction of public property. Its spokesman did not immediately respond to a request for a comment.

But on Monday, South Africa's independent broadcast regulator ordered the SABC to overturn the decision, indicating the move was not in keeping with South Africa broadcasting laws. Mondli Makhanya, a veteran newspaper editor, said what was happening at the broadcaster was "extremely disconcerting".

The ANC's reaction to the controversy has been mixed. The party initially lashed out at Mr Matthews over his public resignation. But it subsequently softened its tone, emphasising its longstanding commitment to press freedom and blaming the crises at the public broadcaster on a lack of leadership.

But Hlaudi Motsoeneng, the controversial head of the SABC, has remained defiant, insisting he will fight the regulator's ruling in court if necessary.

IMF. 'Human face'

# Fight inequality to save globalisation, says Lagarde

## Fund's advice to US, France and Italy focuses on those who feel they have been left behind

SHAWN DONNAN — WASHINGTON

The US should increase its minimum wage and do more to counter a growing income polarisation; France needs to deploy public benefits better to reduce inequality; Italy ought to bring more women into its labour force.

For a long time the International Monetary Fund has had an image as a neoliberal bastion of bureaucrats with an obsession for fiscal rectitude and a tin ear for social and political consequences. But in its advice to three of its biggest members this week the fund displayed a concern with issues that a few years ago might have seemed out of step with its traditional focus on growth and budget deficits.

Confronted with this year's political howl against globalisation in the US and other western economies — and with the threat that this might yield very real consequences embodied in last month's British vote to exit the EU — the IMF is embracing its own brand of activism.

What began in recent years as a series of provocative papers emanating from its research department on topics such as inequality, gender economics and climate change is starting to manifest in some of the IMF's core work, such as this week's annual reviews of the US, French and Italian economies.

In an interview with the Financial Times to mark the start this month of her second five-year term as managing director, Christine Lagarde says she wants the IMF to go "deeper" and "further" in its work on topics such as income inequality. These issues are "macro-critical" in many countries, she says, pointing to a growing theme in IMF research.

A recent fund study of income polarisation in the US, for example, found that the hollowing out of the middle class had since 1998 lopped 3.5 per cent off consumption, the equivalent of a year's growth.

Tackling inequalities, Ms Lagarde argues, is vital to restoring confidence in the globalisation that has brought millions out of poverty but is under assault in rich economies, where not enough has been done to help those left behind.

"We still need to be rigorous [and] disciplined," Ms Lagarde says. "On occasion we will still make recommendations that people are not happy with, because it is hard. But . . . I would like the IMF to have that human face."

Not everyone is convinced that an organisation still viewed as a bogeyman, which appears only to deliver harsh medicine in times of crisis in many parts of the world, can become kinder and gentler. Sargon Nissan of the Bretton Woods Project, a London-based watchdog, says the changes Ms Lagarde is pushing are yet to filter through to the conditions it attaches to loans to poor countries.


Greece 'has not been a successful experience, let's face it, for anyone, particularly the Greek people'

Christine Lagarde, right

Looming over the initiative is the IMF's unhappy experience in Greece, where it has for years been accused of imposing excessive austerity on an economy now in its third European-led rescue. Ms Lagarde says the IMF is just a "convenient scapegoat" in Greece — especially given that it is arguing forcefully for Athens' European creditors to grant debt relief — but she concedes that "it has not been a successful experience, let's face it, for anyone, particularly for the Greek people themselves".

If critics see Greece as a failure of orthodox economics and last month's vote by the UK to leave the EU as evidence of the failures of globalisation, the IMF is still making the case that the alternatives are worse.

The sort of protectionist policies US Republican presidential candidate Donald Trump advocates would be "disastrous" for the global economy, Ms Lagarde says.

David Lipton, the IMF's number two and its top US official, says the possibility that voters in the US and other countries will elect populists keen to reverse globalisation is one of the biggest risks facing the world economy. "If those frustrations [about globalisation] end up being expressed in political action . . . that is a problem," he says.

**Pay pressure: workers in Washington last year demand an increase in the national minimum wage**
Al Drago/CQ Roll Call

But further down the ranks of the fund, there is a growing debate on how to tread the fine line on issues such as inequality and self-criticism. When a recent article by three senior economists in the IMF's flagship magazine carried the headline "Neoliberalism: Oversold?" it drew protests from traditionalists.

It also prompted a rapid IMF denial that a revolution against the free market was afoot at the fund. Indeed most of the fund's advice remains orthodox, and focused on fiscal policy and liberalising labour and other markets.

Ms Lagarde concedes that the IMF's work on inequality and other issues has been greeted "with a bit of cynicism and scepticism by some, including within this institution".

But she has at least succeeded in changing the debate within the fund. "It has now been accepted that we need to work on those areas," she says, "and I am very pleased."

Localisation

# World trade languishes as economies opt for greater protectionism

SHAWN DONNAN
WORLD TRADE EDITOR

**The slowdown in world trade has been much worse than previously reported, with global trade volumes plateauing over the past 18 months amid a rise in protectionism, according to a report.**

The analysis illustrates why business leaders such as GE's Jeff Immelt are anxious about trade and the world economy as politicians such as US Republican presidential candidate Donald Trump rail against "globalism" and promise to erect barriers to commerce.

Policymakers and economists have grown increasingly concerned about a slowdown in global trade growth. But according to a report by Global Trade Alert, which monitors protectionism around the world, that growth has disappeared with the volume of goods traded around the world stagnant since January 2015. Such a prolonged period of no growth was rare in economic history, said Simon Evenett, an economist at Switzerland's University of St Gallen and the report's lead author. "It really doesn't happen very much outside of recessions."

The report is based on data collected by the Netherlands Bureau of Economic Analysis, which publishes a monthly report on global trade volumes. Its latest data for April show both exports and imports globally remain below where they were in January 2015 and have moved very little since.

There is evidence that discriminatory measures are already affecting business decisions

Economists remain divided on the causes of the slowdown. While some blame a creeping protectionism that has begun to drag on the world's economy, others see long-term trends at play such as the shortening of global supply chains and the increasing role of digital trade.

But bodies such as the International Monetary Fund and the World Trade Organisation are paying increasing attention to protectionism. In the run-up to a meeting of G20 trade ministers last week, the WTO warned protectionist measures were being introduced at an accelerating rate and the IMF has expressed concerns about what it sees as another threat to a tepid global economy. The G20 ministers reiterated a post-crisis pledge to avoid any move to protectionism.

That message is at odds with much of the political debate in countries including the US, however. Mr Trump has been promising to rip up US trade deals such as the North American Free Trade Agreement and to impose punitive tariffs on goods from trading partners. Both he and his Democratic rival oppose a vast new Pacific Rim pact — the Trans-Pacific Partnership, which is awaiting congressional approval.

There is evidence that discriminatory measures, such as local content rules and subsidies for local industry, are already having an impact on business decisions. In May, Mr Immelt said that faced with rising barriers to trade, GE had decided to shift to a strategy of "localisation" rather than globalisation.

"In the face of a protectionist global environment, companies must navigate the world on their own," he said. "This requires dramatic transformation. Going forward: we will localise."

White House race

# Trump overtakes Clinton in vital swing states, polling shows

DEMETRI SEVASTOPULO
INDIANAPOLIS

**Donald Trump has overtaken rival Hillary Clinton in the crucial US swing states of Florida and Pennsylvania and caught up in Ohio in the latest polls, as speculation mounts about his choice of vice-presidential running mate.**

The Republican candidate leads Mrs Clinton by 3 points in Florida and 2 points in Pennsylvania, according to a Quinnipiac survey which also found the candidates tied in Ohio, one of the most critical swing states in the forthcoming general election.

The poll came as Mr Trump nears a decision on who is to be his choice for vice-president. The businessman and his family met Mike Pence, the Indiana governor, yesterday, while Mr Trump has campaigned with Chris Christie, the New Jersey governor, and Newt Gingrich, the former Speaker of the House of Representatives, both of whom are in the running.

While Mrs Clinton remains ahead of Mr Trump in the majority of national polls — with an average lead of 4.3 points according to Real Clear Politics — those figures mask the fact that the US election is typically determined by a small number of swing states, particularly Florida and Ohio.

The numbers also reinforce how Mr Trump's controversial rhetoric appears to have less impact on his level of support than either political pundits or conventional wisdom had expected.

"We know the battlegrounds are going to be close until the end. That's why we need to keep working so hard. Trump is a serious danger, folks," Brian Fallon, the Clinton campaign spokesman, tweeted following the release of the Quinnipiac poll.

**Donald Trump: still struggling to convince establishment Republicans**

The poll showed Mr Trump with an even bigger lead in Florida and Pennsylvania, and ahead in Ohio, when it included Gary Johnson, the Libertarian party candidate, and Jill Stein, the Green party candidate.

Some political analysts and some Democrats believe that his appeal to working-class voters who have seen their jobs leave for overseas will give Mr Trump a better shot at winning an historically blue state such as Pennsylvania, which has not voted for a Republican since George H W Bush in 1988.

Mr Trump campaigned with Mr Pence in Indiana on Tuesday, teasing the crowd that the governor may be changing jobs. "I don't know whether he's going to be your governor or your vice-president," he said. "Who the hell knows."

Mrs Clinton received more bad news on Tuesday when a McClatchy/Marist poll showed that her national lead over Mr Trump had narrowed from 9 points in March — before either candidate had secured the nomination — to 3 points.

On the Republican side, Mr Trump is struggling to convince establishment Republicans to vigorously back his campaign. Two of his former rivals for the nomination, Florida senator Marco Rubio and Ohio governor John Kasich, have decided not to attend the party convention in Cleveland next week.

FT BIG READ. SOFTBANK

Masayoshi Son has cashed in $18bn worth of Alibaba and Supercell shares, lost his successor amid allegations of a conflict of interest and hinted at future plans. So what is in store for the Japanese group?

*By Kana Inagaki and Leo Lewis*

# Waiting for the next 'big idea'

Masayoshi Son, the founder and chairman of SoftBank, has big ideas. Big, "crazy ideas", he says. Now, liberated from the restraining hand of the company's non-Japanese ex-president, backed by a $40bn war chest and driven by a self-declared zeal, he is free to let those big ideas take shape.

The only snag — both for shareholders and for SoftBank's 63,000 employees — is that no one is quite sure what these big ideas might be or whether Japan's most adventurous technology company is in any shape to execute them.

What investors really want to know is whether Mr Son's plans can restore some of the lustre lost by the heavily indebted group in recent years. They expect a huge, transformational acquisition of the sort that Mr Son has pulled off in the past — for instance when he acquired Vodafone's lossmaking Japanese arm for $15bn in 2006.

Those expectations are being fuelled by the notion that SoftBank is more than just Japan's third-largest telecoms company with a market value of $68bn: it is one of the few remaining symbols of a corporate Japan that remains in love with risk. A major deal right now could position SoftBank to compete against top global tech firms such as Google, but critics warn it could also plunge the group into the same trap that has left so many Japanese names, from Toshiba to Sharp, looking globally irrelevant.

SoftBank will be well positioned, analysts say, to thrive in the era of the internet of things, with a meaningful bet on robotics and artificial intelligence, an area Mr Son is willing to "devote" his life to. Other observers speculate that it may move further into mobile content or execute another deal in the US as it seeks to turn round lossmaking Sprint, the fourth-largest US telecoms operator acquired in 2013.

"We're constantly guessing what Mr Son is up to by observing his expressions," says Toshiyasu Ohashi, chief credit analyst at Daiwa Securities. "But a big acquisition now will be hugely negative [to the credit market]."

Grand statements are Mr Son's stock in trade. "I always have a big idea. It pops up every two to three years," he tells the Financial Times. But his last one — the recruitment of Nikesh Arora from Google as company president and his successor — failed. Mr Arora's abrupt resignation last month came just as he was starting his mission of transforming the company from "Japan's SoftBank" into a global powerhouse.

"The next investment Mr Son makes will provide an answer to why Mr Arora left," says Mana Nakazora, chief credit analyst at BNP Paribas. "It will probably expose the difference in thinking between the two men."

The outgoing president, he says, was focused on creating an Asian version of Warren Buffett's Berkshire Hathaway investment vehicle by finding young entrepreneurs and promising start-ups. Mr Son still supports that vision but his blueprint for SoftBank's transformation may be bigger in the disruptive age of AI and smart machines.

The founder's ambitions, however, may be curtailed by questions over whether SoftBank has the firepower to buy large assets. The group is saddled with debt of $115bn after paying $22bn for Sprint to position itself as a global rival to AT&T and Verizon. A year later, US regulators thwarted Mr Son's plans to merge Sprint with T-Mobile US.

Last year, Mr Son attempted to sell the struggling US unit but failed to find a buyer. Since then, the recovery at Sprint has been slow despite aggressive cost cuts, network improvements and additions of higher-value customers. In the three months to the end of March, Sprint saw its net loss widen to $554m from $224m a year ago, even as it posted a positive operating income for the first time in nine years.

"The biggest priority for the SoftBank group as a whole is to improve Sprint's earnings and its competitiveness, and to clean up its balance sheet," says Tetsuro Tsusaka, a Morgan Stanley analyst in Tokyo. "For SoftBank, now is not the phase for big investment."

### Brake power

The recruitment of Mr Arora was viewed as a natural phase of evolution as Mr Son's empire had grown too big for him to navigate on his own. Established in 1981 as a tiny software distributor with two workers, SoftBank now has big stakes in telecoms, the ecommerce markets in China and India, and Hollywood.

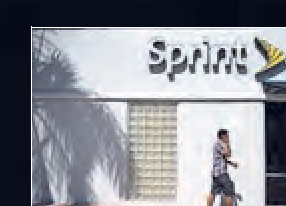
**Chief executive Masayoshi Son, speaking in May. One investor says SoftBank has rid itself of a divisive figure in Nikesh Arora, the former president, but still looks splintered**
Thomas Peter/Reuters

Selected acquisitions by SoftBank since 2008
(includes size of stakes if not 100%)


2000
**Alibaba (China) — $20m**
(now owns 28%)

2012
**Fukuoka Dome (baseball stadium, Japan) — $1.1bn**

2012
**eAccess (Japan) — $4.4bn**



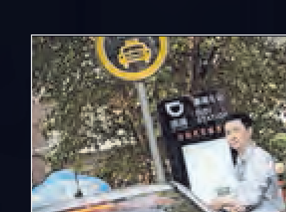

2013
**Sprint Nextel (US) — $22bn** (77%)

2013
**Brightstar (US) — $1.1bn** (57%*)

2013
**Supercell (Finland) — $1.5bn** (51%**)

2014
**Snapdeal (India) — $627m**
(undisclosed**)

2015
**Coupang (S Korea) — $1bn**
(undisclosed)



2016
**Didi Chuxing (China) — $4.5bn**
(18%)

*later purchase took its ownership in Brightstar to 100%
**do not include later investments
Sources: Dealogic, FT research

More than two-thirds of its $9.7bn in annual operating profit is still generated from its domestic telecoms arm, providing SoftBank with steady cash flows to fund Mr Son's investments.

In earlier days, the deals — such as stakes in China's ecommerce giant Alibaba, internet portal Yahoo Japan and Finnish games developer Supercell — were driven more by Mr Son's gut feeling and friendships than anything else. Those instincts have proved profitable. He paid $20m in 2008 for the Alibaba stake; it was worth $65bn when he sold some of the shares earlier this year.

"Until now I spotted all the deals and carried them out on my own. But with Nikesh on board, I will act as the accelerator and he will serve as the brake so this will be a very balanced partnership," Mr Son told analysts in 2014, according to Mr Ohashi.

The two men's approach to dealmaking could not be more at odds, a contrast that was laid bare when they decided to invest $627m in Snapdeal, an online India marketplace, a few weeks after Mr Arora joined.

"When I said, 'Nikesh, let's go invest immediately', Nikesh's first reaction was: 'We need to have a thorough probe done by Deutsche Bank or other bankers.' So I responded, 'They won't get it so let's trust our instincts,'" Mr Son said, when he reprised the episode last year.

Rather than take his lead from his boss, however, when Mr Arora arrived at SoftBank he began by inspecting almost every international transaction handled by the group's investment arm, even those already approved by Mr Son, according to a person who worked with Mr Arora. His more forensic approach drew resentment from some of those who were used to seeking approval from Mr Son alone.

"We took two years to do the transformation to SoftBank 2.0, which meant cleaner structures, better governance and some light processes that would outlast individuals," Mr Arora said by email after his resignation. He added his efforts were "well received" by the SoftBank team in Japan and Mr Son.

Mr Arora remains as an adviser to SoftBank, but his exit as president has raised concern among investors and analysts that it could trigger another period of freewheeling investment.

"Without Mr Arora to exercise the brakes, we are concerned about how Mr Son's investments will be controlled in the future," says Mr Ohashi.

### Shareholder discontent

Mr Arora's resignation — ending an 18-month public love-in between the Indian-born executive and his boss — followed the emergence of a letter from anonymous shareholders alleging potential conflicts of interest involving his roles outside SoftBank and international deals that he engineered.

It also raised questions over Mr Arora's remuneration — he was paid ¥25bn ($240m) over two years, the highest pay of any executive in Japan — and called for an investigation.

An independent review of the claims by the company found no case to answer. It has since emerged, however, that the US Securities and Exchange Commission has informally approached lawyers representing the anonymous shareholders with a request for further information.

Mr Arora has denied the allegations in the shareholder letter. Neither SoftBank nor Mr Arora have been contacted by the SEC, according to people with knowledge of the probe.

Finding a replacement will be difficult. Mr Son says he was just not ready to retire next year even though he had given Mr Arora assurances that he would. Investors say they are having a hard time believing that and say tensions between the two men went deeper than succession timing.

One fund manager, with a significant stake in the company, says SoftBank has rid itself of a divisive figure but in doing so looks more splintered. Mr Son remains demonstrably in charge, he adds, but the once dynamic and subversive group is starting to look more and more like any other Japanese company: political and bureaucratic.

"It is suffering from a big-company syndrome," says one veteran SoftBank employee. "Mr Son wanted to change the way things were done but he struggled against the traditional factions that wanted to protect the status quo."

That internal tension could be crucial to the future of the group. Mr Arora's departure raises questions over the future of more than 40 deals he oversaw in the past 18 months. But Shigeyuki Kishida, a telecoms consultant at InfoCom Research, a Tokyo-based think-tank, says the short-term impact of the management change should be minor.

Many of the investments in start-ups — such as India's Snapdeal, China's largest ride-hailing app Didi Chuxing and San Francisco-based online lender SoFi — have already been concluded.

Mr Son is adamant that he does not regret hiring Mr Arora, according to a person who works closely with the chief executive. It was Mr Arora who convinced Mr Son to cash in on his investments this year, resulting in the sale of $18.6bn worth of shares in Alibaba and Supercell. In addition to those proceeds, SoftBank has $25bn in cash.

### Artificial fascination

The asset sales have intensified the guessing game around the likely target of any new gamble by the mercurial chief executive. Few analysts believe the company's insistence that the money will be used to pay down debt, which has triggered the wild speculation over what Mr Son will do next.

Several analysts point to Mr Son's fascination with robotics and "singularity" — the time when machines become smarter than humans. SoftBank is already selling Pepper, a companion robot that entertains people by talking and responding to their emotions.

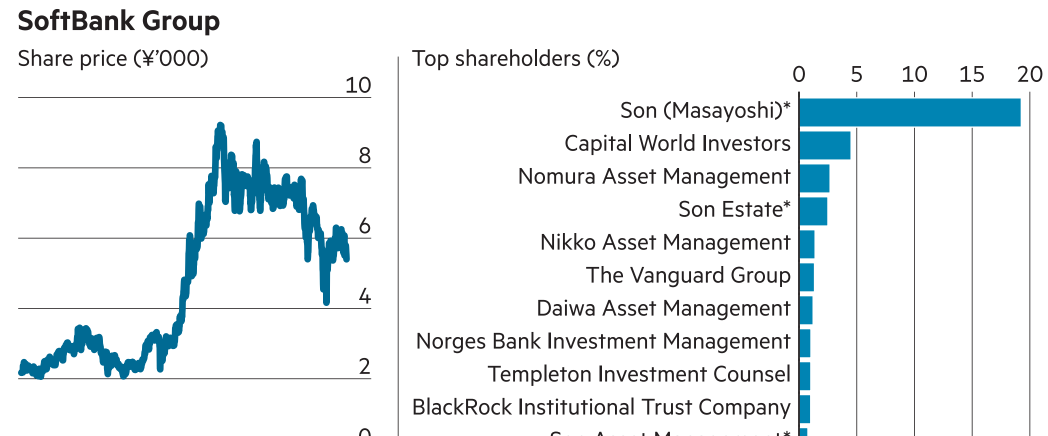
"There is a possibility that the next big investment could be in artificial intelligence and robotics," Mr Kishida says. "AI is expected to penetrate various industries and Mr Son wants to create an underlying platform to support those industries."

The longer Mr Son taunts investors with his big crazy ideas though, the quicker they will want to know exactly what it is that he has in mind. The disappointment will be greater if the idea is not, in fact, all that big or crazy.

"There will come a time when the human race and super intelligence will coexist to create a richer and happier life," Mr Son told shareholders last month. "That is what I want to devote my life to. I believe information revolution in the true sense has just begun. My work is not done yet."

The arrival of super-smart machines could solve another of Mr Son's problems: succession. "There will come an age when our average life expectancy will reach 200 years," says Mr Son meaning he may never need to retire.

**SoftBank Group**




Sources: Thomson Reuters Datastream; Thomson Reuters
* Controlled by Masayoshi Son

**$68bn**
Soft k's rket
l e t s rr
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**$240m**
kesh ror 's
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'Without Mr Arora [below] to exercise the brakes, we are concerned about how Mr Son's investments will be controlled'

'Throwing darts'

**Arora's Indian strategy faces scrutiny**

Nikesh Arora's brief tenure at SoftBank helped drive a wave of funding into India's young internet companies in 2014 and 2015, which inflated the valuations of some of them beyond realistic levels, according to investors and entrepreneurs in the sector.

That exuberance has dissipated in recent months amid concern over frothy valuations and an unclear path to profitability for many start-ups, which added to the pressure on the former president and chief operating officer.

In October 2014, within weeks of Mr Arora's arrival, SoftBank announced investments of $627m in Snapdeal, an online marketplace, and $210m in Ola Cabs, a taxi-hailing company. Less than a month later it invested $75m into the property portal Housing.com. SoftBank made further large investments into all three companies over the past year, as well as in Grofers, a grocery delivery company, and in OYO Rooms, a hotel booking service.

But Ola has lost substantial market share to Uber, Snapdeal has fallen to a distant third in sales behind Flipkart and Amazon, while Housing.com was plunged into turmoil last year when its 26-year-old chief executive was forced out after a dispute with investors.

The latter investment was highlighted in a January shareholder letter to SoftBank that successfully urged an internal investigation of Mr Arora, describing his investment strategy as "throwing darts". That letter also took issue with his acquisition of a personal stake in Snapdeal alongside SoftBank's initial investment. It said this could have given him an incentive to oversee last year's additional injection by SoftBank, which gave Snapdeal a higher valuation.

Mr Arora has denied the allegations made in the anonymous letter. *Simon Mundy*

FINANCIAL TIMES
'Without fear and without favour'
THURSDAY 14 JULY 2016

# A helpful gesture from the Bank of England

*Quarter-point reduction in interest rates could shore up confidence*

A cut in interest rates by the Bank of England today will, at the very least, have the virtue of novelty. The central bank's Monetary Policy Committee last adjusted the cost of borrowing in March 2009, when Gordon Brown was still prime minister and the UK was reeling from the shock of the global financial crisis.

The UK's vote in the June 23 referendum to leave the EU is nothing like as dramatic as was the collapse of Lehman Brothers in September 2008 and the subsequent near-freezing up of the global financial system. Nonetheless, the shock to the confidence of consumers, businesses and investors that appears to have been delivered by the Brexit vote justifies a cut in official rates from 0.5 per cent to 0.25 per cent.

True, such marginal changes in borrowing costs are unlikely to do much directly to boost consumption or investment, or even to stimulate investor enthusiasm for UK assets. Any more sustained shock to the UK economy will need a more drastic monetary or fiscal policy response. But it will at least provide some reassurance that, after such a long period of inaction, the BoE stands ready to counter jolts to confidence by showing that it is prepared to act.

The bank — or at least its governor, Mark Carney — has made a move much more likely by prefiguring it, telling the public shortly after the referendum result that some monetary policy easing would probably be required over the summer. The pronouncement, a personal intervention by Mr Carney himself, was not in the collective decision-making tradition of the bank's Monetary Policy Committee, whose other members might feel aggrieved that they have been bounced into supporting a cut in rates.

Still, with sterling dropping sharply and a general flight to quality in financial assets and markets, Mr Carney could argue that getting ahead of the game was important on this occasion. Certainly, it has created expectations of an easing: on Wednesday investors were betting heavily on a quarter-point cut in rates.

It should be clear that, even if the cut is delivered, it will not do much by itself. Interest rates are already so low that there can be few investment projects or consumption decisions for which an extra quarter-point off base rates is going to make much difference. Certainly, a company holding off on expanding production in the UK because of uncertainty about future market access to the EU is hardly going to be tempted to go ahead by an incremental reduction in its financing costs.

If the survey and anecdotal evidence of weakening consumer and business confidence turn into a serious economic slowdown, the BoE will have to resort to more substantive measures, such as returning to quantitative easing or even introducing "helicopter drops" of money.

As ever, unorthodox monetary policy while interest rates are near zero is best conducted in association with expansionary fiscal policy. David Cameron's administration showed some flexibility in adjusting its budget targets in the face of an economic slowdown; its successor may well have to do more.

A quarter-point cut today will be at best an insurance policy and at least simply a gesture towards cushioning the UK economy from the shock caused by a prospective EU exit. But it will show a central bank willing to head off problems rather than simply react to them. As the British economy enters a period where a political decision has cast deep uncertainty, a reduction in borrowing costs is the right thing to do.

# South Sudan, the world's youngest failed nation

*Robust, international engagement is necessary to halt the slide to war*

Nowhere in Africa has there been a liberation movement that transitioned seamlessly out of the bush into government. But never has there been a group that has failed so spectacularly as the Sudan People's Liberation Movement (SPLM). Successive regimes in Khartoum bombed and enslaved the people of South Sudan. In the five years since they celebrated independence from the north, the South Sudanese have discovered that their own rulers can be just as brutal and corrupt.

Since last week, forces loyal to president Salva Kiir and vice-president Riek Machar, who leads a breakaway faction of the SPLM, have jeopardised an 11-month old peace deal by reigniting conflict in Juba, the capital. Tens of thousands of civilians have been forced to flee or take shelter in churches and UN compounds. Hundreds have been killed. UN peacekeepers look on, as they have done on numerous occasions since the outbreak of civil war between the rival forces in 2013, unable to prevent the massacre of innocents.

This is foremost a failure of South Sudan's leadership. The many foreign architects of the peace process that led to independence also share some blame. It was only with consistent, top-level engagement from Washington, London and the east African region that Khartoum was persuaded to sign the 2005 accord that paved the way for self-determination. The same countries that helped to end one war — between north and south — approached the brief peace in the south with naive paternalism and, at times, complacency. Now that it has all gone wrong, they appear guilty of looking the other way.

The western and multilateral donors, on whom the building of the world's youngest nation to a great extent depended, are paralysed by a dilemma of their own making. Beyond an elaborate patronage system run by grasping generals and local warlords, and a national dependency on aid, the donors have little to show for the billions of dollars they have thrown into propping up the nascent state.

They are reluctant to throw good money after bad. Yet, without greater external support there is little chance that the main protagonists can keep their forces in line. South Sudan is bankrupt. Oil production has halved as a result of fighting between the ethnic Dinka and Nuer. Much of the production has been sold forward anyway, and what is left in revenues the south must share with Khartoum, which owns the export pipelines. The uncomfortable truth is that the peace may have to be bought. China, which has the greatest interests in the oil — as well as peacekeepers in the UN force, two of whom were killed this week — can also help.

Carrots can only be part of the solution. Some of the actors in this conflict are guilty of crimes against humanity. They should be subject to sanctions, and should know that they will ultimately be held to account. An arms embargo, long overdue but under consideration at the UN Security Council, should be put in place immediately.

Meanwhile, the African Union (AU), which is meeting at a summit this weekend, can take the lead in sending extra troops to protect civilians. The AU has standby forces precisely for this kind of crisis and the 12,000 UN peacekeepers in place are insufficient.

For two days, a shaky ceasefire has taken hold — enough time for the evacuation of foreign nationals. But without far more robust and high level international engagement, there are few grounds to be optimistic that the peace will last.

# Letters

**Email:** letters.editor@ft.com or
**Fax:** +44 (0) 20 7979 7790
Include daytime telephone number and full address
**Corrections:** corrections@ft.com

## Co-determination has served Germany well since the war

Sir, Ursula Weidenfeld paints a one-sided and negative picture of co-determination ("Beware of imitating the German model, Mrs May", July 13). As an essential part of the social market economy model, it has served Germany incredibly well after the war and is supported overwhelmingly by business. In particular, Ms Weidenfeld's assertion that it hinders innovation couldn't be further from the truth — just look at Siemens, Bosch or the car industry, and the leading position Germany holds with patent applications.

Apart from the obvious advantage of communicating with your workforce, co-determination also acts as a safeguard against the kind of takeovers that are for the benefit of shareholders and management only. It forces companies into long-term thinking and more concern for market share than for short-term profit maximisation, with the survival and wellbeing of the company being paramount goals.

Clearly Theresa May will have huge opposition to backing something like a stakeholder model, as Tony Blair experienced when he made his famous speech in Singapore in January 1996. Rupert Murdoch stopped him in his tracks. The first salvos have already been fired.

**Bob Bischof**
*London SW1, UK*
*Vice-President, German British Chamber of Industry & Commerce; Chairman, German British Forum*

Sir, Ursula Weidenfeld (July 13) makes some erroneous assumptions. First, Theresa May is too intelligent to lift a German policy designed in the 1970s and impose it on the UK today. Second, the argument that worker representation on the boards of companies reduces innovation and profitability is unsubstantiated. Brexit provides a positive impetus for rethinking the way Britain conducts its industrial strategy adapted for an upwardly mobile workforce.

**Dr Victoria Preston**
*Cultural Capital Consultancy,*
*London N1, UK*

Sir, Ursula Weidenfeld is right to caution the UK on the possible adoption of the German model of mandatory employee representation on corporate boards ("Beware of imitating the German model, Mrs May", July 13). It is far from clear that it has benefited the German economy or its companies. Furthermore, it would be far more difficult to implement in the UK's unitary board regime than in Germany's dual board system.

Theresa May's instincts on this issue are admirable. Publicly listed companies need to be better governed. But putting representatives of one, albeit very important, stakeholder group on boards is not the answer. Her attention should instead be on holding the owners of listed companies accountable for their stewardship of the businesses they invest in. It should be their role to ensure that companies are run in the interests of a wide range of stakeholders. Sadly, this is still far too often not happening.

**Robin Hindle Fisher**
*Partner,*
*Hay Hill Partners,*
*London W1, UK*

## Unlooked-for outcomes and paradoxes continue to amaze even now

Sir, Even as the weeks go by, I still continue to be by struck the continuing unforeseen outcomes, unintended consequences and paradoxes unleashed by the Brexit vote. For example, as a consequence of Brexiters' actions, the UK now has a new Conservative leader criticising capitalism and espousing pro-Labour policies in tones that would have been radical for even a traditional Labour leadership to espouse ("May targets excesses of business elite in effort to unite electorate fractured by poll", July 13). Not only that, but some of these ideas are taken directly from practices in many EU countries, but which were totally ignored during the UK's membership of the club.

Even more interesting is that this sort of Tory stance is not the return to capricious, Dickensian employment conditions many Remainers asserted would come about. Of course, such views ignored the fact that EU membership had not prevented such exploitative work in the UK with low pay, below-minimum wages, zero-hours contracts, the gig economy and poor productivity. These are interesting times indeed.

**Prof Chris Rowley**
*Cass Business School,*
*London EC1, UK*

'I don't mean to besmirch David Cameron's legacy but I want a divorce'

## Some positivity, please, FT

Sir, You lost the Brexit argument. I voted "In" but I lost too. We must accept the verdict. Your constant talking down of the economy sounds like very sour grapes. And is, dare I say it, irresponsible. There is plenty to be positive about.

**Johnnie Boden**
*Chairman,*
*Boden,*
*London NW10, UK*

## Sanders' meaningless consolation prize

Sir, Bernie Sanders has officially overthrown his own "political revolution", letting down millions of supporters ("Clinton basks in Sanders' endorsement", July 13). Considering our rigged primary system — Hillary Clinton had more than 400 pledged superdelegates before the first vote was cast — the Democratic Party nothing. He would have been well within his rights to run as an independent. Given the American public's strong dissatisfaction with Mrs Clinton and Donald Trump, he has squandered a rare opportunity.

Senator Sanders has spent the past couple of weeks negotiating the principles and goals of his party's platform, gaining concessions and inserting his own planks. He is now trying to convince those who voted for him that this is a valuable consolation prize. But party platforms are nothing more than a cruel hoax on the electorate. They are worthless.

**John Paris**
*Atlanta, GA, US*

## The clean economy cannot come too soon

Sir, You bemoan the world's growing dependence on Middle Eastern oil ("Sinking deeper into our addiction to oil", editorial, July 11); but your proposed solutions are typical of the short-sighted timidity that allows this addiction to continue.

It will certainly be "difficult to kick". That is no excuse for not trying very hard. The idea that oil dependence will continue for "decades to come", and that efforts to reduce the use of fossil fuels can achieve "only so much", is dangerous, because it allows us to think that the sensible way forward is with small and cautious half-steps. This is true of many political problems; it is emphatically not so when dealing with climate change.

The geopolitical danger of getting our energy from unpleasant regimes in violent places is real, but it is a distraction from the bigger dangers of a warming planet: rising seas, crop failures, more extreme weather, and so on. A dramatic oil price shock, if it spurs sleepy fossil fuel-dependent countries to clean up their energy systems, will be a very welcome thing. If all it does is reawaken shale oil production in the US and elsewhere, it will have been a gigantic missed opportunity.

So you are right to call on oil-importing nations to "lean against the wind" with energy efficiency and other measures, and to cut fossil fuel subsidies "wherever politics allow it", yet this is far from enough. A bolder mind might find that politics could allow meaningful action: a hefty carbon tax, for example, offset by reductions in income taxes.

Whatever the exact solution is to be, nibbling around the edges of the problem will not do. The kind of thinking shown in your editorial might possibly get us to a clean and efficient economy towards the end of this century, but the likely consequences of delaying so long are not pleasant to contemplate.

**David A McM Wilson**
*Brookline, MA, US*

## You never can tell with dictators

Sir, Like Vernon Bogdanor (Letters, July 12), I have also been ploughing through the Chilcot report with increasing dismay at the narrow legalistic, at times naive and ahistorical observations that permeate the conclusions. And like Professor Bogdanor's, my mind turned to comparisons with Mussolini and Hitler circa 1935.

When the French Admiral Jean Decoux told the First Sea Lord Admiral Sir Ernle Chatfield that war with Italy was unlikely, a commonsense minded Chatfield replied: "With dictators you never can tell. No one can say for sure that Mr Mussolini will not take some serious decisions someday." As indeed, all too soon, regrettably proved to be the case.

**Dr David D Hebb**
*London N1, UK*

## Now it's politics showing business the way to go

Sir, In business, we are used to calling on government to learn lessons from private enterprise. There are times, however, when companies have to admit that politics is leading the way. With Theresa May's success in the Conservative leadership race, combined with the domination of women in Scottish politics, the performance of Britain's large companies in appointing female executives looks even more miserable.

There are as many men called Michael or John running Britain's biggest 100 companies as there are women in total (six). Overall, fewer than one in 10 executives is female.

Come on boys, you can do better than this.

**Lady Barbara Judge**
*Chairman,*
*Institute of Directors*

## Is this not discrimination?

Sir, According to your newspaper (July 12), Theresa May promised "more women in prominent positions". Is this not discrimination as it implies the promotion of candidates based on gender rather than merit?

**Simon Jaffé**
*Director,*
*Olim,*
*London W1, UK*

## How it all ended in tears for Lord Lundy

Sir, Regarding Andrea Leadsom's tears (report, July 12): Hilaire Belloc's Lord Lundy got there first. He "was far too freely moved to tears", with the consequence:

*"We had intended you to be*
*The next Prime Minister but three:*
*The stocks were sold; the Press was squared:*
*The Middle Class was quite prepared.*
*But as it is! . . . My language fails!*
*Go out and govern New South Wales!"*

**Will Pedder**
*London SE5, UK*

Sir, Any reason why your front-page story on Theresa May (July 12) included two references to female politicians crying? Does it happen more often than male politicians breaking into song?

**Anne-Marie Otey**
*Pasadena, CA, US*

# *March of the sisterhood — from Brexit to the White House*

## Notebook
*by Roula Khalaf*

Are women about to rule the world? You might think so if you've been watching the schoolboy squabbles over Brexit that felled several of Britain's leading political men in the wake of the EU referendum. You might get the same impression if you are watching the race for the White House, where the male Republican candidate threatens to upend the international order while his female Democratic rival offers the only chance of continuity, if not sanity.

In fact, Theresa May, the grown-up of British politics, was only catapulted to the top of both the Conservative party and the government this week after her male colleagues spectacularly self-destructed. And if the not-so-popular Hillary Clinton, the first female Democratic nominee, is elected president in November, it will be in no small part because Donald Trump proved too outrageous even for those yearning for someone outrageously different.

But imagine Mrs Clinton in the Oval Office, Mrs May in Downing Street, with Angela Merkel in charge in Germany, Christine Lagarde at the helm of the International Monetary Fund, and probably a female secretary-general of the UN by the end of the year, and the world suddenly looks quite different.

In Britain the march of the sisterhood has been accelerated by the EU referendum. Angela Eagle, a chess champion and former shadow business secretary, is challenging Jeremy Corbyn for the leadership of the opposition Labour party. Though her chances look slim, she is right to say "it's about time" a party that purports to be a champion of equality "had a woman leader". Scotland has two impressive women at the top: Nicola Sturgeon, the Scottish National party first minister, and Ruth Davidson, leader of the Scottish Conservatives. Northern Ireland has Arlene Foster as first minister.

So what, you might ask. Look around the world and these women are the exception rather than the rule. UN data about women's participation highlight the gender inequality. Figures from 2015 show that only 22 per cent of all national MPs were female, disappointingly slow progress from about 11 per cent two decades earlier. The same data show that 11 women served as heads of state and 10 as heads of government. Women lag far behind when it comes to cabinet positions, too: only 17 per cent of ministers are women, most of them in charge of areas such as education and the family.

Researchers find that the gender gap in politics is exacerbated by entrenched attitudes. Women are less interested in politics and less exposed to political information. Female politicians also suffer from stereotyping, with disproportionate attention paid to their appearance.

They are subjected to questions that are irrelevant to men and should be equally irrelevant to women, says Professor Donatella Campus of the university of Bologna. If they have children, they are asked whether they have time for politics; if they do not have children, they are deemed too ambitious. Sometimes women fall for the stereotype, as illustrated by the dramatic downfall of Andrea Leadsom. Her leadership challenge to Mrs May collapsed after she claimed that her rival, who has no children, had less of a stake in Britain's future.

True, women leaders are not always good for women. Margaret Thatcher, the first woman elected UK prime minister, used to say: "If you want something done ask a woman; if you want something said ask a man." But she was no feminist and she appointed only one woman to her cabinet. Ms Merkel has done better but she, too, has been criticised for not putting women's issues top of her agenda. Mrs Clinton, meanwhile, is passionately disliked by younger women.

Mrs May, however, promises to be different and her record suggests she could succeed. She is co-founder of Women2Win, a campaign to elect more Conservative women. Despite the scale of her task — to unite a bitterly divided country and party while charting the UK's future relationship with Europe — she has already indicated that women's political advancement will not be ignored on her watch. And, amid increasing speculation about the composition of her cabinet, she has let it be known that she will appoint women to senior positions.

*roula.khalaf@ft.com*

# Comment

## Cameron is gone but he leaves behind a happy ship

OPINION
Vernon Bogdanor

Europe has helped to destroy five of the past six Conservative prime ministers: Harold Macmillan, Edward Heath, Margaret Thatcher, John Major and now David Cameron. It was not meant to be like this.

When Mr Cameron became leader in 2005, he hoped to stop his party "banging on" about Europe so that it could engage with the real needs of voters. Despite the outcome of the EU referendum, his legacy is unlikely to be defined by Europe as Anthony Eden's is by the Suez crisis of 1956.

The Tories were in a parlous state in 2005. They were no longer the natural party of government, having lost three consecutive elections. Their support was concentrated among the elderly and the socially and geographically immobile. They were anathema to ethnic minorities and students. Since Tony Blair won his landslide majority in 1997 for the Labour party, the Conservatives had lost ground in constituencies where the proportion of university graduates was above average. By 2005, they were the third party among students, behind the Liberal Democrats, and seen by many, as Theresa May pointed out, as the "nasty party".

Not only did they appear socially illiberal. Their reputation as sound custodians of the economy had not recovered from the European Exchange Rate Mechanism debacle under Mr Major in 1992. The party seemed unelectable.

Mr Cameron changed all that. From student days, he had seen that the Tories could be successful only if they combined economic efficiency with social liberalism. He came to power in 2010 in the middle of an economic crisis but, five years later, Britain had the fastest growth rate among the G8.

Indeed, it was economic success that gave Brexiters the confidence to propose life outside the EU. At the time of the first Europe referendum in 1975, Britain's economic condition was such that Christopher Soames, the European commissioner, warned this was no time to leave a Christmas club, let alone the common market.

The recovery was, admittedly, concentrated in London and the British economy remained highly unbalanced. But George Osborne's Northern Powerhouse, a radical policy of devolving power to Greater Manchester and other urban centres, sought to remedy this while, at the same time, resolving the "English Question".

> Perhaps the most striking evidence of his approach is the good feeling he created in government

Mr Cameron's aim, however, was not simply to secure economic recovery. He also sought the "Big Society" — more equal life chances and an aspiration nation. Though blown off course by the economic crisis and Europe, he still achieved significant reforms. The expansion of academies and the introduction of free schools — 150 by 2015 — with reforms in the curriculum and the examination system — should in the long run raise educational standards. Certainly the days of what Alastair Campbell, Mr Blair's press spokesman, called "the bog standard comprehensive" are well and truly over.

In welfare, reforms to disability benefits and delays with universal credit have been justly criticised. Nevertheless, the welfare-to-work programme has led to the proportion of out-of-work households being the lowest for nearly 20 years, while gay marriage emphasised Mr Cameron's social liberalism.

Perhaps the most striking evidence of his tolerant approach is the good feeling he created in government: a happy ship in contrast to the cabinet squabbles of the Blair and Brown years. It was this good feeling that made coalition possible. Many Conservative MPs complained that he got on better with the Liberal Democrats than with his own rightwing. In 2015, Mr Cameron might have secretly hoped for a second coalition rather than an overall majority, and potentially avoided the EU referendum.

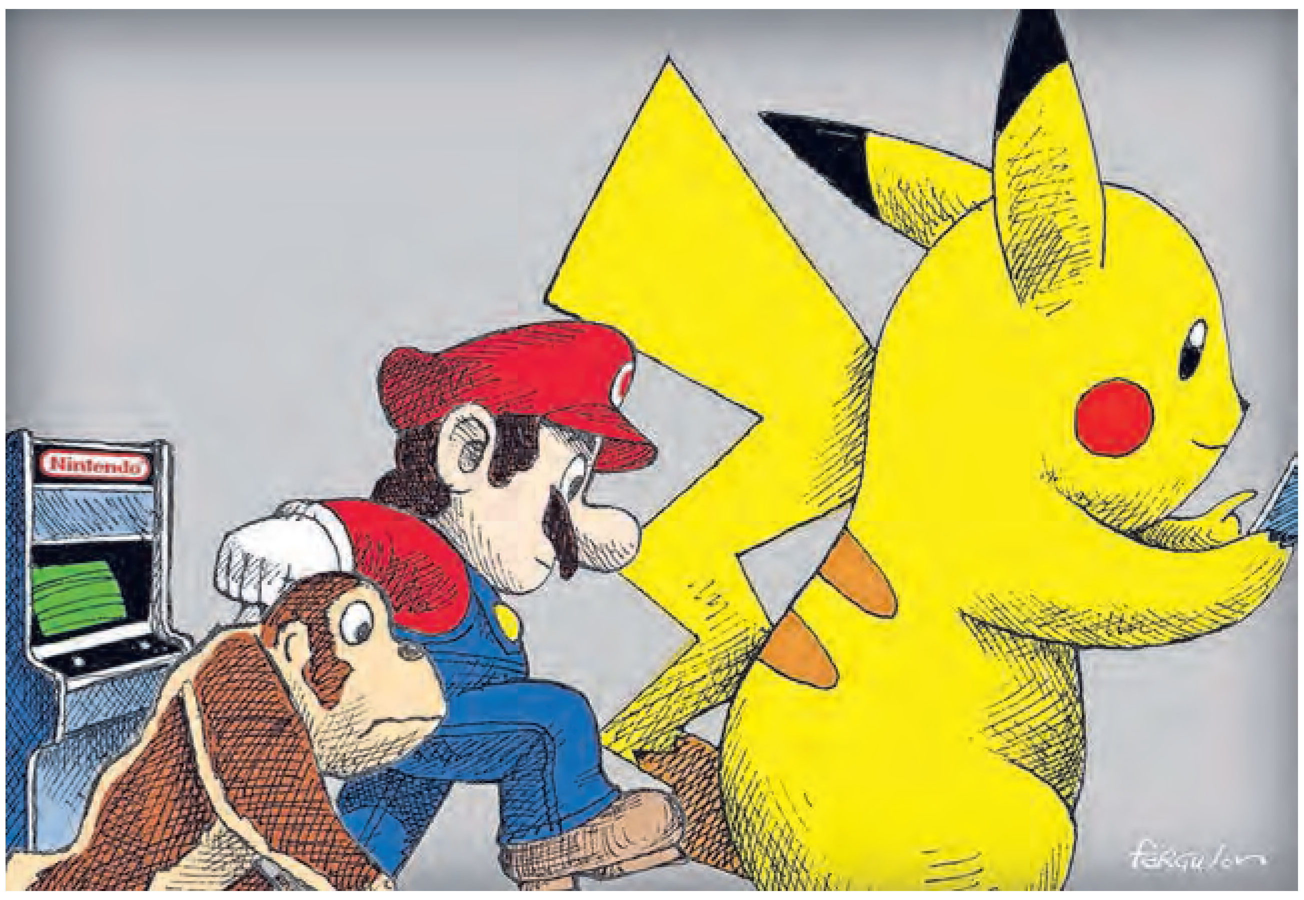
A political leader should be judged less as a legislator than as an educator. Tony Benn once ruefully commented that, even if one repealed every legislative act of Thatcher's 13 years in power, her legacy as a teacher would remain.

Mr Cameron's will be as a teacher of a generous and civilised Conservatism, which attracted the support of centre and centre-left voters. It was these voters who last year gave the Conservatives their first overall majority since 1992. It is a legacy which Mrs May, judging from her speech on Monday, with its emphasis on a socially responsible Conservatism, seems determined to continue.

History will judge Mr Cameron more kindly than today's commentariat. For, as Iain Macleod, Conservative colonial secretary in the 1960s, noticed, "the Conservative party is a very generous party. It always forgives those who are wrong. Sometimes it even forgives those who are right."

*The writer is professor of government at King's College, London*

## Nintendo has ventured into a scary world




BUSINESS
John Gapper

There is nothing like a craze. *Pokémon Go*, the augmented reality video game that uses smartphones to overlay Nintendo's pocket monster characters on real-life locations, is taking over the world. Since its release last week in the US and other countries, players are gathering in parks and running into restaurants, hunting Pikachu and other animals.

Investors are also going a bit crazy. Nintendo's shares have risen by 50 per cent in a week on hopes *Pokémon Go* can rescue the company from dependence on lacklustre consoles such as the Wii U, and propel it into a world of growth in casual games on smart devices.

Calm down, everyone.

If any company can make the transition, it is Nintendo. It has done so before, notably when it transformed itself from a maker of arcade machines into a console company and games publisher in the 1980s. When it was in trouble a decade ago, it invented the original Wii, outsmarting Sony's PlayStation 3 and Microsoft's Xbox 360.

The creative genius behind much of this success is Shigeru Miyamoto, who came up with *Donkey Kong* and *Super Mario*, and has overseen the company's mission to "put smiles on people's faces around the world". Nintendo has an uncanny ability to invent characters that not only do so but also keep on doing so — the Pokémon franchise marks its 20th anniversary this year.

This inventiveness has enabled Nintendo to avoid the fate of Sega, its former rival that lost its way in the 1990s with the Saturn and Dreamcast consoles before dropping out of the console business altogether. Even now, Nintendo hopes to bounce back in the sector next year with the NX, which is under wraps.

When a games console company is on song, its creative strength in coming up with new and absorbing games feeds into sales for its latest technologically advanced machine. Sony is enjoying this virtuous circle with PlayStation 4, which has sold more than 40m units since 2013 — although it relies more than Nintendo on third-party games publishers such as Activision Blizzard.

The key to endurance in a volatile and cyclical technology business has been the link between games and machines. A popular video game may be a short-lived craze but it stimulates consumers to buy consoles and then to buy more games. Creativity was always Nintendo's driving force.

So what could be better for Nintendo than a new, younger generation of iPhone and Android phone owners chasing around the world, trying to identify Pokémon and throwing Poké Balls at them? Surely this must have put smiles on executives' faces at the company's Tokyo headquarters?

Well, up to a point. The first thing to note is that Nintendo neither created *Pokémon Go* nor owns it. It holds a 33 per cent stake in the Pokémon Company, which licensed the rights to Niantic, a US augmented reality games start-up founded by John Hanke, a former Google executive. Nintendo invested in Niantic last year but will receive only a minority of the revenues.

A minority stake in a phenomenon is better than no phenomenon or no stake but it reflects the wider context. While Nintendo designs its own consoles, and publishes many of the best-known Wii games itself, it has turned to partners to enter the smartphone world. Aside from Niantic, it is jointly working on five new smartphone games with DeNA, a Japanese games developer.

> Investors are going a bit crazy about 'Pokémon Go'. Everyone needs to calm down

Until now, Nintendo has stuck within a "walled garden" of games for its own consoles. It weakens this by entering the smart device world, where it no longer controls its platform and must offer games for iOS and Android in competition with other publishers. That is unlike its past transition from one proprietary technology (arcade machines) to another (consoles).

New technologies are open and mobile, including location and mapping, and virtual and augmented reality. This gives the advantage to Silicon Valley software companies, including start-ups such as Niantic. Nintendo may be able to learn through partnership but it is unfamiliar terrain.

Second, the business model for mobile games is curious. *Pokémon Go* is an example: players download it free and then pay for additional items, such as "incense" to lure monsters and Poké Balls to hunt them. Many will not bother — King Digital, maker of *Candy Crush*, disclosed in 2013 before it was acquired by Activision Blizzard that 96 per cent of monthly users did not pay.

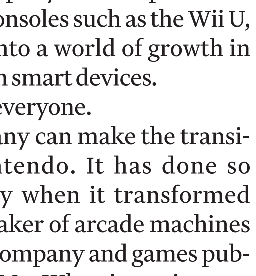
Mobile can still be profitable — Activision paid $5.9bn for King last year because it had strong revenues and high margins — but is less reliable. *Pokémon Go* does not retail for $60, as big console game titles do in the US, and will not feed directly into console sales. The hits have to keep on coming, and they have to keep on paying for themselves.

In some ways, Nintendo is ideally suited to the paradigm shift. It creates the kind of characters that demand to run wild. As Mr Hanke says, it has "wonderful intellectual property that is broadly accessible to men and women and spans all ages". Who does not enjoy a cuddly monster hunt? But before Nintendo shareholders get too excited, they should examine the reality.

*john.gapper@ft.com*

## Beijing frets over its unruly tourists

ASIA
Jamil Anderlini



They are loud and ill-mannered, throw cash around and have little interest or respect for local culture. One or two decades ago this would have been how most people described the archetypal "ugly American" on holiday in Europe or Asia. Today, though, another group is vying for the title of worst-behaved tourist.

More than 70m mainland Chinese citizens travelled overseas last year, making 1.5 trips on average, according to estimates from management consultants McKinsey. Most returned home without causing offence.

However, a stream of media reports and viral videos show unruly and uncouth exceptions, prompting Chinese authorities to publish etiquette guides and even introduce a travel blacklist of the most notorious offenders.

On the list are a couple who assaulted a flight attendant with boiling water, a man who opened the emergency exit of a taxiing aircraft to "get fresh air" and another who assaulted a shop assistant in Japan for asking his wife not to eat food before buying it.

China's Communist leaders publicly fret that badly behaved tourists are hurting Beijing's attempts to boost its "soft power" around the world. One of the more comprehensive official etiquette guides elaborates on their concerns.

It forbids Chinese tourists from spitting, smoking in non-smoking venues, queue-jumping, speaking too loudly, taking non-complimentary items from hotels, soiling public bathrooms, "chasing, beating or feeding animals" and "leaving footprints on toilet seats".

Many of these recommendations feature in a recent cartoon-illustrated guide published by the Hokkaido Tourism Organisation and aimed at the 5m Chinese tourists who flocked to Japan last year. In addition, the Japanese guide helpfully advises Chinese visitors not to steal cutlery from restaurants, break wind in public or keep tour groups waiting while shopping.

That final tip is probably the most relevant since shopping is central for the Chinese on holiday. According to McKinsey, 80 per cent of Chinese tourists will go shopping on holiday and nearly 30 per cent decide their travel destination based on the shopping opportunities available.

> Visitors from China generally shun traditional western holiday pastimes like sunbathing

This is reflected in the fact that Chinese are by far the biggest-spending tourists — in both absolute and per capita terms.

In the UK, for example, the average Chinese tourist spends far more than double that of the average American.

Despite the Chinese economic downturn this shopping spree shows no sign of slowing.

Last year, Chinese tourists spent $215bn abroad, up 53 per cent from 2014, according to the World Travel and Tourism Council. That figure is expected to increase to more than $420bn by 2020.

This spending power is already changing the travel experience everywhere, with many countries introducing Chinese signs and announcements in airports.

In some places the changes can be more profound. On the majority-Hindu island of Bali, Indonesia, the enormous influx has quite literally changed the face of God. In the wood and stone carving workshops that proliferate across the resort, the faces of Hindu deities like the elephant-headed Ganesha have been almost entirely replaced by those of chubby laughing Chinese Buddhas and serene Guanyin bodhisattvas.

Despite the fretting of the Chinese government and the steady flow of news reports highlighting bad behaviour by Chinese tourists, friction with travellers from other places is rare, especially considering their enormous and growing numbers.

This is partly because Chinese tourists generally shun traditional western holiday pastimes like sunbathing, swimming at the beach or public drunkenness and debauchery. They overwhelmingly prefer to eat Chinese food in Chinese restaurants no matter where they are.

The most common places a western tourist will bump into a Chinese tourist or tour group will be at a culturally or historically significant site such as the Louvre or the Colosseum, and it is there they might witness some of the behaviour prohibited in Beijing's travel etiquette guides.

Increasingly, however, they will also see that it is cosmopolitan and well-travelled Chinese tourists who go out of their way to educate their less well-mannered compatriots and — quite literally — get them back in line.

*jamil.anderlini@ft.com*

## Prime minister, tell us what 'Brexit means Brexit' means

ECONOMICS
Chris Giles

As Theresa May takes charge of her "Brexit means Brexit" government, her ambition is to show leadership; unify her party and the nation; and build an economy that works for everyone. These are all worthy objectives. But the incoming prime minister, as a serious politician, also knows that merely desiring good things does not make them happen.

In her speech on Monday, Mrs May announced a list of reforms and targets. The Treasury must work to improve productivity; the aim of energy policy will be to reduce bills; better research and development policy will enable companies to make the right investment decisions while industrial strategy will have the whole economy firing. There will be more housebuilding and the Treasury guarantees for infrastructure investment; and a plan for all our dynamic cities, not just one or two. She plans to put workers on boards, to make shareholder votes on executive pay binding and defend certain UK companies against hostile acquisition.

Looking at this list, it is hard not to conclude that, when Mrs May pledged to abolish "all the political platitudes", she was sailing close to the wind. To list three: faster productivity growth is something the Treasury frequently calls for; its representatives have been touring the world offering guarantees to anybody and everybody willing to fund UK infrastructure; and it makes at least one plan a year to create a better environment for R&D. The greater irony in Mrs May's list is that no item requires Brexit. Leaving the EU is at most marginal to productivity, R&D, housebuilding, infrastructure, regional and energy policy, corporate governance and most takeovers. Germany has worker representatives; France can block takeovers of even the least strategic sectors, such as yoghurt.

> The irony in May's list of policy ambitions is that not one item requires leaving the EU

So Britain is none the wiser on what Brexit means. The result is damaging short-term uncertainty and longer-term threats to investment, competition and productivity. To retain her reputation as a serious politician, Mrs May needs rapidly to articulate her vision for Britain's new relationship with Europe.

What sort of trading relationship does she want? What will she prioritise when faced with inevitable trade-offs? When will she trigger Article 50 and start the formal process of leaving the EU? Does she believe there is a benefit to the public finances, or must she level with the public that they were conned into thinking Brexit would bring billions home?

Also omitted from the speech was migration — one thing Brexit Britain can control. Clamping down will, of course, immediately throw up problems in the efforts for greater productivity and unity. Many voters in areas such as England's east coast, Cornwall, Wales and the former northern English industrial heartlands want fewer migrants. But high-productivity zones that pay the bulk of the nation's tax take — London, Oxford, Cambridge, Bristol, Manchester and Scotland — know their success is built on free movement in Europe and skilled immigration from elsewhere. National restrictions on migration will hit output, productivity and public finances.

The only way to unify the two sides is to devolve migration and residence policy to cities and regions, with tax revenues from migrants staying in local areas. This matches the right to reside with responsibilities to provide public services. If Clacton, the seaside town that elected the only UK Independence party MP, wants to become a 1950s theme park, with 1950s living standards, that should be its choice. But it cannot object to Bristol or Edinburgh taking a different approach.

For Brexit to mean Brexit, Mrs May must swiftly produce a definition and how it will work. All the policy stuff that is already possible as an EU member can wait. What Britain needs is a definition of Brexit before we seriously regrexit.

*chris.giles@ft.com*

# May's Britain will still need plenty of us immigrants


A frequent sneer at the metropolitan UK elite — heard during and since the EU referendum campaign — is that they only interact with immigrants when giving instructions to the cleaner or ordering a crayfish and rocket sandwich at Pret A Manger.

What nonsense. While it is true that many recent immigrants have gone into lower-skilled occupations such as food preparation and cleaning, incomers play a huge role in high-skill sectors and have for years.

Look at the website of any UK-based technology start-up, management consultancy or university faculty and run down the list of nationalities: French, Italian, Spanish, Dutch, Greek, not to mention American, Australian, Indian and Singaporean.

Walk into any National Health Service hospital. There are immigrant porters and cleaners — but also doctors, nurses, physiotherapists and radiographers.

When I, a South African immigrant, arrived in the UK in 1984, British friends told me I was crazy. There were 3m people unemployed. The miners were on strike. The whole country was miserable. I would never find a job.

It took a while, but I did find a job, writing for oil and coal trade journals. London was a shabby place then but something was stirring. Britain was setting its entrepreneurial spirit free, opening itself to the world, and the world started flooding in.

What happened next was not great for everyone. Some of the mining towns I reported on during that strike struggled to recover.

But many other places boomed. Glasgow, Manchester and Leeds spruced themselves up. Cambridge became a leading technology centre.

And London, shabby old London, became the greatest city on earth, with galleries, start-ups, restaurants, law firms, theatres and banks that the whole world came either to ogle at or work in.

There were foreigners everywhere. They challenged the locals, worked for them, employed them and became their colleagues.

The French talk about *les trente glorieuses* — the 30 years after the second world war during which France thrived and grew. Has there ever been a more thrilling time to live in the UK than in the 30 years from the mid-1980s until now?

Many did not see it that way, as the EU referendum showed. They did not like what had happened to their country, and they especially did not like all those immigrants.

Taking in large numbers has put some strain on everyone else. As ever, the poor have fewer resources to cope with that than the rich.

Some immigrants abused the system. All communities have their miscreant minorities — even the long-settled British, several of whom have been scribbling abuse on immigrants' property and telling them to go home. But, like everyone else, most immigrants work, pay their taxes and obey the law. And while you, our fellow UK residents, decide what to do with us after Brexit, let us remind you what we have done.

> **Modern societies demand a flow of people to service them. Let me remind you what we have done**

We have run your companies, cleaned your offices, wheeled you into surgery, performed the surgery, sung lullabies to your children, taught physics to your children, designed your buildings, built your buildings, cooked your food, waited on your tables, stormed to Olympic medals, won Nobel Prizes, designed your websites, picked your fruit and wiped your ageing parents' bottoms.

Many of those jobs you can do yourselves. Some you may not want to.

Following the Leave vote, Theresa May, now prime minister, promised to bring immigrant arrivals down to "sustainable" levels.

She said that she could not guarantee the rights of EU citizens in the UK until negotiating reciprocal arrangements with their countries. Even hardened Leave campaigners have been appalled by her apparent intention to use EU citizens as bargaining chips.

But there is great support in the Conservative party for an "Australian-style" points system that will allow Britain to control its borders and decide who comes in.

There is already a points system for non-EU migrants, and Mrs May, as home secretary, did not manage to bring their numbers down.

Modern societies, especially ageing ones such as the UK, demand a flow of younger people to service them. Whatever your, and Mrs May's, views on immigrants, you will probably need more of us than you think.

*michael.skapinker@ft.com*
*Twitter: @Skapinker*

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Aliya Ram meets the chief executive who has guided Kuoni through a bumpy time for the tourism industry

# Passport to profit for travel exec with a vision for visas

When Zubin Karkaria began his career, he earned Rs2,500 ($37) a month. His unenviable job at a small travel firm in Mumbai was to escort Indian businesses to trade fairs so they could find tools for printing and packaging their products.

Fast-forward 25 years, and Mr Karkaria says his life is almost unrecognisable.

After a single, bold idea to process visa applications on behalf of embassies, Mr Karkaria found himself head of the most consistently lucrative business stream at Kuoni, the multinational travel conglomerate.

Last November, after a restructuring exercise that claimed 350 jobs, Mr Karkaria was catapulted to the role of group chief executive and charged with turning Kuoni round.

The company had just sold the last of its troublesome consumer-facing operations, taking a SFr106.4m ($108m) writedown on goodwill and intangible assets.

Zipping weekly between Dubai and Zurich, Mr Karkaria, who is also a Zoroastrian priest, describes his life now as a kind of rat race. "When you get on this wheel, either you get down and get out — or you continue," says the 48-year-old, perching restlessly on the end of his chair in a private room at the Taj hotel in London.

Like other traditional tour operators, the group was floundering as competition intensified from online hotel and holiday comparison sites. Kuoni is much smaller than its rivals and according to Mr Karkaria did not have critical mass: "When you are a certain size your buying power becomes stronger," he says. "There were certain things that we weren't ready to do and we didn't do on time, like becoming digital on the tour operating side."

Mr Karkaria's remit is to accelerate a cost-cutting strategy and focus on Kuoni's more profitable visa and passport services for governments and agencies. He was an obvious choice because 15 years previously he had started VFS.

Equipped with a dislike for state bureaucracy (Mr Karkaria is an admirer of Narendra Modi, the liberalising Indian prime minister), VFS set out to tackle the queues that form outside embassies worldwide by becoming an outsourcer for visa applications.

Led by Mr Karkaria, it introduced comfortable visa centres with coffee machines and magazines — first for the US government in India in 2001, and then worldwide. Now, staff trained in customer service help travellers fill in forms from 50 different countries. For an extra fee, applicants can sit in separate, quieter lounges and are treated to biscuits. The premium lounges are so popular in Dubai that the basic option can be quieter.

The advantage — from Kuoni's point of view — is synergy, because applications from many countries are processed in the same place. From an embassy's point of view, says an employee of VFS that used to work for the UK Border Agency, there is less security risk and hassle because members of the public do not have to enter consulates.

"That's how a private sector works," says Mr Karkaria, highlighting the mutual benefits of outsourcing the administrative work.

A senior executive from the early 2000s says Mr Karkaria was an "incredible entrepreneur" for innovating within such a large company. "In corporations, sometimes those guys either cannot or do not — because corporate soldiers succeed."

The once-mainstream tour businesses have been sold, but VFS survives and has a 50 per cent share of the global outsourced applications market. It became a more attractive buyout target after selling its consumer businesses and this year was approached by Swedish private equity group EQT, which made a takeover bid worth about SFr1.4bn.

The deal was completed in May, and now Mr Karkaria will prepare Kuoni for an eventual break-up and sale of the company.

"I can't control the environment, I can't control any side incident that happens," he says. "But I can control my costs, I can control my infrastructure, I can control my sales team."

He bats away questions about whether staff will go along with the changes, saying that "most" are happy. "We gave everyone the opportunity to do the job that they were doing but for one business [instead of the group]."

Mr Karkaria's conversation moves back and forth between politics and the minutiae of his businesses with a roving energy — and he becomes animated on the subject of risk-taking.

"If somebody says, 'I can't do [something]', then I will go in and help him to do it," he says. "If I feel something is right . . . then I will take the responsibility and the ownership of doing it." He even interrupts himself to (mis) quote Franklin D Roosevelt, with a thump of his hand: "Walk softly! But always with a big stick in your hand."

Under Mr Karkaria, Kuoni will continue to strip back its so-called global travel services unit, which sells package tours and transport to travel agencies. The operation has battled with recession in Japan, where it generates most of its business. Mr Karkaria says it was unable to "bridge the gap" with sales in other countries.

The "global travel distribution" business, which sells hotel rooms wholesale to travel agencies, will expand in Asia, where Mr Karkaria is pinning his hopes on the emerging middle-class traveller.

"The first-timers," as he calls them, will be the future of guided travel. "If you really want the organisation to focus you have to let go of something to achieve something — you can't be a jack of all trades, OK?"

Kuoni's group headquarters in Zurich will close. The three subsidiaries — including VFS — will operate out of their own units in Dubai, Zurich and London. After five years the company's divisions are expected to be floated separately or hived off to different buyers, he says.

Mr Karkaria speaks openly of the "precision", "accuracy" and "compliance" of Swiss colleagues — contrasting it with a working culture among Indians, who he says take more risks and act more quickly. Former colleagues say he has gained stature over time, but is not a sophisticate.

"In the beginning he was a lot less confident in an international context," one says. "In an international management environment he is a humble person — he's not someone who enters a room and everybody knows who he is, but nobody questions his capability."

Mr Karkaria is confident about his approach as he seeks to prepare the business for a new and uncertain future. "Now whether they accept it or not, it's up to them but I will always give my feedback saying if it was me I would do it this way," he says. "I lead that way."

**Zubin Karkaria began working for a tour company in 1991, then rose in Kuoni when it took over**
Bloomberg

### Roots and religion

Rishad Lalla, a financial stockbroker with IIFL Capital, grew up with Zubin Karkaria in the Parsi colony in Mumbai which has gained a reputation for business acumen, in part due to the success of the Tata business family. They both studied at the HR College of Commerce and Economics, and worked part-time to fund a motorcycling habit broken for the sake of their families.

"From a small town, he's gone on to become the CEO of Kuoni — but he started at a real grass roots level," he says. "He has no airs."

Mr Lalla emphasises the focus Mr Karkaria has cultivated as a devout Zoroastrian, which is a religion that emphasises good thoughts, words and deeds. "The thing you get from doing that is a lot of discipline . . . he is very religious."

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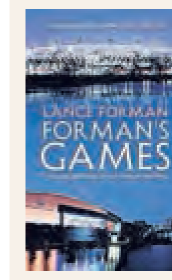
## The review

# A business that endured fire, flood and the Olympic Games

JONATHAN MOULES




**Forman's Games: The Dark Underside of the London Olympics**
Lance Forman
*Biteback Publishing; £20*

Across the river from Queen Elizabeth Olympic Park, where four years ago the London 2012 Games were held, sits Fish Island, where small business units and dilapidated factories abut luxury apartment blocks.

Amid the local graffiti someone has sprayed, "say no to Foreman's suit city", a (misspelled) call to arms linking the recent arrival of upmarket salmon smokers H Forman & Son with a yuppy invasion. In the East End, people are not afraid to express their opinions, although the truth is more complex.

Lance Forman, formerly a special adviser to Conservative MP Peter Lilley and president of Cambridge university's debating society, now owner of the last survivor of an East End tradition of fish curing, has a different take. He has chosen to express his frank views in a well-timed book, *Forman's Games*, rather than spray-painting the neighbourhood.

The bogeymen of this tale about "the dark underside of the London Olympics" are the politicians, unelected bureaucrats, nit-picking regulators, spin-doctors and corporate insurance companies. Each gets a share of the blame for putting at risk Mr Forman's fourth-generation family enterprise along with hundreds of its former neighbours on Marshgate Lane, a street now buried under the Olympic stadium.

Before the Olympic organisers set their sights on the East End, Forman & Son had already defied annihilation by two acts of God — the Creator comes a close second to the London Development Agency in His destructive potential, in Mr Forman's narration.

The first of these, a fire from a loose woodchip that destroyed the central smokehouse, forced Mr Forman to rebuild his factory. Two years later came a flood, caused by the neighbouring River Lea bursting its banks, and Forman & Son had to relocate operations again. But somehow the company managed to maintain an unbroken supply of its product during both upsets.

Mr Forman not only survived, but proved that what does not kill can you make you stronger, each time upgrading his facilities with new services. A business that was being undermined by rogue staff and a general manager who saw his role as managing decline, according to Mr Forman's frank retelling, has been reborn. It has grown into a much larger business, supplying luxury foodstuffs, not just to top restaurant chefs, but to homes via an online grocery business, Forman & Field.

Like a cheaply cured slice of fish, however, this success is forever tainted in Mr Forman's memory by the bitter aftertaste of his dealings with those charged with making the London Olympics happen. In his words, his business was "a high-profile victim of the so-called regeneration of London's East End" albeit far from the most unfortunate.

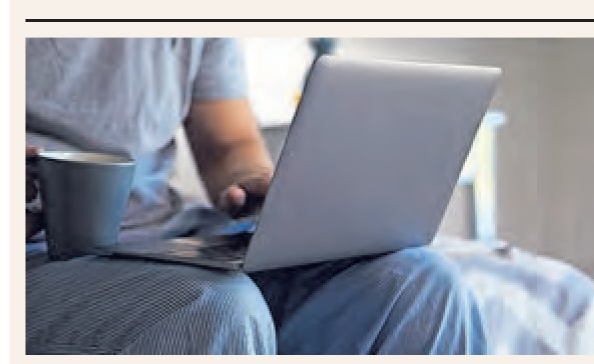
Amid what is an undeniably fascinating insider account of skulduggery and double dealing with businesses that had the misfortune to be located on the land earmarked for the Olympic Park, there is a good-news story of success by a little guy against all the odds. The trouble is that many people looking for a gripping entrepreneurship story may well be irked by Mr Forman's angry politicking. That would be a real tragedy.

*The reviewer is a features writer for the FT*

## The riff

# Fight the urge to check email

ANDREW HILL


iStock

One day, I predict, rules laying down "email-free days" for workers, laws disconnecting staff from their jobs, and rotas that schedule who is on or offline will look as absurd as the FT listicle from 1957 that advised ambitious executives: "Keep your week-ends completely to yourself".

For now, though, these fruitless attempts to separate employees from their work email accounts continue to supply academics with fuel for research. A trio of US management experts, in a study to be presented at next month's Academy of Management's annual meeting, found that people spend eight hours a week on after-hours company emails. (Half of those hours, I estimate, are spent thanking other correspondents for their message.)

The twist, though, is that simply expecting staff to answer work emails all evening and weekend is more likely to shatter a team member's domestic calm than the act of emailing. "Anticipatory stress" upsets work-life balance "regardless of the actual time spent on emails", Liuba Belkin, William Becker and Samantha Conroy write in a paper entitled "Exhausted But Unable to Disconnect".

Entities as diverse as Volkswagen (which in 2011 agreed to restrictions on BlackBerry use out of hours) and France (where lawmakers have approved a right to disconnect for holidaying workers) have tried to nudge bosses and their team members towards better balance. But the general spread of devices and the indiscriminate use of leisure apps at work and office apps at home make this an impossible line to police.

Also, as the researchers point out, some workers would rather it was this way. If you are the kind of person who happily plays Pokémon Go at work, you may not mind being interrupted in bed by a message from the sales department.

# Pariahs and prisoners viewed through a romantic lens

*Danny Lyon, subject of a New York retrospective, is a photographer drawn to life on the wrong side of the tracks. By Ariella Budick*

You put a camera in my hand, I want to get close to people," the photographer Danny Lyon once said. "Not just physically close, emotionally close; all of it." Perhaps that yearning for intimacy explains why New York's Whitney Museum chose the 74-year-old as the subject of its first photography show. If so, the curators fell for the same romance of roughness that seduced him in the 1960s, when he shot calendar-ready photos of sullen bikers and sinewy Texas convicts. If he ever got truly close to a subject it was only to discover there was nothing much there, aside from an attitude, a rap sheet and a well-honed set of muscles.

In the Whitney's incoherently hung retrospective, *Danny Lyon: Message to the Future*, Lyon comes off as a workmanlike documentarian who spent his best years mimicking Robert Frank, Bruce Davidson and Diane Arbus before entering a steep creative decline. But those photographers took deprivation and the people who suffered it seriously; Lyon sentimentalised poverty, eccentricity and defeat.

Born in 1942, the son of a New York doctor, he grew up in an affluent section of Queens, and graduated from the University of Chicago with a bachelor's degree in history. Lyon shucked off his privileged surroundings as soon as he had the chance, poking his lens into shabby neighbourhoods and campus protests. (He recently enjoyed a little spurt of political fame when a 1962 photograph he took of Bernie Sanders addressing a student sit-in came to light, affirming the candidate's civil rights bona fides.) Lyon went on to become an official photographer for the Student Non-Violent Coordinating Committee. You get the feeling in these early protest photographs that violence and confrontation thrilled him even more than the pursuit of social justice.

**Renegades: clockwise, from main picture, 'Crossing the Ohio River, Louisville' (1966); 'Occupy Oakland, City Hall, Oakland' (2011); 'Weight lifters, Ramsey Unit, Texas' (1968); . Below: 'Self-portrait, New Orleans' (1964)**
Courtesy Edwynn Houk Gallery, New York

But what he really relished was an air of proud seediness. In Uptown Chicago, he shot hillbilly migrants like rockers posing for an album cover, their sneers, slumps and hair radiating casual glamour. In 1967, he road-tripped to Knoxville, Tennessee, where he ogled barefoot and bare-chested unfortunates in their Ford convertibles and tumble-down habitats.

Lyon made his Knoxville pilgrimage in honour of native son and fellow celebrant of the downtrodden James Agee. The author of *Let Us Now Praise Famous Men* exhorted photographers "not to alter the world as the eye sees it into a world of aesthetic reality, but to perceive the aesthetic reality within the actual world".

Lyon answered the call. He was after the holiness he saw incarnated in regular folk and their cars. "I am left feeling the people I photograph are the best people in America," he wrote. In Lyon's populist exuberance, which is as much literary as visual, we hear echoes not just of Agee, but also of Walt Whitman and Jack Kerouac.

Lyon's fondness for pariahs drove him to join the Outlaws, a famously antisocial biker gang, whose members, the smitten photographer enthused, were "probably the only thing like cowboys left in America".

They certainly had great outfits. Lyon lingers over their regalia — leather jackets, tight T-shirts, iron-cross pendants, tattoos, patches and berets — and the burnished gleam of their bikes.

He had vowed to get behind the bandit pose and portray their lives and libertinage from the inside out, but for the Outlaws, image was a weapon they rarely holstered. As they rode dead-eyed through Wisconsin, Indiana and Illinois, they seem never to have forgotten that Lyon's sidearm was his camera, and they treated it with respect.

The gang got a volunteer propagandist, the photographer got access to a renegade legend. He produced a suite of flattering symbols, such as "Crossing the Ohio River, Louisville, 1966". A slender rider's body forms a three-slash rune (torso, thighs, calves) against a lushly detailed bike. His hair trails out behind him like comic-book speed whooshes.

His relationship with these men was "tactical yet genuine", in the words of curator Julian Cox (but can both words really apply at the same time?). Lyon's corps of hog-riding primitives aligns perfectly with Kerouac's portrait of Dean Moriarty in *On the Road*: "His 'criminality' was not something that sulked and sneered; it was a wild yea-saying overburst of American joy; it was Western, the west wind, an ode from the Plains, something new, long prophesied, long a-coming (he only stole cars for joyrides)."

The bikers led him toward the Texas penal system. He hauled his camera to six prisons over 14 months, ingratiating himself with prisoners and guards alike. Lyon had just read Jean Genet's penal-colony memoir, *The Miracle of the Rose*, and he responded to the dreamy eroticism of the prose: "I was sure that somewhere inside those golden-necked brutes, perhaps between their shoulder blades, was a hidden rift of tenderness." Genet transformed the murderer Harcamone into a practically godlike figure; Lyon found his own Harcamone in Billy McCune, a charismatic rapist on death row. "I think Billy McCune is the same as me," he wrote — an ordinary man trapped in a pitiless system. Lyon believed that McCune needed his story told, and he was the man to do it.

Whatever closeness Lyon established with McCune, or with any of the other Texas inmates, must have vanished in the darkroom. Instead, the men who populate his scenes of hard labour flaunt blank faces and buff bodies, some nude, some in jumpsuits like flashes against the dark land.

This is the segregated southern prison culture of *Cool Hand Luke*, and more than a few of the convicts seem to have modelled themselves on Paul Newman. Not even the recordings he made of his subjects' voices (which play on a loop at a listening station) can really bring them alive.

> The Outlaws, the smitten photographer enthused, were 'probably the only thing like cowboys left in America'

Later, he tried a different tack: keeping a film camera trained on his subjects long enough to get to know them. But here, too, he plays the part of a slumming voyeur, fascinated with weird, provincial types. In his 21-minute film "Soc. Sci. 127" (1969), Lyon hangs around a Houston tattoo artist, Bill Sanders, who drawls and drones endlessly, while adorning a woman's nipples with flowers or a man's backside with an eagle. It's hard to see what Lyon wanted us to see in this sweaty, talkative codger: an artist, a blowhard or a loveable eccentric?

The Whitney scrambles the photographer's work so badly that it's easy to lose track of him. The show shuffles chronological order and geographic unity, occasionally scattering random images across a gallery wall. Maybe this arrangement was meant to evoke his appetite for chaos and danger; instead it sows confusion and muffles Lyon's quiet achievements.

*To September 25, whitney.org*

# Lost in a world of buried desires

MUSICAL THEATRE

**Into the Woods**
Menier Chocolate Factory, London
★★★★☆

*Sarah Hemming*

British voters know a fair bit about being lost in the woods at the moment, so this sprightly, stripped-back staging of Sondheim and Lapine's 1987 fairytale mix-up musical arrives in London on cue. New York's Fiasco Theater brings a rough-and-ready, improvised air to its production which suits the narrative, in which characters stumble round the woods chasing wishes and following orders. Noah Brody and Ben Steinfeld's joyously ramshackle staging celebrates the childlike nature of theatrical invention, even as it explores the raw, cautionary lessons tied up in the tales themselves.

Derek McLane's set appears to be the result of a backstage collision between a piano and a dressing-up box. Keyboards frame the stage, and actors snatch up instruments and props at will — a long yellow scarf for Rapunzel's golden hair, a set of old curtains for the Ugly Sisters, sheets of music for the fluttering birds. A forest of huge twisted fly-ropes hangs down the back wall. The only constant is pianist Evan Rees, wheeled around the stage as he keeps Sondheim's rippling score bubbling through the show.

**Cautionary: Noah Brady and Emily Young in 'Into the Woods'** — Catherine Ashmore

This is a place where deeply buried desires become imperatives — get the gold, marry the prince, kill the witch, slay the giant. Deftly, the cast keep the musical's mischievous interweaving of well-known stories afloat, while drawing out its clever exposure of the haunting fears and selfish urges within them. What happens to little girls who get lost in the woods? To children whose adults abandon, abuse or control them?

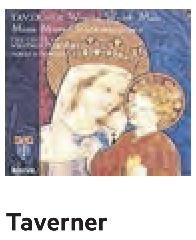
The versatile cast skip through the woods, chasing their wishes in the first half, dodging the resulting mess in the second. The pace is a little too hectic to begin with, some visual gags are a bit old hat and the spare staging loses some of the richness of the score. But there is also a genial rapport between actors and audience, while the intimacy emphasises the brilliant intricacy of the lyrics.

There is lovely work from Jessie Austrian as the resourceful baker's wife and Steinfeld as her uncertain husband, from Claire Karpen as a Cinderella lukewarm about her prince and Andy Grotelueschen as a mournful cow. But above all — and aptly for a musical that ultimately celebrates working together — this is an ingenious ensemble show. "Careful the wish you make," they warn as they leave. Indeed.

*To September 17*
*menierchocolatefactory.com*

# Music Classical album reviews

**By Richard Fairman**



**Taverner**
**Western Wynde Mass**
**Choir of Westminster Abbey**
Hyperion ★★★★☆

The catchy melody of "Western wind, when wilt thou blow?" made it a popular song in 16th-century England. The following lines — "If my love were in my arms, And I in my bed again" — are not exactly religious, but that did not stop several composers, including John Taverner, using the theme for a mass. His *Western Wynde Mass* is sacred music of heartfelt expression, performed here with gentle poise by James O'Donnell and the Choir of Westminster Abbey. Taverner's equally affecting *Missa Mater Christi sanctissima* is sung alongside.

**Stravinsky**
**Threni, Requiem Canticles**
**Collegium Vocale Gent**
PHI
★★★★☆

Stravinsky's late works, especially those on religious themes, remain strangers even today. On this disc Philippe Herreweghe conducts perfectly detailed performances of two of the most important. *Threni* is hard going, a tough serialist nut. *Requiem Canticles* is pithy and evocative, like snapshots of the afterlife.


**Summer Night Concert 2016**
**Vienna Philharmonic**
Sony Classical
★★★☆☆

For light relief after such uncompromising devotion, try a May night in the elegant grounds of the Schönbrunn Palace. The Vienna Philharmonic's annual concert there is the open-air, summer counterpart to its New Year festivities. This year's programme, conducted by Semyon Bychkov, consisted entirely of French music. Katia and Marielle Labèque were the soloists in Poulenc's Concerto for Two Pianos, a romp-and-a-half. Ravel's *Daphnis et Chloé* second suite and *Boléro* are well played. Familiar bonbons — Offenbach's *Orpheus in the Underworld* can-can, the finale of Saint-Saëns' *Carnival of the Animals*, among others — will satisfy the sweet tooth.

# Lex.

Twitter: @FTLex Email: lex@ft.com

## Burberry: when it rains

Since the UK voted to leave the EU, shares in Burberry, the fashion retailer and symbol of British style, are up 12 per cent. This is not because patriotic Brits are splashing out on trenchcoats.

The main reason is that the weaker pound will inflate Burberry's results. It reports in sterling but only a tenth of its sales are in the UK, and about half of those sales are to tourists for whom the UK just became cheaper. The secondary reason is a management shake-up. Christopher Bailey, the former design chief promoted to chief executive in 2014, will now be president (that is: Important Person Who is No Longer Chief). A new chief executive, Marco Gobbetti, will come in from LVMH. The chief finance officer, Carol Fairweather, will be replaced by Julie Brown. When the changes were announced, the shares rose 6 per cent.

Zoom out a bit and the picture is less cheery. The shares remain down a third from the highs of early last year. Then, growth was still in the double digits. In the first fiscal quarter of this year, same-store sales were down three per cent — and that was better than the market expected. Sales fell in every region, and wholesale revenue (more than a quarter of sales) will be down 10 per cent in the first half.

It is tempting to conclude that having a young designer running the company was rash, and grown-up supervision in the form of a seasoned retailer and a new bean counter should get revenues up and widen margins. There is little evidence to support this view. The big problem is that 40 per cent of Burberry's sales come from Chinese consumers, either at home or on holiday. Their appetite for spending has fallen. There are no obvious managerial solutions to that. In wholesale, Burberry's key US customers are having a miserable time. Even high-end department stores are staggering. Nordstrom shares, for example, have halved in the past year.

And finally, there is little to indicate that Mr Bailey was falling short managerially. Burberry's costs and margins compare respectably with peers. The plan now in place, to emphasise store productivity over store growth and to simplify the product line, is right out of the sensible retail handbook. That leaves two things for the new team to do: execute well and roll out clothes that more people want to buy. Only better sales growth will prove that those boxes have been ticked.

## Accor: checking out

It is said that the secret of great comedy is timing. But Accor is deadly serious and, it seems, in a hurry. Yesterday, the French hotels group said it would further separate its hotel ownership and hotel management operations. The move, not a surprise, came sooner than expected. There may be good reasons for the haste.

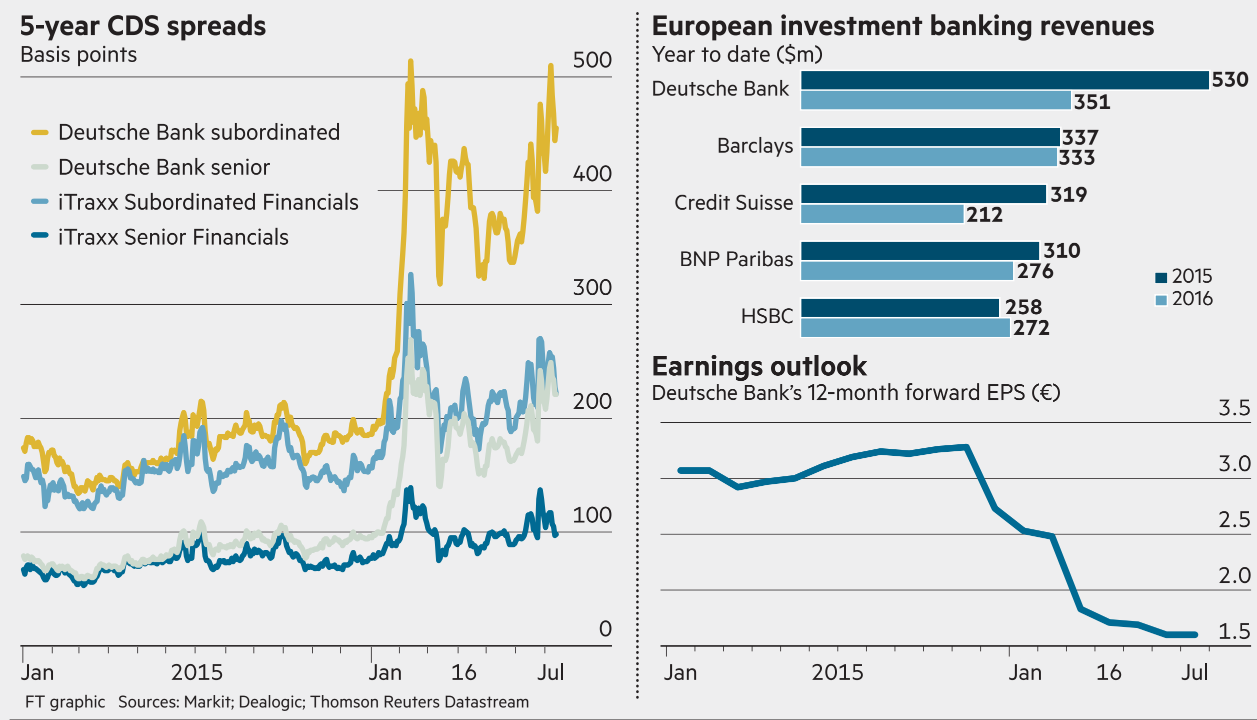
Separating the ownership of assets from activities such as branding and marketing is nothing new. Accor already presents its results as two divisions, HotelInvest (the assets) and HotelService (operations). It will now turn the former into a subsidiary, and sell some of it off. The company says HotelInvest has a gross asset value of €7bn, about €24 a share. According to Morgan Stanley, that suggests HotelService's enterprise value is around 10.6 times 2017 forecast earnings before interest, tax, depreciation and amortisation — lower than many peers. Most of the sale proceeds are likely to be reinvested, not distributed to shareholders.

Various factors may have influenced the timing. Appetite for tangible, yielding assets among insurance companies, pension funds and family offices has rarely been higher. A related factor is the uncertain economic outlook, given that hoteliers' revenues are tightly correlated with GDP growth. Asset owners, typically carrying more leverage and with more variable revenues, are more exposed to downturns than operators. Accor's first-quarter results show this. In a French market subdued by terror attacks, services revenue grew 0.6 per cent but HotelInvest's income dropped 3.2 per cent.

Finally, there is bid speculation. In recent months, state-owned Chinese leisure group Jin Jiang has built up a 15 per cent stake in Accor. Its ultimate intentions are unknown, but a more focused Accor could be a more attractive target — or, with cash in its pocket, a more aggressive acquirer itself. Either way, speed should give its managers the last laugh.

## False alarm

The IMF says Deutsche Bank poses the most systemic risk. The cost of insuring its debt rose as a result, while its earnings outlook remains bleak. However, this does not mean that the bank is at risk of failure




FT graphic Sources: Markit; Dealogic; Thomson Reuters Datastream

Kicking someone when they are down is ungentlemanly. The International Monetary Fund, unfortunately for Deutsche Bank, is not hung up on manners. Deutsche, a bank already flat on its back, is according to the IMF the world's most systemically risky bank.

This is not exactly news to investors. The bank's shares are down over two-fifths this year. Even so, the reaction to recent review of Germany's financial system was significant: the cost of insuring $10m Deutsche's junior bonds against default surged from about $430,000 to over $500,000. That is nearly double the European bank average, on Markit data.

To most people, systemic risk means the danger facing all banks if a default were to occur at one of them. It is not easily observable. So the IMF looks at data gathered between 2007 and 2016 and considered how changes in each bank's share price behaviour affects that of other banks. Deutsche shares were judged to be the most connected: peers' sensitivity to their movements was highest. This is a weaker connection than counterparty relationships or other direct balance sheet links.

Deutsche Bank has certainly experienced a lot of volatility since the financial crisis — because of lawsuits, multibillion dollar losses, management changes and axing the dividend. Then there are the more mundane bugbears which also plague other banks, such as high costs, declining profitability in key markets, excessive leverage and a downturn in capital markets activity.

There may be specific reasons to worry about Deutsche. There is its large volume (€31bn) of hard-to-value, illiquid assets, for instance, or how its credit exposure in Italy (whose government is arguing with the EU over how best to recapitalise its own banks) accounts for 3.5 per cent of its total credit exposure and amount to roughly double its current equity value. In sum, investing in Deutsche Bank shares remains very risky. But this should not be taken to mean that the bank is teetering on the edge of failure, or that it could drag the whole European banking system down with it.

## Ireland: the post-macroeconomic country

They teach economics alongside philosophy for a reason: both host bitter arguments about what creates real value. A US diplomat once criticised the UK's shift towards to services with the quip: "Gee, you can't all make a living opening doors for one another." Imagine what he would have made of businesses built on hunting cartoon monsters in a park.

The Irish economy takes the debate to new metaphysical heights. No one has bungled in reporting that gross national product rose 18 per cent in 2015. The figures reflect just what GNP is meant to show. A last efflorescence of tax inversions and "aircraft leasing activities" shifting to Dublin boosted the value of capital assets deemed to be Irish by €300bn. What those assets produce must be counted as Irish too.

Here come the numbers. In constant price terms, these extra assets boosted exports by €75bn, imports by €40bn and gross capital formation by €13bn. Throw in a few billion for increased spending by actual Irish people and GDP rose €51bn to €244bn in just one year. Take off €20bn for higher payments to foreign owners of those assets, and GNI is up €30.5bn.

So all is correct, and all is terribly wrong. Nothing macroeconomic should leap like popcorn. For most of its intended uses this GNP print is next to useless. Wages are not rising 20 per cent, nor are tax revenues. The Irish are not suddenly a fifth richer.

This episode points to another lesson. Macroeconomics is meant for units sufficiently large that they can be sensibly analysed as a system. For too-small units, macroeconomics is meaningless, as in a single town where the origin and destination of production is largely outside the boundaries. Ireland's production is substantially owned elsewhere. More than 100 per cent is exported. Its monetary policy is decided elsewhere, and its people are among the most footloose in history. Laugh at its macroeconomic figures, but the real question is why it needs them at all.

## AMC/Odeon & UCI: currency effects

Does a cheap date lead to a happy marriage? Adam Aron, head of US cinema chain AMC Entertainment, certainly thinks it could. On Tuesday, AMC announced it was buying Odeon & UCI Cinemas Group for £1.2bn, and readily admitted that a steep drop in the UK currency was a factor. But confusing love and money can be costly in the long run.

The average UK cinema ticket costs £10, a "cheap date" that Mr Aron thinks will be immune to economic cycles. AMC's internal deal maths was based on an exchange rate of $1.30 to £1, well down from $1.50 or so before the Brexit referendum. The additional firepower available to the US bidder does not seem to have forced an outrageous sale price from Terra Firma, the UK private equity firm selling the business. The transaction's enterprise value equates to nine times Odeon's earnings before interest, taxes, depreciation and amortisation. That is below European competitors like Cineworld and Kinepolis. And another transatlantic benefit: a difference in US and UK accounting boosted Odeon's ebitda by the equivalent of $10m.

The cost savings will be modest. But the US group's strategy has been to turn a basic night at the movies into an extravaganza of fluffy reclining seats, premium food and alcoholic beverages, and it believes the European movie-goer is ready for such an experience.

Shares in AMC, which is 76 per cent owned by China's Dalian Wanda, rallied 7 per cent. But the rush of inbound UK M&A that Mr Aron predicts is not an unequivocal arbitrage opportunity for easy dollar profits. Sterling is off its lows and may yet rally further in coming months; the monies owed to Terra Firma will not be paid until the deal closes later in the year. Even if the exchange rate remains stable for now, the value of future earnings will ebb and flow with exchange rates; Odeon and UCI earnings are in any case evenly split between pounds and euros.

Relationships that last usually have more solid beginnings.

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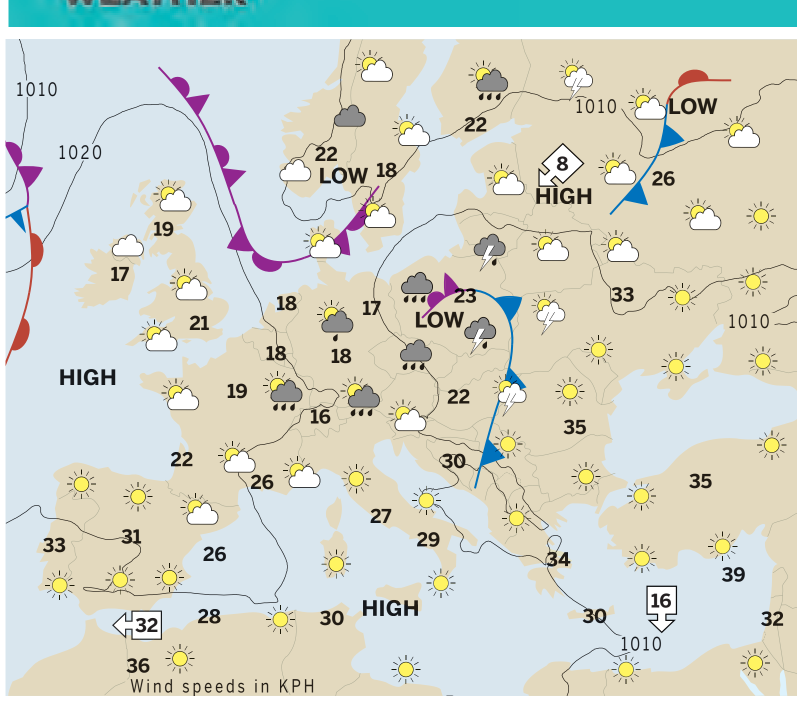
## WEATHER




Forecasts by MeteoGroup

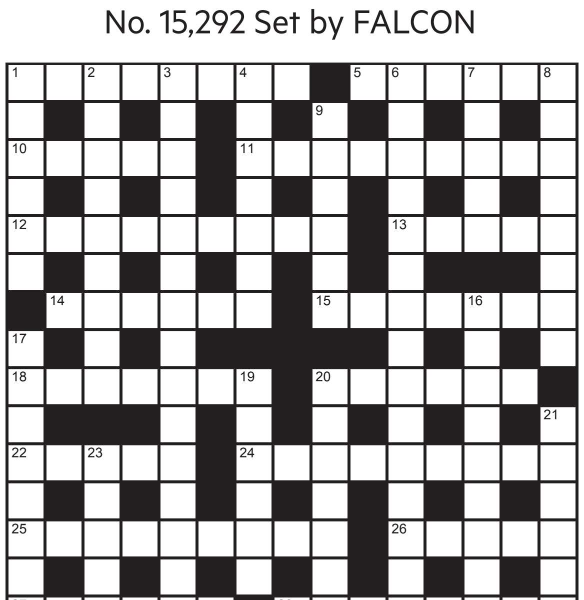
Warm front Cold front Occluded front Wind speed in KPH

**Today's temperatures** Maximum for day °C

| | | | | | |
|---|---|---|---|---|---|
| Abu Dhabi | Sun | 39 | Malta | Sun | 31 |
| Amsterdam | Drizzle | 18 | Manila | Fair | 31 |
| Ankara | Sun | 35 | Miami | Cloudy | 33 |
| Athens | Sun | 34 | Milan | Sun | 27 |
| Bahrain | Sun | 39 | Montreal | Thunder | 30 |
| Barcelona | Sun | 25 | Moscow | Cloudy | 26 |
| Beijing | Cloudy | 32 | Mumbai | Rain | 30 |
| Belfast | Cloudy | 17 | Munich | Thunder | 16 |
| Belgrade | Thunder | 33 | Naples | Sun | 29 |
| Berlin | Shower | 17 | New York | Cloudy | 31 |
| Brussels | Shower | 18 | Nice | Sun | 27 |
| Budapest | Thunder | 22 | Nicosia | Sun | 39 |
| Cairo | Sun | 37 | Oslo | Shower | 22 |
| Cardiff | Fair | 19 | Paris | Shower | 19 |
| Chicago | Fair | 30 | Prague | Shower | 15 |
| Cologne | Fair | 19 | Reykjavik | Cloudy | 13 |
| Copenhagen | Fair | 19 | Riga | Shower | 22 |
| Delhi | Thunder | 33 | Rio | Sun | 29 |
| Dubai | Sun | 40 | Rome | Sun | 27 |
| Dublin | Cloudy | 18 | San Francisco | Sun | 21 |
| Edinburgh | Fair | 20 | Singapore | Thunder | 30 |
| Frankfurt | Sun | 20 | Stockholm | Fair | 21 |
| Geneva | Shower | 17 | Strasbourg | Shower | 19 |
| Hamburg | Rain | 18 | Sydney | Sun | 16 |
| Helsinki | Sun | 22 | Tokyo | Thunder | 31 |
| Hong Kong | Shower | 31 | Toronto | Thunder | 28 |
| Istanbul | Sun | 30 | Vancouver | Fair | 20 |
| Lisbon | Sun | 33 | Vienna | Cloudy | 19 |
| London | Fair | 21 | Warsaw | Thunder | 23 |
| Los Angeles | Fair | 27 | Washington | Fair | 35 |
| Luxembourg | Shower | 18 | Zagreb | Shower | 22 |
| Madrid | Sun | 31 | Zurich | Shower | 16 |



## CROSSWORD
No. 15,292 Set by FALCON

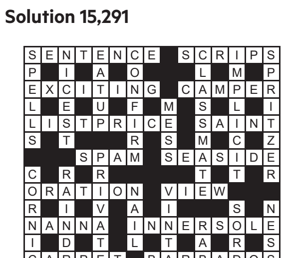


JOTTER PAD

ACROSS
1 Stand about next to a member in staging area (4,4)
5 Complaint from a scholar crossing street close to Medinah (6)
10 Burn restricts one in lead (5)
11 Distributed as it happens – take in action (9)
12 Former road leading to this at 2, the "home of golf" (3,6)
13 Charles, say – Bob's initial start in Open ends in bogey, birdie, par (5)
14 Admiral Byron, for example (6)
15 Real upset on Troon's last in very good battle (7)
18 Takes umbrage at fees across south-east (7)
20 Louise's partner extremely tough male put out (6)
22 Quiet, with a newspaper, in part of golf club (5)
24 Played with others at Scottish town where 8 once won the Open (9)
25 A German playing through gap gets an ace (4,2,3)
26 Golf trophy donor's proviso, reportedly (5)
27 Pressure to speak in golf club (6)
28 Faded second of drives, next to spectator (6-2)

DOWN
1 One short, beneath stream, makes gesture (6)
2 Son also wearing tartan trousers in university town (2,7)
3 In consideration, R&A constructed protective barrier (6,9)
4 Position for cricketer round Irish golf club (7)
6 Sees tall verbose foreign golfer (4,11)
7 Robust and tough – McIlroy, ultimately (5)
8 An Open champion, with individual lacking power (8)
9 Birdies from balls going further than intended? (6)
16 Rest hint about heading for Augusta (9)
17 Part of golf club: small society inside for dance (4,4)
19 Draw off Hoylake's first so pin seen differently (6)
20 Girl in group, upset smothering her approach at first (7)
21 Small rocky island in part of Munster, below course's fifth (6)
23 Complete round on Oakmont, finally making cut (5)

Solution 15,291



Companies & Markets

FINANCIAL TIMES

A few dollars more Europeans pay premium for US businesses

INSIDE EUROPE, PAGE 14

| Suzuki Motor | Sony Corp | Cathay Pacific | Dollar/yen | Euro Stoxx 600 | Brent oil | 10-year gilt | Copper (LME) |
|---|---|---|---|---|---|---|---|
| 5.31% | 2.13% | 2.04% | 0.5% | 0.1% | 4.3% | 8bp | 1.4% |
| ¥3,042.0 | ¥3,074.0 | HK$12.00 | ¥104.21 | 335.83 | $46.38 | 0.75% | $4,938 |

# US shale tipped as lowest-cost oil

## • Rivals likely to attract less investment • North Sea and west Africa producers face tests

ED CROOKS — NEW YORK

US shale is the lowest-cost option for future oil production and likely to attract more investment than competing projects such as deepwater fields, according to a leading industry adviser.

About 60 per cent of the production that is economically viable at a crude price of $60 a barrel is in US shale, and only about 20 per cent in deep water, said Wood Mackenzie, the consultancy.

Companies with US shale assets are likely to be at a competitive advantage over the next few years. Producers that rely on oilfields in higher-cost regions such as the North Sea and the deep waters off west Africa will have to cut costs or face shrinking output. After the oil price fall that began two years ago, production costs have been cut across the industry, but far more so in US shale.

Average costs per barrel are down 30 to 40 per cent for these wells, but just 10 to 12 per cent for other projects, said Simon Flowers of Wood Mackenzie.

Shale regions that two years ago were in the middle of the cost curve for future supplies are now towards the lower end.

Investments in the Eagle Ford shale of south Texas on average need a Brent crude price of $48 a barrel to break even, on Wood Mackenzie's calculations, while projects in the Wolfcamp formation in the Permian Basin in west Texas need $39.

"There are more opportunities to invest in the US, and that's where the investment will take place," said Mr Flowers. "If your investment options are in deep water, you've got quite a task on your hands. You might be asking: 'Should we be getting into tight [shale] oil?'"

Brent was trading at $47.59 per barrel yesterday.

US companies that have shale reserves, including Chevron and ExxonMobil, have stressed the flexibility of those assets, which are developed with many wells costing a few million dollars each, rather than the multibillion-dollar projects often required offshore.

The number of large projects being given the go-ahead averaged 40 a year between 2007 and 2013 but dropped to just eight last year, according to Angus Rodger, also of Wood Mackenzie.

Although there has been a small flurry of investment decisions in the past few weeks, including the Chevron-led $36.8bn expansion of Tengiz in Kazakhstan, Mr Rodger expects only about 10 big new projects this year.

While the economics of US shale are generally more attractive, Mr Flowers said the time taken to mobilise finance and workers to increase drilling and production meant that global demand could outstrip supply in a few years. That could drive oil prices to $80 to $85 per barrel in 2019-20, he added.

> 'If your investment options are in deep water, you've got quite a task'

## Short View

Alan Livsey

If dogs are man's best friend, that might explain the market's affection for coal, one of the poorest commodity performers in recent years. That is until this year. Thermal coal prices are up about a fifth from this spring's low.

Great news for long-suffering holders of coal mining shares, though some will rightly wonder if the run can last. Coal has probably caught up with other energy commodities.

Oil has of course led the way; over the long run coal prices tend to track crude. Yet coal's main energy competitor is natural gas for power generation. In the US the Henry Hub benchmark price has leapt 30 per cent in the past month alone, partly due to unseasonably warm weather.

Coal is now cheaper in the US, on an energy equivalent basis, than natural gas. Consol Energy of the US, which produces both coal and natural gas, wins either way. Its shares have doubled this year. Fuel switching back to coal from gas (at power plants) could hurt gas demand and prices. If so, coal most probably would follow it down.

In Europe, carbon taxes on coal keep natural gas competitive. The tax also makes it harder for electric utilities to make money on the spread between coal and power prices. German utilities have struggled to make money given their exposure to coal when renewables account for more than a third of the country's electricity generation.

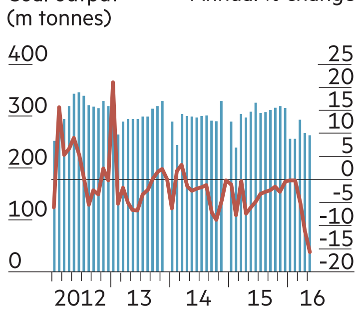
RWE, one of Germany's two biggest power companies, still depends on coal for 56 per cent of its generation. No surprise that its shares are up more than a quarter since mid-April. Whether RWE can pass on its higher coal costs to its customers is not so clear.

Events in China, the world's largest producer, probably made the biggest difference to prices. With miners there producing at a loss, Beijing has forced production cutbacks, especially from China Shenhua, the world's largest coal miner. These cuts could equal 13 per cent of China's output if fully implemented — more than all of Russia's coal production. Macquarie, though, thinks it will probably be significantly less.

China's excess capacity on coal, as with steel, will not disappear so easily. Unless oil prices can surge higher, the warmer feelings towards coal will soon cool.

**China's coal production**

Coal output (m tonnes) — Annual % change




Source: CLSA

With Chinese coal miners producing at a loss, Beijing has forced the industry to make significant cutbacks

*alan.livsey@ft.com*

## Pulling rank
### Hungarian laws oust Uber drivers

Car-hailing app Uber is pulling out of Hungary after the launch of tough new laws by prime minister Viktor Orban, **writes Andrew Byrne in Budapest.**

Uber said it had been forced to suspend services in the capital Budapest because new powers granted to authorities this month allowed them to penalise drivers and block internet access to "illegal dispatcher services".

The law is the latest regulatory setback in Europe for the company, where it has encountered strong opposition by taxi drivers and frequent restrictions by local courts. The San Francisco-based company works with 1,200 drivers in Budapest and says it has 160,000 registered users there.

"The new legal framework makes it impossible for our partners to drive by threatening to seize their personal drivers' licences and personal vehicles, in addition to several other punitive penalties," said Robbie Khazzam, Uber's regional manager for central and eastern Europe. But Uber claims it is winning the argument in Europe and noted a European Commission report in June that advises countries not to ban it. "The changes [in Hungary] run completely contrary to recent developments in the EU," Mr Khazzam said.


### UK car industry seeks new road map after Brexit

The Nissan car factory in north-east England is among several facing uncertainty after the UK voted to leave the EU. Some industry figures fear that if the country fails to retain good access to the single market, its vehicle plants will become uncompetitive.

**Analysis** ▸PAGE 15

# UK bankers frustrated by JPMorgan's 'deeply unhelpful' City pessimism

MARTIN ARNOLD AND LAURA NOONAN

**Senior bankers in London are growing frustrated with JPMorgan Chase's public warnings that it may cut thousands of jobs in the UK, saying such remarks send an unhelpfully negative message.**

The worries come amid efforts by the UK Treasury to encourage international banks to paint a rosier picture of the City's future following the vote to leave the EU. The Treasury has separately urged British banks to refrain from public proclamations about any dire consequences from Brexit, people briefed on the discussions said.

Officials asked international banks to sign a "more optimistic" joint statement than the one that was eventually published last Thursday, saying banks and the Treasury would "work together . . . to help London retain its position as the leading international financial centre." Banks resisted, arguing they were "not cheerleaders", people who saw the earlier statement said. The Treasury did not comment.

Large international banks based in London may lose the "passports" that allow them to sell services across the EU following Brexit. They were very vocal ahead of the June 23 referendum about the dire impact they said it would have on UK financial sector jobs.

Most have been less forthcoming since. One notable exception has been Jamie Dimon, JPMorgan's chief executive, who has repeatedly raised the prospect of big job cuts in the UK, where the US bank employs about 16,000 people.

One senior banker said Mr Dimon's comments were "deeply unhelpful". JPMorgan declined to comment.

City bosses expressed concerns about the negative impact of such remarks at a recent board meeting of the British Bankers' Association.

Mr Dimon told an Italian newspaper last week that JPMorgan could be forced to move thousands of staff out of Britain if the country loses its automatic right to sell financial services to the EU.

Since the vote, UBS and Deutsche Bank have also warned about the negative consequences of Brexit for the City.

*Additional reporting by Patrick Jenkins*



## Companies / Sectors / People

**Companies**

AMC....14
AMC Entertainment....12
ANA....17
Accor....12
Activision Blizzard....9
Agrium....22
Airbus....17
Alibaba....7,22
Amazon....14
Anglo American....16
BMW's....15
BP....23
Banco Popular....14
Banco Sabadell....14
Banco Santander....14
Bank of Tokyo-Mitsubishi UFJ....22
Bankia....14
Barclays....22
Belaruskali....22
Berkshire Hathaway....7
Boeing....17
Burberry....12,23
CME Group....22
Caixabank....14
Canpotex....22
Chesapeake Energy....23
Chevron....13
China Shenhua....13
Church & Dwight....14
Cineworld....12
ConocoPhillips....23
Consol Energy....13
Dalian Wanda....14
Danone....14
Darden Restaurants....23
DeNA....9
Deutsche Bank....12
Deutsche Börse....14
Emirates Airline....17
ExxonMobil....13
Foxtons....23
GE....6
GKN....23
Gala Coral....16
General Motors'....15
Glencore....16,22
HSBC....22
Halliburton....23
Henkel....14
Hess....23
Honda....15
Hong Kong Exchanges....16
Host Hotels & Resorts....23
Hyperloop One....16
Intercontinental Exchange....22
Iran Air....17
Israel Chemicals....22
Jaguar Land Rover....15
Jin Jiang....12
Juno Therapeutics....23
Kinepolis....12
Ladbrokes....16
Legendary Entertainment....14
Liberbank....14
London Metal Exchange....16
London Stock Exchange Group....14
Mercuria....22
Microsoft....9
Mosaic....22
NMC Health....23
NYX....16
National Starch....14
Netflix....14
Nintendo....1,9
Nissan....15
Nordstrom....12
Playtech....16
Plus500....16
PotashCorp....22
Procter & Gamble....14
Purplebricks....23
RWE....13
Renault....15
Rio Tinto....16
Royal Dutch Shell....15
Sega....9
Sharp,....7
Skymark....17
SoftBank....7
Sony....9
Sprint....7
Supercell....7
Tata Group....15
Terra Firma....14
Thomson Reuters....22
Toshiba....7
Toyota....15
Uber....13
Uralkali....22
Walmart....14
William Hill....16
Wood Group....15
Wood Mackenzie....13
Yahoo....22
YouTube....14

**Sectors**

Automobiles....15
Basic Resources....22
Energy....13
Financial Services....14,16
Industrials....6
Media....2
Mining....22
Oil & Gas....13
Technology....1,14,16
Travel & Leisure....9,16

**People**

Abbott, Martin....16
Aron, Adam....14
Bailey, Christopher....12
BamBrogan, Brogan....16
Brown, Julie....12
Brégier, Fabrice....17
Downey, Morgan....22
Enders, Tom....17
Fairweather, Carol....12
Gobbetti, Marco....12
Hand, Guy....14
Immelt, Jeff....6
Jianlin, Wang....14
Jones, Garry....16
Lonsdale, Joe....16
Overlander, Michael....16
Pishevar, Shervin....16
Sageder, Armin....16
Sagi, Teddy....16
Tim Clark, Sir....17
Weizer, Mor....16
Wolff, John....16

Banks

# D Börse closes in on LSE deal approval

## Political and regulatory opposition to exchange tie-up continues to mount

JAMES SHOTTER — FRANKFURT

Deutsche Börse said yesterday that most of its shareholders had backed its proposed merger with the London Stock Exchange Group, even as opposition to the deal continues to mount among regulators and politicians.

The Frankfurt-based exchanges operator said in a filing that 51.27 per cent of its shares had now been tendered, equating to an acceptance level of 53 per cent, once treasury shares have been excluded.

This leaves Deutsche Börse within sight of the revised 60 per cent acceptance threshold it set on Monday for the planned €24bn tie-up. The figure should be boosted further by shares held by index funds, which can only tender after the 50 per cent threshold has been reached.

But it also emerged yesterday that Portugal's finance minister Mário Centeno has — like his counterpart in Belgium — written to European antitrust authorities to express concerns about the deal. Germany's influential Bundesbank also weighed in. Andreas Dombret, a member of its executive board, became the latest high-ranking German official to insist that the corporate governance structure of the merged group must be reviewed in light of the UK's vote to leave the EU — even if this means reducing the €450m savings envisioned by the deal.

Under the finely balanced terms of the tie-up announced in March, the new group is set to have a single holding company based in London, while Carsten Kengeter, chief executive of Deutsche Börse, will head the combined entity.

But since the UK voted for Brexit, there has been new resistance from German politicians and regulators, who object to locating some of the country's key financial infrastructure outside the EU. In a wide-ranging speech in Frankfurt, Mr Dombret expressed reservations about activities such as euro-clearing being carried out outside the EU, and said that to ensure that the deal passes muster with supervisors, the two exchanges operators should now "re-evaluate" their merger plans.

"Clearly, the Leave vote poses new challenges for the corporate governance of the merger: The parties concerned need to find a governance structure which balances all reasonable interests — even at the expense of synergies," he said.

Separately, Mr Dombret also warned that loosening bail-in rules for banks would lead to demands for higher capital requirements. In recent days, Mr Kengeter has floated the idea to his shareholders of setting up a dual holding structure — with one holding company in London and another within the EU — to assuage German regulators' concerns about the deal.

Deutsche Börse and the LSE have also set up a committee to look at how to deal with the UK's vote, and Mr Dombret said that it "needs to keep in mind the economic rationale of the proposed merger which has gained greater credence through the Brexit vote".

Deutsche Börse said that it "acknowledged Mr Dombret's speech".

See Lex

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Travel & leisure. Cinema

# AMC sees gold in Europe's silver screens

## Billion-dollar Odeon deal was the first big case of foreign bargain hunting after Brexit

ANNA NICOLAOU — NEW YORK
PAUL MCCLEAN — LONDON

When Adam Aron heard about Britain's referendum vote to leave the EU, he was "thrown for a day or two".

The chief executive of AMC, the second-largest US cinema owner, had spent the previous few months crafting plans to purchase Odeon, the UK's largest cinema chain, as the latest salvo of a campaign by AMC's Chinese owner to build a global entertainment empire.

Brexit "obviously injected uncertainties into the equation", Mr Aron told the Financial Times. "We were very close to to an agreement, and then Brexit happened, and we both decided to regroup."

The shock referendum result nearly put an end to the acquisition, which had been dependent on a Remain vote, according to one person close to the deal. But after Mr Aron watched a spectacular drama unfold and saw the pound slide to a 31-year low versus the dollar, he followed through. The deal was worth a now-sweeter £921m, ending years of flirtations between the two companies to produce the world's largest cinema operator.

**The deal provides relief for Guy Hands' Terra Firma, giving the buyout group an exit from the film business**

AMC will ultimately pay cash for three-quarters of the deal, with the rest in stock, though a greater proportion of cash was initially proposed under the assumption of a Remain vote.

The billion-dollar deal also marked the first big case of foreign bargain hunting after Brexit. Analysts predict the sharp drop in sterling after the vote may attract further Chinese buyers, who have already been busy this year striking deals across western markets.

"It's 10 per cent cheaper than it was a couple weeks ago," said Leo Kulp, an analyst at RBC. "They're getting a foothold in Europe at a pretty good price."

AMC, majority-owned by the Chinese billionaire Wang Jianlin's Dalian Wanda, will now command more than 7,600 silver screens worldwide. A string of media deals by Mr Wang includes the $3.5bn purchase of the Legendary Entertainment film studio and the $344m acquisition of the Australian cinema company Hoyts Group. Wanda's AMC has also offered to buy Carmike Cinemas for $1.1bn, although this deal is at "considerable risk", due to a stand-off with shareholders, Mr Aron said.

Despite saying last year that Dalian Wanda had "no intention of purchasing Odeon", Mr Aron says that Mr Wang was "wildly enthusiastic" about the combination. Dalian Wanda built itself up on property developments, but has since looked abroad to expand into sports and entertainment and meet the tastes of a growing middle class at home, where Chinese box-office sales are predicted to eclipse that of the US for the first time next year.

The deal provides relief for Guy Hands' Terra Firma, finally giving the private equity group an exit from the film business, after initially trying to sell Odeon in 2011. Terra Firma had bought Odeon in 2004 for €650m, merging it with UCI to create the UK's largest cinema operator.

But the pace of debt-fuelled dealmaking by Mr Wang has raised eyebrows at rating agencies, leading Standard & Poor's to downgrade the long-term credit rating of Dalian Wanda in February. The Odeon purchase includes £407m of net debt.

S&P said on Tuesday that the proposed deal would not affect its AMC rating or outlook. AMC's leverage is "on the high end", said Mr Kulp, although he pointed to options to issue equity to delever once the deal was completed.

Mr Wang's enthusiasm for cinema comes as the market is experiencing sluggish growth in Europe, and amid uncertainty hanging over the post-Brexit UK economy.

Globally, box office revenues climbed 5 per cent last year to $38bn, according to the Motion Picture Association of America. But in Europe and the Middle East, sales slipped 9 per cent year over year, weighed down by an 18 per cent fall in France. In contrast, in China last year, 22 new film screens opened each day, doubling box-office sales to $6.8bn.

Mr Aron said he was confident about the deal, despite turmoil in the UK. He pointed to previous recessions where film going had tended to be resilient. US box office revenues rose in five of the past seven recession years since 1965, according to the National Association of Theatre Owners, as films were seen as a cheaper alternative to more expensive outings, such as live sports games.

Others caution that the world of entertainment has changed dramatically, threatening the perceived safety of film attendance. With the advent of digital streaming sites such as YouTube and Netflix, "there are simply more options for people these days", said Sam Craig, a professor at NYU Stern.

Analysts said the deal gives AMC a foothold in Europe, and the company's newfound role as the biggest participant will give it more leverage in negotiations with film studios.

**ft.com/lombard**

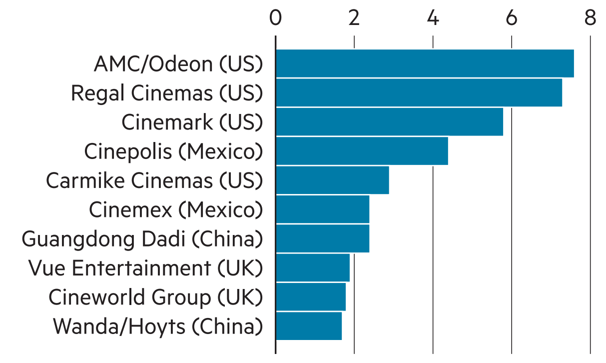
See Lex

**Globally, box office revenues climbed 5 per cent last year to $38bn, but in Europe and the Middle East, sales slipped 9 per cent year over year**

Simon Dawson/Bloomberg

**Largest cinema groups**

By number of screens ('000s)




Source: IHS

INSIDE BUSINESS

EUROPE

Tony Barber

# Acquisitive European groups paying dearly for US expansion

Increasing US market share by means of acquisitions is a tried and tested route for French, German and other European companies. For some, the opportunity to gain control of the innovative products and technologies of a dynamic US business is worth investigating. For others, US purchases help to spread geographical risk by reducing dependence on low-growth, low-margin Europe and by minimising exposure to the risk of emerging market currency weakness.

In principle, the troubling times that lie ahead for the European economy after Britain's June 23 vote to leave the EU should make US expansion look like an even more attractive proposition than usual.

For investors in acquisitive European companies, however, matters are not necessarily so straightforward. The reason is that, more often than not, companies eager to hit the big time across the Atlantic pay startlingly high prices for their US targets.

Consider the recent examples of Henkel, the German consumer products group, which is forking out €3.2bn for Sun Products Corporation of Connecticut, and Danone, the French dairy company, which proposes to acquire Colorado-based WhiteWave Foods for $12.5bn. Each of these deals was announced just after the British referendum, and each was clearly in the works before the vote.

**The Brexit result appears to reinforce the logic behind the purchases**

In both cases, the Brexit result appears to reinforce the strategic logic behind the purchases. For Danone, the WhiteWave deal will raise North America's share of total group revenue to 22 per cent from 12 per cent. It will make Danone the owner of a US company that has a creative edge over its competitors in the world's fast-growing organic dairy products sector. To some extent, it will compensate for the politically tinged controversies that have affected Danone's substantial operations in China.

In Henkel's case, North American sales will rise to 26 per cent of total revenue from 20 per cent as a result of buying Sun Products, a maker of laundry detergents. Henkel still has a long way to go before it gets Procter & Gamble, the king of the US laundry products market, in its sights. But the acquisition of Sun Products will catapult Henkel into second place, behind P&G but ahead of Church & Dwight.

So far, so good. It is surely common sense for companies such as Danone and Henkel to build up a presence in the relatively buoyant, stable US at a time of political and economic uncertainty in Europe and a slowdown in China and other emerging markets. It might even be worth paying a premium for that US presence — but what should be the upper limit of the premium?

Henkel and Danone are using debt to finance their acquisitions, but the German company's deal is arguably the less controversial of the two. After spending €3.7bn in 2008 for National Starch, a US adhesives business, Henkel imposed a long spell of financial discipline upon itself, paying off all its debt and cutting corporate costs. Henkel can easily afford the price it has agreed for Sun Products.

**Henkel's deal is expensive for a sector in which pricing pressures squeeze profits**

True, the deal is expensive for a sector in which pricing pressures, including retailers' discounts, are remorselessly squeezing profits. Sun Products' $1.6bn annual sales are more than 20 per cent lower than in 2008. But the choice facing Henkel was whether to bulk up in the US laundry products sector, where it was languishing with a 6 per cent market share, or leave the US market altogether. In the bigger scheme of things, Henkel needed a US presence — and so it had to pay the price.

Danone's WhiteWave move is different. According to Moody's, the credit rating agency, the deal, based on Danone's offer of $56.25 for each share in the US company, will double the French group's gross debt from its December 2015 level of about €11.1bn. In order to reduce its leverage, Danone counts on extracting $300m by 2020 in "synergies" from the deal. As a yoghurt maker, Danone must know fat when it sees it, but this seems a tall order.

Still more eye-catching is that, to lay its hands on WhiteWave, Danone is paying about 40 times the US company's expected earnings in 2017. In an all-European deal, one consumer goods company would surely never buy another for anything close to that multiple.

There are two possible conclusions. Either WhiteWave is so special that the high price is justified — or Danone, like other European buyers before it, is calculating that the only way to get ahead in the US is to pay through the nose.

*tony.barber@ft.com*



Technology

# Prime event is Amazon's busiest day

LESLIE HOOK — SAN FRANCISCO
LINDSAY WHIPP — CHICAGO

**Amazon declared its "biggest day ever" after its Prime Day sale, an annual event that has come to resemble Christmas in July for the company's most loyal customers.**

The Seattle-based online retailer said that global orders surged 60 per cent compared with Prime Day a year ago, and while Amazon did not provide figures it said the event exceeded Black Friday as its busiest day of the year.

The event is available to members of Amazon Prime, which provides speedy delivery and free video access. Amazon said it had sold more than 90,000 television sets, over 215,000 rice cookers and more than three times as many Amazon devices as it did during last year's sale.

In a move by Walmart to compete with Amazon on its Prime Day event, the world's largest retailer by revenue temporarily expanded a trial of its free shipping service to all customers, and offered discounts on many products.

Amazon is the dominant online retailer in the US, with $83bn of ecommerce sales in the past 12 months, compared with $135.bn from Walmart, according to eMarketer. Online shopping, however, accounts for less than 10 per cent of annual retail sales in the US.

Banks

# Spanish lenders cheered by ECJ draft decision

TOBIAS BUCK — MADRID

**Shares in domestic Spanish banks rallied yesterday, after the European Court of Justice issued a favourable opinion in a long-running case about rate floors in mortgage contracts that could be worth billions of euros to the sector.**

Banco Sabadell rose 6 per cent in morning trading, while shares in Banco Popular rose 5 per cent and Caixabank advanced 3 per cent. Liberbank, a smaller Spanish lender, jumped more than 14 per cent.

All four are mostly focused on the Spanish market and therefore stand to benefit the most if the final ECJ ruling follows the non-binding opinion that has been drafted by a senior judge.

He concluded that Spanish banks should not be forced to reimburse consumers for years of excess mortgage charges imposed before a 2013 ruling in Spain that banned the use of rate floors.

In the majority of cases before the Luxembourg-based court, the final ruling and the preliminary opinion concur.

Banco Santander, Spain's biggest financial group by market value, did not use mortgage floors.

Before the 2013 ruling, rate floors were widely used by most Spanish banks to set a limit on how far mortgage rates could fall in tandem with the benchmark rate.

Consumers are challenging the part of the 2013 decision that held banks should not be forced to pay back excess money they took before the ruling.

Now the European court's advocate-general has come down on the side of banks, writing in a non-binding opinion that it would give sufficient deterrent effect to require lenders to repay just the excess charges taken after the decision.

A report last year from Morgan Stanley said leading Spanish banks have brought in a combined €1.1bn from interest rate floors since the Spanish ruling in 2013, and a total €7bn since 2008.

COMPANIES

# Brexit steers UK cars into unknown territory

## Concern mounts as report says factories run by Nissan, Honda and Toyota are most at risk of closure after EU vote

PETER CAMPBELL — LONDON
KANA INAGAKI — TOKYO

Walking the length of Nissan's car plant in Sunderland takes substantially longer than it did a year ago.

A £250m expansion of the site — already the UK's largest car assembly line — introduced a new wing that enables the factory to make luxury saloons sold under the Japanese carmaker's Infiniti brand. Nissan said in December that the investment heralded a "new chapter" for the plant.

Now, however, the factory is one of several in the UK that face an uncertain future following Britain's vote last month to leave the EU.

Some car industry executives have expressed concerns that if the UK struggles to retain good access to the EU single market after Brexit, then British car plants risk becoming uncompetitive, leading to lost work on refreshed models and, in time, possible closure.

A senior manager at one UK car plant, speaking on the condition of anonymity, says: "At the point when we need the next round of investment, if we can't compete and if the British government doesn't help us then I will be very, very worried [about the future of the factory]. We're a global company, we have to make a decision that makes economic sense."

The UK car industry — which employs 800,000 people — has enjoyed an extraordinary renaissance in the past 20 years, after significant investment by overseas automobile makers.

Much of that investment was premised on the UK's membership of the EU — under the single market arrangements, overseas carmakers dispatch their UK-made vehicles for sale on the continent without incurring tariffs.

New prime minister Theresa May faces the tricky task of trying to maximise UK access to the single market in forthcoming negotiations with the EU, while also seeking to control immigration by curbing free movement of people.

Two big challenges posed by Brexit for overseas carmakers with UK plants are flagged in a new report by PA Consulting.

First, a period of uncertainty during talks between the UK and the EU over Brexit — the formal negotiations might not start until 2017, and could last two years — could prompt these carmakers to place important work on model upgrades with their operations elsewhere in the world.

Second, that if the UK's access to the EU single market after Brexit is deemed to be inadequate by these carmakers, then some of their UK factories could ultimately close because they would be uncompetitive.

Not everyone is fearful about the future of the British car industry. Stephen Booth, a director of the Open Europe think-tank, predicts there will be a tariff-free trade agreement between the UK and the EU after Brexit.

"Given that it's likely that the UK will have tariff-free access we would expect the UK car industry to cope over the long term," he says.

The PA report argues that of the British plants owned by overseas carmakers, those operated by Japanese companies — Honda, Toyota and Nissan — are at most risk of eventual closure if the factories become uneconomic after Brexit.

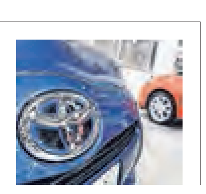
The three companies' factories, which PA says have a "high reliance on exports to Europe and relatively low margins", account for about half the vehicles made in the UK.

Tim Lawrence, head of manufacturing at PA, says Honda and Toyota have struggled to extract meaningful profits from their UK operations since the late 1980s because the plants are running at low capacity, reflecting how the factories are making some of the companies' less popular vehicles.

Honda's Swindon site will become the global manufacturing hub for the five-door Civic car in 2017, but within three years the company must take a long-term decision about whether to renew this or move the work elsewhere.

Ian Howells, a director of Honda in Europe, says the Swindon plant "plays an important role in our global manufacturing operation". He adds: "Honda remains committed to its manufacturing activity in the UK."

Toyota officials say it is premature to discuss the possibility of it moving production outside the UK



Toyota is unlikely to make any new investment in the UK until there is clarity on tariffs with the EU, says one person close to the company.

Johan van Zyl, head of Toyota's European business, said after the Brexit vote that the long-term future of its two UK plants was dependent on the outcome of trade negotiations with the EU, although he stressed the company was "committed" to Britain.

Toyota officials say it is premature to discuss the possibility of the company moving production outside the UK, with some hoping Britain can reach a compromise with the EU that would keep the status quo mostly intact.

PA meanwhile highlights how Nissan has the option to shift work from its Sunderland plant to factories in continental Europe run by its global alliance partner Renault, and that this move may become attractive following Brexit.

Arnaud Deboeuf, a director of the Renault-Nissan Alliance, says the Sunderland plant "is key for Nissan in Europe with the production of [the] Qashqai [SUV] and the production of Juke [a compact SUV], so in the short term there will be no impact".

The Vauxhall plant in the UK, owned by General Motors' European arm Opel, is less likely to close than those British factories operated by Japanese carmakers, according to PA.

However, PA says the lack of certainty about tariffs places a "question mark" over the Vauxhall plant's future.

Vauxhall says the company "fully supports [the UK] remaining part of the European Economic Area" and wants to see trade negotiations "concluded in a timely manner".

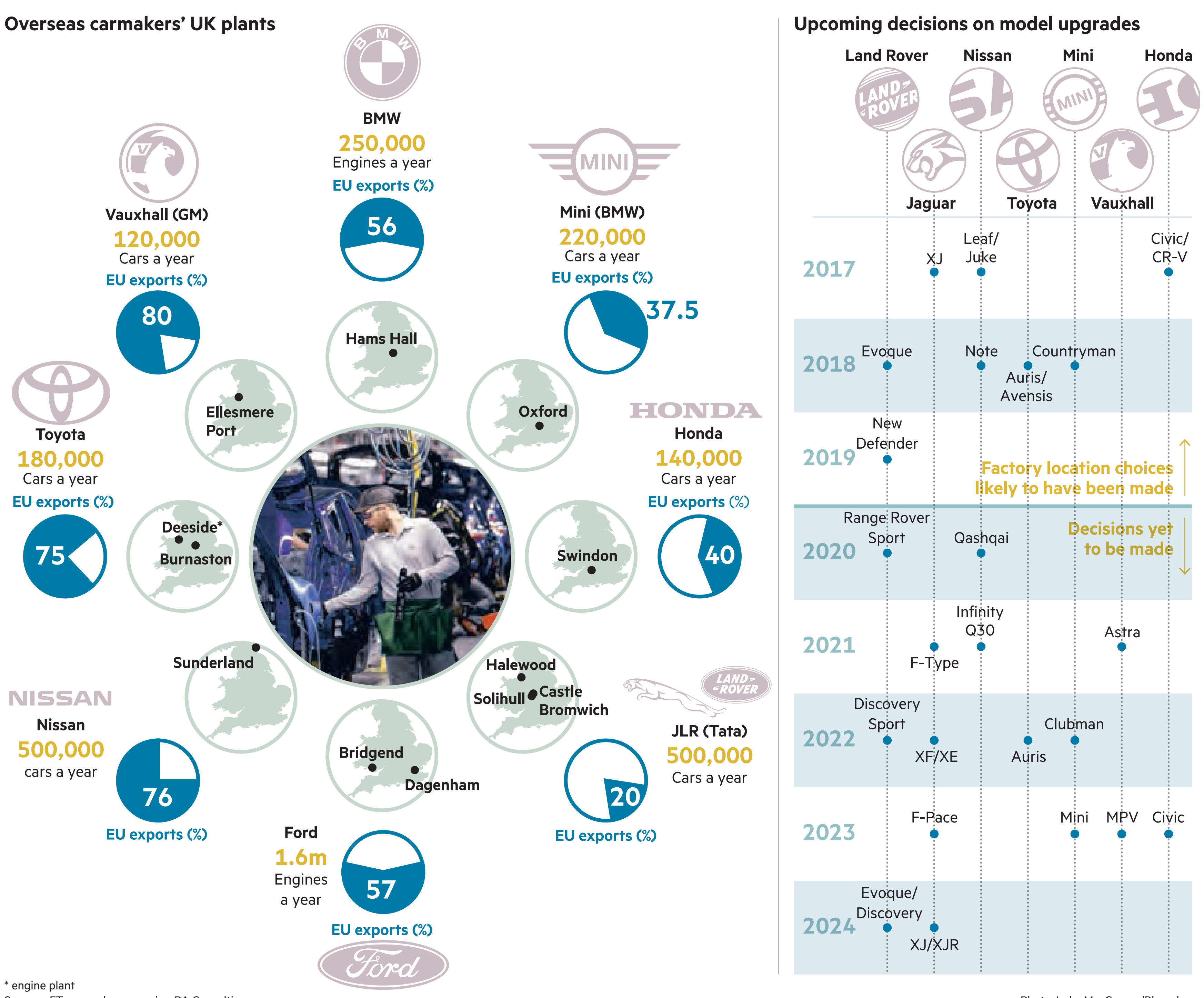
PA also places a question mark over the future of BMW's Mini plant in the UK, but says the company will face a strong pull to retain the factory because of its British heritage.

BMW says there will be "no immediate change to our operations in the UK" but that it "will not speculate about the outcome of these [Brexit] negotiations".

Jaguar Land Rover, the UK's largest carmaker with 40,000 staff and owned by India's Tata Group, will stay in Britain, predicts PA.

Adrian Hallmark, JLR strategy director, said this month the company was "committed to Britain, and will stand by that decision".

> Two big challenges posed by Brexit for overseas carmakers with UK plants are flagged in a new report




* engine plant
Sources: FT research; companies; PA Consulting
Photo: Luke MacGregor/Bloomberg

### Drive for access
**Groups in continental Europe expected to push for free trade**

Ford and BMW make engines that are then shipped from their British plants to continental Europe and further afield for use in factories assembling their cars.

Among other things, Ford's UK-made diesel engines power its Focus car that is manufactured in Germany. BMW's British-built engines power its 3 Series car that is also assembled in Germany.

A significant proportion of these Ford and BMW cars containing UK-made engines are then dispatched back to Britain for sale.

The UK is the second-largest market for car sales in Europe after Germany — last year 2.6m new vehicles were registered in the UK, of which more than 2m were imported.

For this reason, carmakers based in continental Europe are expected to press their governments to allow free trade between the UK and the EU after Brexit, according to automobile industry executives. "It's difficult to see a car company who would support tariffs," says one executive.

Access to the UK market is especially important for German carmakers including BMW, Mercedes-Benz owner Daimler, and Volkswagen. "Germany needs the UK," says Arndt Ellinghorst, analyst at Evercore ISI.

The German car industry, which supports suppliers including Bosch and Continental, is the country's largest sector and biggest corporate taxpayer, he adds.

Oil & gas

# Shell braced for strike on North Sea platforms

ANDREW WARD — ENERGY EDITOR

**Royal Dutch Shell is braced for strike action on seven of its North Sea platforms in the biggest industrial dispute to hit UK oilfields for a decade.**

Workers for Wood Group, which provides maintenance services to Shell, voted yesterday in favour of strike action to protest against changes to pay and conditions.

The dispute reflects growing tensions in industrial relations in the North Sea as companies struggle to keep the basin competitive in the face of declining production, high costs and low oil prices.

Shell said it did not expect immediate disruption to production and was putting in place contingency measures to ensure essential maintenance could continue if the strike went ahead.

Trade unions accused Shell of recruiting "scab labour" after advertisements appeared on job agency websites offering maintenance work on week-by-week contracts.

Leaders of the Unite and RMT unions said their members had overwhelmingly backed strike action.

Paul Goodfellow, head of Shell's upstream business in the UK and Ireland, said he was disappointed by the vote and hoped that Wood Group and its employees could resolve their dispute without a walkout.

"Our priority is to ensure that the safety of our people and assets will not be compromised during any industrial action," he added. Dave Stewart, head of Wood Group's eastern region, said the company wanted to reach an agreement with unions that "meets our mutual goal of safeguarding these jobs in the North Sea now and in the future".

Wood Group employees are facing an average reduction in base salaries of 3 per cent. Weak oil prices are expected to lead to the loss of about 120,000 jobs in the UK energy sector this year, according to Oil & Gas UK.

Deirdre Michie, chief executive of the industry group, said: "Industrial action can only add to the industry's challenges as it focuses on tackling the current downturn to restore North Sea competitiveness and sustain jobs in the industry in the longer term."