

INTERNATIONAL

CORONAVIRUS
ROUND-UP

Sánchez seeks parliament support for new extension of Spain's crisis powers

Pedro Sánchez, Spain's prime minister, will go back to parliament this week to seek a further extension to his government's crisis powers, in an attempt to avoid a disorderly phase-out of lockdown.

But he said central government would cede control over the final stage of the lockdown to Spain's devolved regions.

The prime minister said the state of alert had played a vital role in fighting the pandemic.

Saudi Arabia restarts domestic flights from 11 cities but Mecca remains closed

Domestic flights in Saudi Arabia restarted yesterday, after being suspended since March 21 because of the coronavirus pandemic, authorities said.

Flights to and from airports in 11 cities – Riyadh, Jeddah, Dammam, Madinah, Qassim, Abha, Tabuk, Jazan, Hail, Al Bahah and Najran – have resumed, the official Saudi Press Agency reported.

The restoration of air links with Mecca has yet to be announced.

Brazil reports record rise in new cases



Gravediggers bury a body at a cemetery in Rio de Janeiro. Brazil reported a record 33,274 new cases on Saturday, with the country's death toll increasing by 956 to 28,834.

China factory recovery slows with May purchasing data weaker than expected

The pace of China's manufacturing sector recovery slowed in May, illustrating the difficulties the second-largest economy is having in returning to normal as the pandemic rolls on.

The official purchasing managers' index came in at a weaker than expected 50.6 last month. While readings above 50 indicate that activity is expanding relative to the previous month, May's figure of 50.6 was lower than April's 50.8.

Singapore says jail infections not a previously undetected cluster

Singapore's health ministry said that three prison inmates and a correctional services nurse who tested positive for Covid-19 did not constitute a previously undetected cluster of coronavirus infections.

The city state is continuing to find hundreds of migrant workers testing positive for coronavirus each day.

Of Singapore's total of 54,366 cases, 32,104 – more than 93 per cent – are dormitory residents.

Cases so far:

6,104,980

cases and 370,078 deaths by 5.30pm BST on May 31

Source: Johns Hopkins University, CSSE

Read more at ft.com/coronavirus

Debt restructuring

Argentina nears deal with creditors

Concessions on both sides as pressure rises to agree \$65bn foreign loan plan

COLBY SMITH — NEW YORK
BENEDICT MANDER — BUENOS AIRES

Argentina is inching closer to a deal with bondholders after defaulting on its sovereign debt for a ninth time just over a week ago, with another government deadline approaching tomorrow.

The country has been locked in a stand-off with creditors for months as it attempts to restructure \$65bn of foreign debt. An initial proposal put forward by the government in April was rejected by three separate creditor groups, and after the expiry of a deadline on previously

missed payments on May 22, the country tipped into default.

But optimism that a deal can be reached has risen over the past week, with the gap narrowing between the two sides after both the government and bondholders offered concessions. Many expect tomorrow's deadline to be extended, however, given that differences remain between how much relief the country is seeking and what bondholders are willing to concede.

Argentina's two largest creditor groups put forward a joint proposal at the end of the week that they said would result in more than \$36bn of cash flow relief over the next nine years.

On Thursday, the government also unveiled new terms, with payments to restart in 2022 instead of 2023. It also

increased the average coupon payment on the new bonds and reduced the proposed size of the principal haircut.

"We have come closer but there is still an important way to go," said Martin Guzmán, economy minister. He said the renewed creditor offer "moved in the right direction" but was "insufficient". Negotiations are likely to continue beyond tomorrow's deadline. "It is more important to have the right deal than to have a deal on a specific timetable," said a person familiar with the matter on the bondholder side. "We have been as flexible as we could be in putting relief on the table," added the person, describing June 2 as an "arbitrary" date.

Under the terms of the new creditor offer, no cash payments would be due until 2021. Then the country would face

cash coupon obligations starting as low as 0.75 per cent before rising to close to or above 6 per cent on some bonds. That is above the government's proposal, which calls for coupon payments to cap out below 5 per cent.

The bondholders say their proposal reduces coupon payments by roughly 32 per cent to an average size of 4.25 per cent, and they do not request any amortisation payments until 2025. But the groups do ask for non-cash payments beginning this year to cover unpaid interest under a "paid-in-kind" structure starting at a rate of 1.75 per cent.

Brad Setser, senior fellow for international economics at the Council on Foreign Relations, warned that a paid-in-kind structure could lead to a bigger debt stock for Argentina.

'It is more important to have the right deal than to have a deal on a specific timetable'

France. Politics

Cracks widen in Macron's divided party

LREM faces uphill struggle in local polls after breakaways and pandemic take their toll

VICTOR MALLET — PARIS

When Emmanuel Macron launched En Marche four years ago, he described the idea of a new political movement that was "neither right nor left" as "a bit mad" and said he did not know if it would succeed.

A year later, the upstart group that became La République en Marche (LREM) succeeded handsomely. It helped Mr Macron secure the French presidency in May 2017 and then crushed the established parties of left and right to win an outright majority in the National Assembly, with many of those elected under its banner new to politics.

Today, however, these once-fervent Macron supporters are feeling the strain of three years in power. Many fear that the president's earlier achievements, including a decline in unemployment and tighter control of public spending, are being obscured by a pandemic that has killed nearly 29,000 people in France and is plunging the economy into its deepest recession since the second world war.

"It's very sad," said Annie Vidal, an LREM member of parliament from Seine-Maritime, north-west of Paris. "We were starting to see results in terms of economic recovery, with more jobs in industry and good financial trends."

With a month to go before the delayed second round of France's local elections on June 28, and two years before the next presidential and parliamentary polls, Mr Macron's party is fraying at the edges, weakened by the president's declining popularity.

Agnès Buzyn, the former health minister who is Mr Macron's candidate for Paris mayor, has virtually no chance of winning the city after falling behind Socialist incumbent Anne Hidalgo and centre-right candidate Rachida Dati in the first round in March.

In Lyon, the incumbent mayor and LREM candidate, Gérard Collomb, a former Socialist who was one of Mr Macron's earliest converts, has abandoned the race and thrown in his lot with the centre-right to keep the greens



Testing times: Emmanuel Macron delivers a speech last week after visiting a factory in Etaples, northern France
Ludovic MARIN/EPH-EFE

from power. In Marseille, the LREM candidate performed poorly in the first round.

At the same time, disgruntled LREM deputies in the National Assembly have formed two parliamentary groups, one that is promoting green and leftwing policies and another that leans towards economic liberalism. The splits technically deprive the governing party of its majority, although the defectors insist they are not joining the opposition.

"It shows that what was a sort of consensus was not hard at all but was a soft consensus around Macron, and it's now divided," said political analyst Vincent Martigny.

Ms Vidal, a Macron loyalist, said she did not understand the defectors and insisted that many voters approved of the president's handling of the crisis, even if extremist politicians were exploiting people's fears to whip up

opposition to his leadership. Bruno Bonnell, a tech entrepreneur and MP for Villeurbanne near Lyon, said there was "incredible distortion" between Mr Macron's achievements – successfully negotiating with Germany for an EU economic recovery fund, for example – and a public image damaged by mistrust over problems such as medical equipment shortages.

"I think he's doing it right, but through the Franco-French prism we are arguing about masks, tests and so on," he said.

Alexandra Louis, a lawyer elected as one of the four LREM MPs in Marseille in 2017, said "democratic exhaustion" predated the Macron era and that the angry confrontations highlighted on social media did not reflect what she saw on the ground.

"I'm not convinced that people have changed that much in their view of poli-

tics since the start of this mandate," she said. Ms Louis has joined an association of politicians and citizens called "En Commun" (Together) to generate "constructive" ideas the government could adopt to protect the environment and reduce inequality.

The political danger for LREM is that Mr Macron, having already alienated many of his erstwhile supporters on the left with his economic reforms, may antagonise the greens and the liberal right with insufficiently radical environmental or economic solutions to deal with the impact of the pandemic.

"The lockdown has opened the door to all the old lobbies," said Mr Bonnell. "Looking at the proposals for the relaunch of the economy, none is new or original; it's trying to stimulate demand by promotions and discounts. It means you don't ask the true questions about how you change the world."

Bundestag

German MPs reach impasse over court ruling on ECB bonds

GUY CHAZAN — BERLIN
MARTIN ARNOLD — FRANKFURT

For weeks now, German MPs have been wondering what to do about the German constitutional court's explosive ruling against the ECB's bond-buying programme. The answer came on Thursday: nothing at all.

According to participants of a critical meeting with senior legislators, Wolfgang Schäuble, the president of the Bundestag, told them that the best course of action was inaction.

"The majority opinion in Thursday's meeting was that the Bundestag can't do anything," Peter Boehringer, the head of parliament's budget committee, told the Financial Times, "and that we just have to wait till something comes from either the ECB or the Bundesbank."

The constitutional court shocked Europe earlier this month when it ruled that the German authorities and the EU's top judges had failed to properly scrutinise the ECB's €2.2tn sovereign bond-buying programme, in a move that threw the bank's flagship policy into grave doubt.

The court in Karlsruhe ordered the

German government and parliament to ensure that the ECB provided a "proportionality assessment" of its bond buying to ascertain whether its "economic and fiscal policy effects" did not outweigh other policy objectives.

It also said if the ECB failed to comply within three months, the Bundesbank must stop buying bonds and plan to sell the more than €500bn it holds.

MPs are at a loss as to how to respond. They know that they cannot order the ECB to do anything; it has already made clear it answers only to the European Parliament and the European Court of



Wolfgang Schäuble: the president of the Bundestag met senior legislators

Justice. But nor can they ask the Bundesbank to provide the proportionality assessment, because it is formally independent of both the Bundestag and the government.

"On the other hand, the constitutional court ruling does make clear that the Bundestag has a role to play; it must ensure that we get back to a situation consistent with the EU treaty," said Mr Boehringer. "So it presents us with a dilemma."

However, experts believe that officials are working behind the scenes to resolve the impasse, using the informal channels that exist between the German government, Bundestag and ECB.

One such channel is the warm friendship between Mr Schäuble and Christine Lagarde, the ECB chief: the two were fellow finance ministers, and continued to work closely together after Ms Lagarde switched from the French cabinet to the IMF in 2011.

Most observers think Germany's central bank, the Bundesbank, will play a critical role in resolving the deadlock. In an interview with the FT last week, ECB board member Isabel Schnabel said she was "sure there is going to be communi-

cation between the Bundesbank and the German parliament and the German government, and one will have to find a solution".

Mr Boehringer, who is an MP for the rightwing Alternative for Germany, said he also believed that everything hinged on the Bundesbank.

However, another avenue for potentially resolving the impasse has been set in motion by German MEP Sven Simon, who has written to Ms Lagarde asking for details of how the central bank assessed the proportionality of its bond-buying programme.

Mr Simon, who sits on the European Parliament's economic and monetary affairs committee, told the FT he hoped to act as a go-between, taking the ECB's proportionality assessment to the Bundestag, in the hope that it will be enough to defuse the stand-off.

The ECB always responds to MEPs' letters within six weeks.

The central bank declined to comment, but a person briefed on the matter said that while it had not yet decided how to respond to the constitutional court ruling, its answer to Mr Simon could play a role.

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INTERNATIONAL

Pressure rises on Trump as mass protests rage over Floyd killing

National Guard deployed on streets across the country following continued violence



Fury: demonstrators on a motorcycle one block away from the White House on Saturday night. Below, the National Guard patrol in Minneapolis — Eric Baradar and Chandan Khanna/AFP/Getty Images

LAUREN FEDOR — WASHINGTON

The National Guard was deployed yesterday on the streets of more than a dozen US states and Washington DC, after protests following the death of George Floyd had given way to another night of violence across America.

Angry crowds have clashed with police in major cities across the US, with fierce battles in Los Angeles, Philadelphia and Washington, in the latest display of public anger over the death of Floyd, an unarmed black man, in police custody last week. Some 5,000 members of the National Guard have been called up in 15 states and the District of Columbia, with another 2,000 prepared to deploy "if needed".

The Floyd case, which echoes the high-profile killings of other black Americans at the hands of white police officers, has revived long-simmering tensions over race relations.

It comes in the lead-up to a presidential election and amid the coronavirus pandemic, which has killed more than 100,000 Americans and disproportionately affected people of colour.

"These last few days have laid bare that we are a nation furious at injustice," Joe Biden, the presumptive Democratic presidential nominee and former vice-president, said yesterday.

Mr Biden endorsed peaceful demonstrations, but condemned the looting and destruction that has been rampant in many cities, with cars burnt, windows smashed and businesses ransacked.

"Protesting such brutality is right and necessary. It's an utterly American response. But burning down communities and needless destruction is not. Violence that endangers lives is not. Violence that guts and shutters businesses

that serve the community is not," Mr Biden said.

"The act of protesting should never be allowed to overshadow the reason we protest. It should not drive people away from the just cause that protest is meant to advance."

Police have arrested nearly 1,700 people in 22 cities since Thursday, according to Associated Press.

In New York, at least 120 people were arrested and at least 15 police cars damaged on Saturday night. Protesters threw objects at officers and set alight police cars, while a video showed two police vehicles driving into a crowd of demonstrators in Brooklyn.

Similar scenes played out in big cities such as Philadelphia and Chicago, as well as smaller ones, including Fargo in North Dakota and Salt Lake City, Utah.

In Washington DC, shattered glass covered the pavement just blocks from

the White House, as looters smashed windows of businesses and sprayed graffiti on federal government buildings. In the south, in cities such as Richmond, Virginia, and Charleston, South Carolina, protesters vandalised monuments to the confederacy, symbols of the civil war and the America's fraught racial history.

There were growing calls yesterday for US president Donald Trump, who has attracted criticism for his handling of the Floyd case and seen his approval figures slide in recent weeks, to address the nation from the Oval Office.

A new national Washington Post-ABC News poll published yesterday showed Mr Biden with a 10-point lead over Mr Trump, with 53 per cent of registered voters favouring the former.

Robert O'Brien, the US national security adviser, told ABC News the president had given "extraordinarily elo-

'What I'd like to hear from the president is leadership. I am concerned he has a history of making matters worse'

quent remarks" about "bringing the American people together and how we stand with the family of George Floyd".

Mr O'Brien said he did not know if the president would speak from the Oval Office, but said Mr Trump would "continue to communicate with the American people throughout this crisis".

Yet Mr Trump's critics said his interventions in recent days had done more harm than good. On Friday, Mr Trump provoked anger when he suggested the military could fire on protesters, tweeting: "When the looting starts, the shooting starts." The post was hidden by Twitter, which said it violated the platform's rules on glorifying violence.

Muriel Bowser, mayor of Washington DC, told NBC's *Meet the Press* yesterday that Mr Trump "has a responsibility to help calm the nation, and he can start by not sending divisive tweets that are meant to hearken to the segregationist past of our country".

Keisha Lance Bottoms, mayor of Atlanta, said on the same programme: "What I'd like to hear from the president is leadership . . . I am concerned that this president has a history of making matters worse."

Floyd died on Monday after police in Minneapolis, Minnesota, received a 911 call about the attempted use of a forged banknote. He was arrested by four police officers and held handcuffed, face down on the street with a knee on his neck, until he became unresponsive and was moved on to a stretcher.

The officers were sacked by the Minneapolis police department this week. Derek Chauvin, one of the officers, was taken into custody on Friday and charged with third-degree murder and manslaughter.

See Editorial Comment



Interview. Juan Guaidó

UK would finance 'torture' by giving gold to Venezuela

Cash-strapped Maduro regime tries to unblock \$1bn in bullion from BoE vaults

MICHAEL STOTT — LONDON
GIDEON LONG — BOGOTÁ

The Bank of England would in effect be "financing torture" if President Nicolás Maduro were to win a British court case ordering it to hand \$1bn of Venezuelan gold in its vaults to his regime, opposition leader Juan Guaidó has warned.

Speaking to the Financial Times after the High Court in London recently heard arguments in the lawsuit, Mr Guaidó said it was "very important for us to protect that gold and keep it out of the clutches of the Maduro dictatorship. [They are] not trying to get hold of it to deal with the humanitarian emergency. They're trying to get it so they can steal it."

The legal battle comes as Venezuela grapples with widespread shortages of food, water and fuel as well as coronavirus and choking US sanctions. The

country has been in economic freefall for years but residents in Caracas say this is the worst crisis they have ever experienced.

Desperately short of hard currency, the Maduro regime is trying to unblock frozen Venezuelan assets across Europe. Vanessa Neumann, Mr Guaidó's diplomatic envoy to London, said that if the court upheld their arguments in the BoE case "it will set a precedent for all central banks. It will be a winner takes all."

The Maduro regime filed a suit last month against the BoE to try to unblock the Venezuelan gold in its possession, saying funds from its sale would be routed to the UN Development Programme to help tackle coronavirus in Venezuela.

Mr Guaidó argues that since the UK, along with more than 60 other nations, has recognised him as Venezuela's rightful interim president following fraudulent elections in 2018, it is his appointees and not those of Mr Maduro who have the right to the gold. The BoE has not commented.

In a blow to the Maduro side, the court

decided it would rule first on who was the legitimate government of Venezuela before considering whether to release the gold. A decision is expected in late June or July.

The case has few legal precedents. Although Britain's then foreign secretary Jeremy Hunt publicly recognised Mr Guaidó as Venezuela's leader last year, London retains full diplomatic relations with the Maduro administration.

English courts have seldom had to decide between two entities that both claim to be the legitimate government of a country. Lawyers cite a case involving Somalia in 1993, and a Libyan lawsuit in 2016.

"We trust that we will win. We believe in the British justice system," Mr Guaidó said.

Mr Maduro has been using gold from Venezuelan reserves and from illegal mining in the Amazon to pay its longstanding ally Iran for emergency petrol shipments and for help in trying to restart the country's oil refineries. Both countries are labouring under increasingly tight US sanctions.

Eight tonnes of gold have already been airlifted to Tehran as payment for its help, Mr Guaidó said, and the Maduro government might also be using uranium as a currency. Iran has sent five oil tankers of petrol to Venezuela in recent days, as well as refinery technicians and equipment.

"The information we have is that they're paying in gold, but we presume that there could be other minerals involved, including uranium," Mr Guaidó said, citing the case of a uranium seizure by police in northern Venezuela in March. "It wouldn't be crazy to think that they might be sending this type of material to Iran."

Despite the increasingly dire economic situation, Mr Guaidó has struggled to make headway in his campaign to force Mr Maduro to accept free and fair elections. A US proposal in March for Mr Maduro to step down in favour of a transitional government of Maduro and Guaidó representatives pending fresh elections has not gained traction.

Additional reporting by Jane Croft in London

GLOBAL INSIGHT

WASHINGTON

Edward Luce



US faces summer of unrest with president stoking polarisation

The novelist William Faulkner said: "The past is not dead. It is not even past." The last 72 hours of burning US cities triggered parallels with 1968, a year of urban white flight that ended with the election of Richard Nixon. He won on a law-and-order platform that appealed implicitly to white anxiety. Donald Trump does not deal in implicit language. In response to protests in Minneapolis after the police suffocation last week of George Floyd, a 46-year-old black man, Mr Trump tweeted: "When the looting starts, the shooting starts". That was used by George Wallace, the segregationist third party candidate in 1968. Republicans launched the "southern strategy" to win over resentful white Democrats after the civil rights revolution. Mr Trump's 2016 campaign was the apotheosis of that approach.

But history offers little clue as to whether a sitting president can profit from the same manipulation. The stark brutality of Floyd's death — and the fact that his eight-minute suffocation was recorded — has curbed Mr Trump's ability to portray the police as victims. He has veered between threats of deploying the military to quell the protests and appeals for calm. Mr Trump's record suggests he will not be able to resist the temptation to incite. It worked for him once. America's "Black lives matter" movement took off in Barack Obama's second term just as Mr Trump was weighing up his presidential bid. "White lives matter" and "Blue lives matter" banners festooned his rallies.

But can he pull off the same feat from the White House? That will depend on how America defines the protests. Wildly different narratives can be built from the harrowing range of video clips over the past few days.

Some show white police officers brutally attacking peaceful black and white marchers. Others show cops marching in solidarity with them. Then there are the scenes of looting and burning.

Mr Trump claims that most of the Minneapolis protesters are far-left radicals. Anti-Semitic memes claiming that financier George Soros is funding an army of "antifa" (anti-fascist) militants have spread. Russian bots have helped disseminate the conspiracy theory. The Trump administration has picked up that thread. In a televised statement Bill Barr, the US attorney-general, said the protests were "planned, organised and driven by anarchic and far-left extremist groups using antifa-like tactics". Without evidence, Mr Trump said 80 per cent of the Minneapolis protesters were from out of state. Yesterday, he tweeted that he would designate Antifa as a "terrorist" group.

America now faces the spectre of a long summer of unrest with a president stoking the polarisation. It comes amid a pandemic that has disproportionately claimed minority lives in the most densely populated areas of urban America. Floyd's dying words, "I can't breathe", serve as a metaphor for a society choking on its increasingly toxic politics. The alternative narrative advanced by Joe Biden, Mr Trump's opponent, is that America is crying out to be healed. Mr Biden promises to "restore America's soul". If recent polls are any guide, Mr Biden's message is hitting home. A Washington Post/ABC poll gave him a 53 per cent to 43 per cent lead over Mr Trump.

But that snapshot was taken mostly before the protests had spread to other cities. Harking back to America's better angels, as invoked by Abraham Lincoln, Mr Biden's message has historic appeal. But nations do not possess souls. They have competing ideas of themselves. Mr Biden wants to restore the US to where it was before Mr Trump was elected — a multicultural society with its first non-white president. Mr Trump makes little disguise of conjuring a pre-civil rights America where white males held uncontested sway. He will blame Mr Obama, China, radical leftists and "thugs" for America's unhappy condition — anybody, in other words, but himself. It is hard to imagine a more dystopian backdrop for the world's most powerful democracy to settle on its future.

ed.luce@ft.com

Dragon launch

SpaceX blazes trail with first commercial crewed mission

RICHARD WATERS — SAN FRANCISCO

Elon Musk's SpaceX opened up an era of commercial activity in space yesterday as it became the first company to carry astronauts to the International Space Station.

After bad weather interrupted the timetable, Mr Trump travelled to Florida's Kennedy Space Center a second time in four days to witness the SpaceX launch, marking only the third time a president had been on hand for a trip into space. The California company's Crew Dragon capsule, carrying two Nasa astronauts, was sent on its first test trip to space from the same launch pad as the first manned moonshot in 1969.

"The same spirit of American determination that sends our people into space will conquer this disease on earth," Mr Trump said at an event after the launch. "It should have never happened," he added of the Covid-19 crisis. "Nothing, not even gravity itself, can hold Americans down or keep America back."

The SpaceX mission marked the first time a privately owned and operated rocket had carried humans into orbit.

The breakthrough for private industry also ended an ignominious nine-year period since the end of the Space Shuttle programme in which the US was forced to rely on Russia to carry its astronauts to the ISS.

However, the success over the weekend also highlighted a new gulf in American plans for space, as years of indecision about a successor to the ISS has left it unclear how the US will accommodate its astronauts in orbit as commercial flight makes access to space cheaper and easier.

"In the past the White House has pushed for defunding [the ISS] but Congress has pushed back," said Laura Forczyk, a former Nasa official and now at space consultancy Astrolatry.

In an attempt to stamp his own name on the history of the space programme, Mr Trump has also pushed Nasa to bring forward its next moon landing to 2024.

INTERNATIONAL

Centralised control

Kim demands cash from North Korea elite

Dictator may issue bond as sanctions and Covid-19 batter the economy

EDWARD WHITE — WELLINGTON

Kim Jong Un is demanding a sharp increase in cash from North Korea's moneyed class to counter the dual threats from coronavirus and sanctions.

As North Korea faced its steepest economic downturn since 1997, analysts said the 36-year-old dictator was reasserting centralised control over the economy, potentially undermining the shift towards marketisation and fledgling signs of capitalism.

Experts said reports of a rare bond issuance planned by Pyongyang, targeted at raising foreign currency to cover as much as 60 per cent of the

country's budget from rich North Koreans — referred to as the *donju* — indicated the severity of the downturn.

Details of the bond issue, the first since 2003, were reported by Daily NK, a Seoul-based news service, and referred to by rating agency Fitch in a report last week. It has not been independently confirmed by the Financial Times.

If true, the bond issue comes as border and internal travel restrictions to stop the virus spreading slowed domestic commerce and severed trade on the 1,420km border with China.

"Suddenly issuing that amount of debt, in one year, is a big deal. I think this is the first real sign that they are under very significant financial stress as a result of sanctions and result of the virus," said Peter Ward, a Seoul-based North Korea researcher with the

University of Vienna. He added that there would be no guarantee of repayment for the buyers of the debt and noted the North Korean government had been "basically incompetent" in making sound investment decisions and providing social services.

"You are going to smash and grab and steal lots of cash from people who know how to spend it on good things for the economy," Mr Ward said. "They are probably going to spend it on all the things they usually spend it on: white elephant prestige projects, palaces for

'You are going to steal cash from people who know how to spend it on good things for the economy'

the leader and pay-offs to the elite." Fitch predicts a 6 per cent decline in gross domestic product in North Korea this year, the worst since a 6.5 per cent fall 23 years ago. It marks an almost 10 percentage point downward revision from Fitch's earlier forecast of 3.7 per cent growth.

Pyongyang has embarked on "different ways" of coercing its people to turn over foreign currency to the government, according to Benjamin Silberstein from the Foreign Policy Research Institute, a US think-tank.

"I've also heard from people in regular contact with individuals inside the country that demands for 'loyalty contributions' and the like have increased. In other words, business people and really anyone who makes substantial money is having to give a 'voluntary' contribution to the state to

show their loyalty to the leader. This is, of course, just extortion by another name," he said.

Andray Abrahamian, from Seoul's George Mason University Korea, who has worked closely with North Korean businesses, said while the state would "coerce the business community" into purchasing bonds, "a negotiation" would still take place over the amount.

"All that depends on how much leverage [business people] have either with local People's Committees or central authorities," Mr Abrahamian said.

He added the bond issue could create tension within the leadership. "There will be elements in the government that want to make sure they aren't killing businesses. There will be others that care much less about that and will be interested in the short-term accumulation of capital for central state organs."

UN prosecutor

Hunt for war criminals steps up after Rwanda suspect held

MICHAEL PEEL — BRUSSELS
TOM WILSON — LONDON

The arrest of a Rwandan genocide suspect has revived efforts to pursue suspected war criminals and shown that justice for victims can be sought even decades after the event, a top UN prosecutor said.

Serge Brammertz has hunted fugitives on behalf of the UN for more than a decade. But even for him, the arrest in Paris last month of Félicien Kabuga, wanted for 23 years for his alleged role in planning and financing the 1994 Rwandan genocide, felt like a significant moment.

The manhunt — a collaboration between European security services using immigration records, phone tracking and data analytics — was a rare fillip for promoters of international justice. In recent years, divisions on the UN Security Council have hobbled efforts for accountability in conflicts such as Syria's civil war, while the International Criminal Court has faced hostility from global powers including the US.

"I think we are again higher on the agenda of the international political world," Mr Brammertz said in an interview, adding that the wide coverage of Mr Kabuga's arrest had already helped build "momentum" to pursue other fugitives. "After this success, I think countries also believe again more that it is still do-able after so many years."

Mr Brammertz, a Belgian national who was previously chief prosecutor at the former Yugoslavia war crimes tribunal, was appointed in 2016 to head investigations at a new body to complete outstanding cases related to both the war in Yugoslavia and the Rwandan genocide. While the main Yugoslavia suspects have been apprehended, the International Residual Mechanism for Criminal Tribunals is still pursuing six Rwandan suspects. These include the last remaining "major fugitive", Protais Mpiranya, former commander of the presidential guard of the Rwandan Armed Forces.

His tribunal has no direct powers to seize cell phone data or make arrests, so it has to rely on national authorities to implement requests from the UN Security Council. That can be difficult where support for the work of international courts is not guaranteed.

In the case of Rwanda, no global power has publicly opposed finding the perpetrators of the genocide, but efforts to track the remaining suspects had slowed. Mr Brammertz said he revitalised the search two years ago by switching from human intelligence to a data-driven approach focused on the movements of Mr Kabuga's family members.

Mr Kabuga, now more than 80 years old, allegedly had 20 different aliases, four known passports and had been in Europe since at least 2007.

The tribunal assembled a network to conduct the manhunt, including law enforcement agencies in France, Belgium, the UK, Germany, the Netherlands, Switzerland and Luxembourg. The breakthrough came by tracking the journeys made by one of his children between London and Paris.

Mr Brammertz said that time was often helpful in a drawn-out case. "We all learned that 'justice delayed is justice denied', but we have to understand that in the international context this has to be seen very, very differently," he said. "Someone can be very powerful today, having a lot of protection, but five, 10, 15 years later this is not the case any more."

Middle East. Modern conflict

Israel and Iran raise stakes in secret cyber war

Alleged strikes on water plant and port could be portent of worse to come, warn officials

MEHUL SRIVASTAVA — TEL AVIV
NAJMEH BOZORGMEHR — TEHRAN
KATRINA MANSON — WASHINGTON

In early April, municipal workers at a water pumping station in central Israel noticed a warning from their computer systems — a few pumps had been malfunctioning, turning off and on without being told to.

At first, it seemed innocuous — water pumps are finicky and the malfunctions did not seem to disrupt the supply — but within hours, investigators found something more ominous.

A piece of Iranian-written code had travelled around the world, passing through servers in the US and Europe to hide its origins, and finally to the commercially manufactured software controllers that operated the water pumps, according to four Israeli officials and a western intelligence official briefed on the findings.

Its suspected goal? To trick the computers into increasing the amount of chlorine added to the treated water that flows to Israeli homes, the western official said.

An Israeli official said the suspected attack, the latest salvo in the four-decade hostility between the two countries, had opened the door to "an unpredictable risk scenario". The official added that it had created a precedent for tit-for-tat cyber attacks on civilian infrastructure that both countries have so far avoided, and may still be keen to avoid.

An Iranian regime insider dismissed the allegations.

"Iran cannot politically afford to try to poison Israeli civilians. And even if Iran did so, where is the Israelis' appropriate response?" the regime insider said. "Our suspicion is that Israelis want more money from the US and made up the whole thing. But the Americans are no idiots."

Alireza Miryousefi, spokesman for Iran's mission to the UN, said Iran's cyber activities "are purely defensive and protective".

"As a victim of cyber warfare . . . and other cyber sabotages, we know well how destructive it can be," Mr Miryousefi said. "We have been continuously a target by malevolent forces, and will



Infrastructure: a desalination station in Hadera, Israel. Software at such plants could be vulnerable to cyber attacks
Abe Sultan/EPA-EFE

continue to defend against any attack."

Both governments regularly accuse each other of nefarious activities and engage in propaganda.

The alleged Iranian cyber attack on the water plant could have triggered fail-safes that would have left tens of thousands of civilians and farms parched in the middle of an Israel heatwave, as the pumping station shut down when the excess chemical was detected. In the worst-case scenario, hundreds of people would have been at risk of becoming ill, said the western official, whose government was briefed on the attack.

"It was more sophisticated than they [Israel] initially thought," the official said. "It was close to successful, and it's not fully clear why it didn't succeed."

Israel is braced for further cyber attacks. "Cyber winter is coming and coming even faster than I suspected," Yigal Unna, head of Israel's National Cyber Directorate told a conference last week, without mentioning Iran's alleged

role in the suspected attack on the water station. "We are just seeing the beginning; we will remember this as a changing point in the history of modern cyber warfare."

Israel officials said the Jewish state retaliated in April for the alleged Iranian attack. Under orders from Naftali Bennett, then acting defence minister, Israel carried out a small, but sophisticated attack on the Shahid Rajaei Port, which handles nearly half of Iran's foreign trade, according to two of the Israeli officials, who asked not to be identified because they are not authorised to discuss the issue in public.

"Think of it a gentle reminder. 'We know where you live,'" said one official. Neither Israel nor Iran have officially acknowledged targeting each other's civilian infrastructure, nor have they publicly described the severity of the cyber attacks. The Iranian regime insider said: "Iranian ports are usually chaotic and disruptions happen."

'Cyber winter is coming and coming even faster than I suspected'

The Washington Post first reported the Israeli attack on the Iranian port, citing US intelligence officials. An Iranian government statement said Tehran was investigating the possibility of a cyber attack at the port.

The Israel Defense Forces has a small cyber security unit specifically dedicated to probing enemy defences, including a still unclaimed attack, using malware that ended up crippling Iran's centrifuge program around 2010, that is widely attributed to Israel.

It is unclear how successful the attack was in disrupting the port's activities. The western official said he was shown evidence of lines of trucks waiting to enter the port as the authorities sought to fix the damage.

"So Iran may have caused a temporary water shortage, and Israel may have caused a temporary traffic jam," the official said.

"In the grand scheme of things, it's nothing. But it never stops at that."

International Image

China rounds up Wuhan citizen journalists and activists who document Covid-19 fallout

DON WEINLAND AND CHRISTIAN SHEPHERD — BEIJING

In her last report posted to YouTube on May 13, citizen journalist Zhang Zhan stood outside a train station in Wuhan and described conditions in the city where the pandemic began.

Wearing a surgical mask and talking into the camera on her mobile phone, the 37-year-old former lawyer noted how "human rights had suffered" as curbs on movement continued even after lockdown had officially ended.

Two days later, Ms Zhang was detained by police at her parents' home in Shanghai, charged with "provoking quarrels and making trouble", according to a document seen by the Financial Times. Several people close to her have confirmed her detention.

Ms Zhang joined a cohort of activists, journalists, lawyers and social media personalities arrested after documenting the outbreak of coronavirus in China

or questioning the Communist party's handling of the ordeal.

The detentions took place in the days and weeks before the National People's Congress, China's most important political event of the year, which opened on Friday in Beijing and continues this week. "The government has been trying to control the circulation of information and build a narrative that hides the wrongdoing of the government," said Doriane Lau, a Hong Kong-based researcher for Amnesty International.

"Curbing freedom of expression and press . . . only fuels frustration and blocks people's access to information that can be crucial for fighting Covid-19." The crackdown has swept up people from many walks of life in China.

In March, tycoon Ren Zhiqiang vanished after penning an essay critical of the Communist party's handling of the outbreak. Citizen journalists Chen Qishi and Fang Bin were also taken away by police around the same time.

Chen Mei, who was archiving articles on coronavirus, was detained in late April while Xie Wenfei was taken into custody after publicly raising questions about the disappearance of journalists.

Ms Zhang's reporting contrasted sharply with the government line on the outbreak. Many of her news reports,

which were often posted on YouTube and Twitter, focused on the number of coronavirus cases in Wuhan. She routinely cast doubt on the official numbers, stating that, based on her research, the figure should be higher.

When the FT spoke to Ms Zhang in mid-April, she was gathering informa-

tion on the conditions in Hubei province, of which Wuhan is the capital. She said that many small businesses were failing and unemployment appeared to be rising quicker than local governments had let on.

"It's not uncommon in recent months for people to get arrested, even for posting things that seem harmless," said Fu King-wa, a professor of media studies at Hong Kong University. "The government is pushing very hard on their narrative about the outbreak internally — but also internationally," he added.

Beijing has rejected the claim that China was responsible for the pandemic that has killed more than 350,000.

China's struggle to control the narrative now regularly takes place beyond the confines of the "Great Firewall", the system of censorship that blocks Chinese internet users from viewing foreign websites deemed dangerous for party rule. Chinese citizen journalists who use tools to evade censorship, such



Health fears: a man's temperature is taken in Wuhan — China Daily/Reuters



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ASSOCIATE MEMBERS



Gavyn Davies Radical reforms might be needed to avoid economic Japanification of the US and Europe OPINION, PAGE 17

Companies & Markets

Cinven fears being caught with big stake in lift business

- Thyssenkrupp deal made as virus hit
- PE firm seeks other equity investors

KAYE WIGGINS — LONDON

Cinven has told investors in its latest private equity fund that it may be stuck with an oversized stake in Thyssenkrupp's lifts business for longer than is allowed under its agreement with them, according to a document shown to the Financial Times.

The UK private equity firm has been trying to cut its exposure to the €17.2bn acquisition, one of the largest ever European buyouts. The deal was agreed in February just as the pandemic hit the global economy.

Cinven and Advent, the private equity firm it teamed up with to buy the business, have been trying to recruit more equity investors to avoid being left hold-

"There's always one deal done at the very peak — this is the worst possible timing"

ing too big a stake which could weigh on their funds' performance and leave them with less money for future deals.

Cinven usually holds a maximum of 15 per cent of its fund in any one company but the Thyssenkrupp deal would drive it above that. Any investment above that threshold usually has to be sold down within a year. Now it is asking investors to allow a rule change so it can invest more than 15 per cent of its €10bn fund in the company for over a year, to give it more time to sell some equity.

The groups plan to fund the acquisition with about €7bn in equity and the remainder in debt.

Executives at the buyout firms have also considered selling the lifts business's Access Solutions unit, two people familiar with the matter said. A sale of the division, which makes stairlifts and

platform lifts that are installed in wheelchair users' homes, would reduce the private equity firms' exposure to the elevator deal.

However, some would-be buyers have been told the private equity firms — which have not yet completed the acquisition — are not planning at present to sell. "They're working on every piece of the puzzle to take down the risk," one private equity executive said.

Advent and Cinven declined to comment.

"There's always one deal done at the very peak — this is the worst possible timing," a person familiar with the deal said. "Nobody knew what was going to happen... [there's] a huge equity cheque, a huge multiple."

One pension fund manager, who was offered equity in the deal by Advent and Cinven after it was struck in February, said it was too risky. "There was hardly any appetite," they said. "It was such an expensive [deal]."

While the buyout groups see the business as relatively recession-proof because of its long-term contracts to service and maintain lifts, the pension fund manager said that may not hold true in a downturn. "If the owner of a building is bankrupt, what's the value of the [servicing] agreement?" they said.

The debt used to fund the deal will be about eight times the business' earnings, one of the highest levels recorded on a large European private equity buyout in recent years.

Advent's investment committee assessed the possible impact of the virus before committing to the deal, people present said at the time. They were reassured that lifts were still being serviced in Wuhan during its lockdown, a sign of the business's resilience, they said.

Additional reporting by Olaf Storbek and Joe Miller

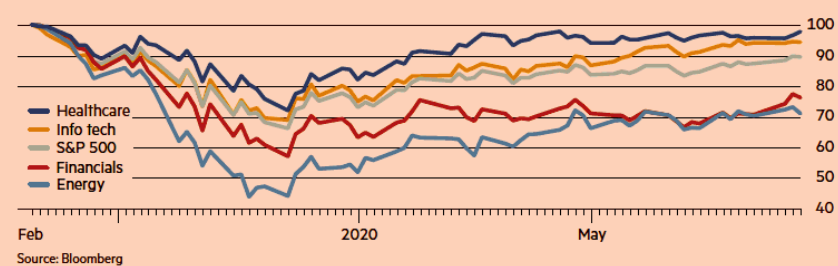
Numbers game Bumper performance from big tech masks pain for most listed groups



Groups such as Apple and Microsoft are benefiting from Covid-19 trends towards digitalisation — Kirsty O'Connor/PA

Healthcare, tech lead US stock market since its February 19 peak

Rebased performance of two best and two worst sectors in the S&P 500



Source: Bloomberg

RICHARD HENDERSON — MELBOURNE

The big rally in US stocks is masking the pain for the bulk of listed groups that have failed to match the gains of the broader market.

The Russell 3000 index, which tracks the largest US stocks, is down 11 per cent since the market peaked on February 19. But most stocks in the benchmark are faring far worse. A third remain down at least 30 per cent and half are 20 per cent lower or more. Just a third have matched or outperformed the index.

The gap is driven by the bumper performance of the big tech stocks that have acted as a refuge through the sell-off that began in late February and also through the rally that began

about two months ago. Technology is the largest sector by market capitalisation in the Russell 3000 and S&P 500 indices and has been the best performer in the latter after healthcare since the market peak.

The demand for mega-cap growth equity groups has created what Binky Chadha, chief strategist at Deutsche Bank, called "a tale of two stock markets", distorting the rally as the bulk of the market fails to enjoy the gains of the big tech groups leading the charge.

A group of 10 stocks with a market capitalisation of at least \$150bn that have delivered 20 per cent annualised growth over the past five years now represents 27 per cent of the S&P 500, according to Deutsche calculations.

These stocks include the big tech

groups such as Microsoft, Apple and Alphabet, and "are beneficiaries of the pandemic, which is accelerating secular trends towards digitalisation", Mr Chadha said. But these benefits appeared "fully priced in", and might not continue to deliver the excess returns of recent weeks, he warned.

The gap between the bulk of listed companies and the broader market is encouraging companies to raise debt rather than equity as they arm themselves with money to see through the downturn, investment bankers say. Companies are loath to raise equity capital at what they perceive are depressed levels, turning instead to the bond market in a move that has helped push sums raised by US investment grade companies beyond \$1tn.

Citi warns markets are 'way ahead of reality'

LAURA NOONAN — NEW YORK

Citigroup said financial markets were "way ahead of reality" with tougher times to come, warning corporate clients they should raise as much money as they could before the pandemic's true cost is factored in by investors.

"We definitely feel that the markets are way ahead of reality. We really are telling every client to tap the market if they can because we think the pricing now couldn't get any better," Manolo Falco, investment banking co-head at Citigroup, told the Financial Times.

"As the second quarter comes along and we start seeing the pain, and the collateral effects of that, we think this is going to be much tougher than it looks."

His comments came at the end of a week when stock markets largely rallied even as millions of businesses around the world remained shut and economies lurched towards their worst recessions in memory.

"Markets are pricing a V [shaped recovery], everyone's coming back to work, and this is going to be fine," Mr Falco said. "I don't think it's going to be that easy quite frankly."

Investors' optimism led highly rated companies to raise a record \$1tn of debt in the first five months of the year, putting investment banks such as Mr Falco's on course for a big jump in debt capital markets revenues in the second quarter of the year compared with 2019.

Mr Falco said the demand for funding could prove to be a "great opportunity" for Citi.

Last week senior executives at some of the biggest banks also predicted another strong quarter for trading. This was especially true at JPMorgan Chase, where investment bank boss Daniel Pinto said trading revenues in the second quarter could be up as much as 50 per cent compared with a year earlier.

Mr Falco was more circumspect on the prospect of a wave of activist investment in the aftermath of the coronavirus crisis. Low asset prices can tempt activist investors to buy into companies on the cheap and then look for ways to make them more profitable, often by cutting costs and jobs.

"You gotta be careful though because an activist can become very quickly a focus of governments if they really step in too hard at a time when people, what they want is to protect employment and to actually get things going in the economy," Mr Falco said.

Food & beverage. Qin Yinglin

World's richest farmer faces chop to fortune

Normalisation of prices after swine flu set to hit wealth of Chinese pig merchant

DON WEINLAND AND SHERRY FEI JU BEIJING

Swine flu made him the richest farmer in the world; coronavirus added a quick \$6bn to his personal fortune.

Qin Yinglin's pig farming wealth has grown rapidly in recent months — more than doubling to \$22bn since June last year — yet few people in China, the world's biggest pork market, know his name. His fortune now trumps that of the Louis-Dreyfus family of the eponymous 169-year-old agriculture empire.

But the outbreak of swine flu that wiped out half of China's pigs and sent shares soaring last year in Muiyuan Foods, Mr Qin's Shenzhen-listed company, has started to stabilise in 2020. For Mr Qin, the restocking of China's pork supply will also mean a decline in his personal wealth.

"This is a limited story [for Muiyuan] in terms of time," said Wilhelm Uffelmann, the head of consultancy Roland Berger's food and agribusiness practice.

African swine flu ravaged China's pig farming industry in 2019 and sent prices to record highs. By October last year, pork prices were about 160 per cent higher than the same period the year before, as up to half of the country's pigs were culled or killed off by the disease.

Many farms suffered but Muiyuan sales have thrived and profit in the first three months of 2020 surged 863 per cent to Rmb4.1bn (\$574m). Analysts said the company had more self-owned

farms than many of its competitors, which contract out pig farming to much smaller companies. By owning a high percentage of its own farms, Muiyuan has been more able to control its hygiene and biosecurity, helping it navigate the swine flu outbreak.

"The epidemic will force the weaker companies and farmers to completely withdraw [from the industry] but it will be an opportunity for profit and development for the stronger enterprises," the 55-year-old Mr Qin told Chinese media this year. The businessman would not comment for this story.

From humble beginnings, Mr Qin and his wife Qian Ying have become self-made multimillionaires. The pair graduated with animal husbandry degrees in the late-1980s according to official biographies. They started their first pig farm from scratch in 1992 with 22 piglets, most of which were wiped out in an outbreak of swine disease. His farms in 2019 raised more than 10m pigs.

International Financial Corporation, the private sector arm of the World

Bank, invested Rmb65m in 2010 and also provided the group with a Rmb200m loan. IFC bought 12m shares at Rmb5.42. Muiyuan's stock price hit Rmb133 in late April.

During the worst phase of the swine flu in 2019, shares in Muiyuan surged about 200 per cent. Then, when the nation was put under lockdown in early February, the supply of pork and other foods were constrained — providing another boon for Muiyuan that boosted the stock 80 per cent between February 3 and April 28.

With about 57 per cent of the shares in Muiyuan, Mr Qin and Ms Qian have seen the value of their personal holdings in the company rise more than 110 per cent since June last year, hitting \$22bn at the end of March. That makes him the world's richest farmer, according to Shanghai-based research company Hurun Report.

The world's second-richest farmer is also a Chinese pig farmer. Liu Yonghao and his family, who control New Hope Group, are worth \$12.5bn, according to

Hurun. "Who would have thought that pig farming could create wealth on such a scale," said Rupert Hoogewerf, Hurun Group chairman and chief researcher.

It is unclear how long Mr Qin will hold on to the title of world's richest farmer.

Pork is China's most popular protein, and higher prices or a shortage can leave Chinese consumers upset with the government. The recent surge in prices has led to more official intervention in the hopes of stabilising supply.

"Culture-wise, pork is an essential ingredient for every household in China," said Helena Huang, China economist at ICBC Standard Bank. "In the middle of the lockdown people were complaining about the high prices. So Beijing sees it as very important to bring the price down."

As the swine flu outbreak stabilises and the coronavirus lockdown is lifted, pork prices are falling. The average price per kilogram has come down about 24 per cent from a high after China's lunar new year in early February, according to investment bank CICC. The number of fertile sows, a gauge of supply, has increased about 13 per cent since a low point in September last year.

The trend is expected to lead to a "normalisation of pork prices and pig-raising profit", said CICC economist Liu Liu.

Lower prices will be good for Chinese consumers. But analysts expect that Muiyuan's share price, along with Mr Qin's personal wealth, will fall in the coming months.

"The company is undergoing an overpricing," said Mr Uffelmann at Roland Berger. "Which is only due to the current shortage of supply of pork in China and skyrocketing prices."



Pork prices soared after swine flu hit Chinese farms last year — Dominique Patton/Reuters

FT
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TIMES

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COMPANIES & MARKETS

Renault and Nissan map out post-crisis future

Groups set out areas of collaboration and cutbacks as they seek to move on from era of Ghosn and coronavirus

PETER CAMPBELL — LONDON
KANA INAGAKI — TOKYO
DAVID KEOHANE — PARIS

When Nissan and Renault set out to make their first mass-market electric car a decade ago, early ambitions of collaboration drained away amid infighting between the groups. The resulting Nissan Leaf and Renault Zoe shared only a single common part.

"No street artist in Paris will ever say the 'Mona Lisa' is better than his own painting," Ashwani Gupta, Nissan's chief operating officer, told the Financial Times over video link this week. "It is the same with engineers: no engineer will say that the other engineer is better than me."

Now as the carmakers announce their latest attempt to reboot their fractured alliance and weather the economic storm, past efforts at close co-operation are being unwound.

A new "leader-follower" system puts one group in charge of the production of particular models and regions, in an attempt to play to each company's strengths.

Jean-Dominique Senard, Renault's chairman, agrees that the previous attempts to divide work between the businesses led to "a tremendous amount of mess in terms of going back and forth in meetings and all the rest where they decide nothing".

He added: "It has paralysed the company."

In the broader restructuring, Nissan and Renault are to scale back models, close factories and lay off workers. They are attempting to cut \$5bn in fixed costs and plan to shed at least 27,500 jobs in the coming years. Both companies are looking at cutting back production capacity by about 20 per cent to a combined 8.7m vehicles a year by 2024.

The alliance has also attempted to slay the ghost of Carlos Ghosn, who led the group that also includes Mitsubishi, for two decades with a vision of building an untouchable global behemoth.

If it works, the alliance, which was once the car industry's largest, will come through the current crisis intact. If not, a split seems all but inevitable, forcing them to find new partners — or acquirers.

"This is the last roll of the dice," said one person close to alliance management. "They have tried every option. If this doesn't work, the three member companies just won't survive on their own."

While the businesses were struggling before the global pandemic took hold, Covid-19 has stripped away any pretence that the companies can survive alone in an industry where the largest players are still bulking up.

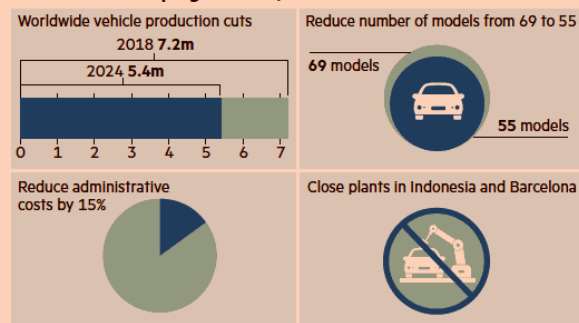
The full merger long envisioned by Mr Ghosn is off the table. His audacious sales targets and an obsession with "being first on the podium, irrespective of whether customers were willing to pay" to make the sales profitable have been ditched. Clotilde Delbos, Renault's interim chief executive, told investors.

"Now we have faced reality, we do not want to be on top of the world. What we want is to have a sustainable, profitable company," she said. "It's a complete change of goals."

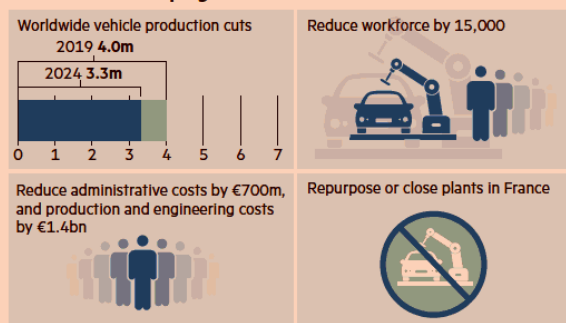
Alliance leaders carved out the strategy in less than six months, flying



How Nissan is hoping to save \$2.8bn



How Renault is hoping to save €2.15bn



between Paris and Yokohama once a month before switching to weekly Zoom video calls when global travel became impossible.

"Look, we've been here before and we could be here again, wondering if it's the last chance for the alliance. But this is serious — we know we have to become profitable," said a board member at one of the companies.

But people at both businesses say significant hurdles remain, not least governments in both France and Japan — and question whether the new approach is a clean break from the past or merely the latest effort to paper over the cracks.

For the two companies struggling to stem the cash drain caused by the global halt to car sales, executives say the new framework is the "best available option" for the alliance to slash fixed costs of

'What we want is to have a sustainable, profitable company. It's a complete change of goals'

plants and other investments in underperforming markets.

While the leader-follower model essentially means Nissan's retreat from Europe and Renault's retreat from Asia, the strategy saves both companies the painful and costly process of negotiating a complete exit from the regions with dealers and government officials.

"The main objective is to avoid duplication of investment. But there is no magic solution beyond that," said one person close to Nissan's management. "This does not ensure that the alliance will develop and grow from here."

Beyond the cost-cutting exercise, the strategy requires a fundamental change in mindset for staff used to how things were done during the Ghosn era. The new regime will also part with a pay-oriented culture where employees were rewarded for hitting financial targets. "That involves pain and it takes time," said a senior official inside the alliance.

Mr Gupta said: "You have to change their mindset from volume to value. This change of mindset around the world, including our dealers, is really important."

Media

Pro-Kremlin executive buys newspaper

MAX SEDDON

A little-known Russian media executive with close commercial ties to the state has bought leading business newspaper Vedomosti after a deal to sell it to different buyers collapsed in a dispute over censorship.

Staff at Vedomosti say the eleventh-hour appearance of Ivan Eremin is unlikely to ease a stand-off with the acting editor, who they say banned writing on topics the Kremlin deems taboo.

The clash, according to Vedomosti reporters, shows the Kremlin wants to increase its control over what remains of the nominally independent media. In recent years, several outlets have been sold to Kremlin-friendly owners and have installed pliant editors.

A consortium led by publisher Demyan Kudryavtsev took over Vedomosti — co-founded and formerly owned by the FT and the Wall Street Journal — in 2015 after Russia limited foreign ownership of media to 20 per cent.

Mr Eremin's purchase "looks like the manifestation of the unnamed figures who are really behind the official buyers of Vedomosti and look at the publication as an instrument of influence", the paper wrote in an editorial after the deal was announced on Friday.



Moscow wants to increase its control over the media, Vedomosti staff say

ubovich, according to people involved in the talks: each side accused the other of appointing him, prompting Mr Golubovich to drop out in April.

Vedomosti then teamed up with three other Russian outlets to investigate the consortium that bought the daily in 2015. Vedomosti's parent group owes some Rbs2bn (\$28m) via a complicated debt structure to the Russian Regional Development Bank, a lender owned by Rosneft, according to the joint report. Rosneft said the company played no role in the sale or in hiring Mr Shmarov.

Mr Zyatkov said on Friday he would not buy Vedomosti and had instead brought Mr Eremin into the deal. "Buying the publisher outright would be too risky in current conditions" during the coronavirus pandemic, he said.

Mr Eremin, whose FederalPress agency has won hundreds of advertising tenders with the government and state-run companies — including Rosneft, — according to government data, did not say how much he had paid for Vedomosti or whether he had taken on its debt.

The FT has approached Mr Eremin for further comment.

"[The sale to Mr Eremin] could be a milestone in destroying what remains of the free media. They'll destroy the business, including the subscriber base," said a person involved in the sale talks.



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COMPANIES & MARKETS

Technology

Chinese tech fights for Singapore foothold

Companies vie with US for regional dominance after relations sour

MERCEDES RUEHL — SINGAPORE

Chinese technology groups such as ByteDance and Alibaba are boosting their presence in Singapore as they vie with US rivals for dominance in south-east Asia.

Artificial intelligence start-up SenseTime, online travel platform Ctrip, social network site YY and telecoms provider China Telecom are also among

those that have either increased their office footprint or plan to raise their headcount, according to multiple people involved in the discussions.

The trend comes against a backdrop of souring US-China relations and as companies from the world's two biggest economies compete for regional influence in cutting-edge technologies.

"South-east Asia has been a big focus in the past 18 to 24 months for Chinese companies and now Singapore has become a battleground between Chinese tech and US tech who both see it as a springboard for the region," said Ashley Swan, a Singapore-based executive

director at property group Savills. ByteDance, the owner of popular video streaming app TikTok, will expand from a shared office to much larger premises at One Raffles Quay in Singapore's central business district this year. In November, Huawei opened a cloud and AI innovation lab in the city.

In perhaps the most eye-catching deal, Alibaba in May bought half of a \$1.2bn skyscraper in Singapore's central business district. It marked the tech group's first international property purchase and the building will become its headquarters outside of mainland China. But they are still playing

catch-up with the likes of Facebook, Google, Microsoft and Amazon, which have been in the region for much longer and are still growing.

South-east Asia is one of the few places where US and Chinese companies openly compete for influence in areas such as cloud computing. The region of 650m people is rapidly moving online and provides a potentially huge customer base with markets such as Indonesia, Mr Swan added.

Facebook is building a \$1bn data centre, its first in Asia, after moving to a regional headquarters in Singapore in 2018. Twitter this year said it would set

up its first Asia-Pacific engineering centre in the city.

US-China tensions may have "played a part" in Chinese technology companies raising their headcount but, more importantly, being in Singapore will help them expand their products and services into the region "in a big way" in the next few years, said Benjamin Cheong, a partner at law firm Rajah & Tann.

They also have a lot of confidence in Singapore in terms of its political stability and strong legal framework despite the higher costs of rental and salaries, he said.

Support services

Bezos invests in UK start-up set to disrupt global logistics

PETER CAMPBELL

Jeff Bezos has invested in a British start-up that is planning to use digital technology to disrupt the global logistics industry.

Beacon has raised \$15m in a funding round, bringing the Amazon mastermind alongside investors who include Uber founder Travis Kalanick and former Google chairman Eric Schmidt.

Mr Bezos was the second-largest investor in the round after US venture capital firm 8VC, which is understood to value the UK business at close to \$60m.

The group, founded by former Uber executives Fraser Robinson and Dmitri Izmailov, combines supply chain finance with technology to find the most cost-effective shipping routes for cargo.

The company hopes that offering the services together will help it to gain a foothold in two industries worth \$13tn annually.

Manufacturers from carmakers to furniture groups use "freight forwarding" companies such as DHL to handle complex global logistics, from booking ships to arranging onward transport afterwards.

The industry is heavily fragmented and many companies are behind in using live data to determine the best or most cost-effective routes.

Beacon uses real-time data to track

"The biggest problem in logistics is almost always cash flow"

Fraser Robinson, Beacon CEO

cargo, as well as a marketplace service that allows it to view shipping costs and prices, overlaid by an algorithm that projects the best routes to take.

The company also offers supply chain finance, a service it claims is unique among freight forwarding businesses.

Suppliers often require payment up front, leaving manufacturers with cash demands, while goods transported by sea are often not delivered for more than a month for longer routes.

"The biggest problem in logistics is almost always cash flow," Mr Robinson, who is Beacon's chief executive, told the FT.

Mr Robinson previously led Uber's operations in Europe, the Middle East and Africa, while Mr Izmailov, its operations chief, previously ran Uber's business in Russia. The company's chief technology officer, Pierre Martin, is a former head of engineering in Amazon's logistics business.

Beacon will use the latest investment round to expand its team of 50, in order to win new customers. It is banking on the coronavirus pandemic driving demand, as the fragility of supply lines across the world was laid bare when factories across the world were closed because of the outbreak.

"With digitalisation accelerating globally as a result of Covid-19, we believe the future of the traditional freight forwarder is more precarious than ever," said Mr Robinson. He added that manufacturers were looking for more ways to cut costs, as well as for greater visibility over their worldwide network of suppliers.

Market Questions. Pandemic projection

Focus turns to bonds, US job losses and iron ore

FT REPORTERS

Will the ECB expand its bond-buying programme?

Investors will be paying close attention to the European Central Bank's monetary policy meeting on Thursday, focusing on economic growth projections for the eurozone and any extension of the bank's bond-buying programme.

In April, the ECB indicated that the euro-area economy could contract by between 5 and 12 per cent this year, depending on the success of coronavirus containment measures. Economists at ING expect the eurozone to shrink by 8 per cent in 2020, and countries such as Germany, Italy, Spain and France all anticipate big budget deficits as they seek to counter the economic effects of Covid-19.

Investors will also be watching what decision the ECB takes on its €750bn asset-purchasing programme, which many believe will still be needed even if European leaders finalise a €500bn EU recovery fund proposed by Germany and France, and agree to the €250bn in extra firepower sought by Brussels.

Known as PEPP, the ECB's bond-buying programme is designed to hold down borrowing costs for Europe's increasingly indebted governments, but it is likely to be exhausted by October at the current rate of purchases.

The market, therefore, is expecting the size of the programme to be increased: the questions are when, and by how much. Analysts at Nomura are forecasting it will rise on Thursday by at least €250bn and possibly up to €500bn.

Further complicating the issue is the ruling in early May from the German constitutional court that effectively limits the participation of the Bundesbank in some ECB asset-purchasing programmes. The court did not rule on PEPP, but investors will be looking for indications that the ECB is mindful of a potential legal challenge. *Phillip Stafford*

Will easing US job losses boost markets?

The release of US employment data for May is expected to show an easing of job losses following a spike in April, offering encouragement for investors that the world's largest economy is recovering from the Covid-19 crisis. Non-farm payrolls data for April revealed that 20.5m Americans had lost their jobs, pushing



Bright future: Iron ore leaves a mine for a port in Australia.

On Friday, the steelmaking ingredient broke above \$100 for the first time since July 2019

by *Waldie/Bloomberg*

the unemployment level to 14.7 per cent – its highest since the second world war. Job numbers for May, out on Friday, are expected to record a further fall of 8m, according to economists surveyed by Bloomberg. Slowing job losses could add fuel to the rally in the US stock market, which has regained more than a third of its value from its low two months ago in the depths of the coronavirus sell-off.

The number of Americans collecting unemployment benefits fell by 3.9m to 21.1m for the week ending May 16, the US Department of Labor said last week. The drop was better than economists had expected and comes despite a further 2m Americans applying for benefits, pushing the total over the past 10 weeks beyond 40m.

Ian Lyngen, head of US rates strategy at BMO Capital Markets, said "certain sectors of the labour force are starting to get back to work". He added: "This does not preclude a second round of job cuts in the higher-earning brackets, but it is

encouraging that some of the jobs lost to Covid-19 are returning."

Richard Henderson

Can iron ore stay above \$100 a tonne?

Iron ore has had a turbocharged run over the past month, rising more than 18 per cent and breaking out of the narrow range between \$80 and \$90 per tonne where it has traded for most of the year.

On Friday, the steelmaking ingredient, regarded by many as the second most important commodity after crude oil, broke above \$100 for the first time since July 2019.

Two factors have been behind the recent advance: weaker-than-forecast supply from Brazil, where shipping patterns have not recovered as usual from the rainy season; and expectations that China, the world's biggest iron ore consumer, would unleash a huge stimulus package to boost growth.

But there are reasons on both sides

why many traders and analysts reckon it will be difficult for iron ore prices to stay in three figures.

On the supply side, weekly shipments from Brazil have picked up in recent weeks, say analysts and traders, and the measures announced during China's National People's Congress last week did not match the lofty expectations.

While Beijing revealed plans to issue an extra Rmb1.6tn (\$224bn) in local government bonds in 2020 to ramp up infrastructure investment, this is unlikely to boost steel production from already elevated levels. Moreover, its announcement of stimulus for the real estate sector – the largest driver of steel use in China – was limited.

"Market expectations have become a little more cautious since those announcements," said James Campbell, analyst at consultancy CRU. "This is a stimulus package aimed at getting the economy back on course and not creating bubbles." *Neil Hume*

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Automobiles

Nordic groups to open car battery recycle hub

RICHARD MILNE — OSLO

Northvolt and Norsk Hydro are teaming up to recycle batteries from Norway's hundreds of thousands of electric cars as part of Europe's effort to build a green battery industry to take on Tesla and Asian rivals.

The Swedish battery manufacturer – which last year raised more than €1bn from the likes of Volkswagen, Goldman Sachs and Ikea – and the Norwegian aluminium company will open a Nkr100m (\$10m) recycling hub in the south-eastern Norwegian town of Fredrikstad next year.

"We believe we can be a frontrunner," Arvid Moss, head of Hydro's energy business, told the Financial Times.

Emma Nehrenheim, Northvolt chief environmental officer, said that with electric car sales set for "hockey-stick growth" soon, "there's going to be a similar trend in the recycling market a few years later".

Northvolt is the leading business in a push to develop European battery makers to supply the continent's carmakers rather than Tesla or Panasonic. Founded by two former Tesla executives in 2017, Northvolt has one small battery factory close to Stockholm and

is aiming to open a larger "gigafactory" in northern Sweden next year. It is aiming to obtain half of its raw materials from recycled batteries by 2030 and chose Norway because of the country's high number of electric cars, the result of generous government subsidies.

Erna Solberg, Norway's centre-right prime minister, welcomed the news of the new recycling hub. "Promoting the development of sustainable low-emission solutions, including electrification of the transport sector, has been one of the Norwegian government's priorities



Emma Nehrenheim: recycling was a challenge owing to materials purity

for many years," she said. Northvolt and Hydro, which is a small shareholder in the Swedish group, are setting up a joint venture called Hydro Volt.

Hydro will receive aluminium from the recycling centre and Northvolt so-called "black mass", which includes minerals such as cobalt and lithium.

The Fredrikstad hub will be able to process about 8,000 tonnes of batteries a year, equivalent to at least 16,000 batteries. Mr Moss said it was important that the plant be "scalable" but that it was too early to say if the joint venture might expand to other countries.

Northvolt is aiming to build a large recycling plant by 2022 next to its "gigafactory" in Skelleftea but needs a supply of material before it starts receiving its own batteries.

Half of new car sales in Norway are electric, with another 30 per cent hybrids, as the country aims to phase out the sale of petrol vehicles by 2025.

Ms Nehrenheim said recycling batteries was challenging until now because of the purity of materials required. But she added: "A circular raw material flow is mitigating a lot of risk. It's both securing raw materials, and ensuring these materials aren't entering nature through the risk of hazardous pollution."

Transport

Atlantia in talks over sale of Autostrade stake

SILVIA SCIORILLI BORRELLI

Atlantia, the Italian infrastructure company controlled by the Benetton family, is in talks to sell a stake in Autostrade per l'Italia, the toll road arm that has come under fire after the collapse of the Genoa bridge two years ago.

Institutional investors including US investment funds, Italian state lender Cassa di Risparmio di Venezia, and F2i, an infrastructure fund owned by CDP, Intesa, UniCredit and a group of Italian pension funds, have held initial discussions with the company, said three people involved in the talks.

The Five Star Movement, Italy's senior coalition partner, has made revoking Autostrade's toll road concessions a priority in the wake of the August 2018 disaster in which 43 people were killed.

However, stripping Autostrade of the concessions 18 years before its contract expires could lead to legal proceedings and a lengthy international public tender to find an operator, said legal experts and junior coalition partners.

Atlantia said talks were at a very early stage and that it had launched a "data room" to share information on Autostrade. The company will only be able to start a negotiation phase once the Ital-

ian government has clarified its position, as this will determine the asset's price.

"Atlantia is interested in a long-term minority partner for Autostrade," a company spokesperson said.

"No one would ever buy a stake of Autostrade in the current conditions," the person added, unless they did so for

"This solution would give Five Star the Benetton family scalp while avoiding risky legal consequences"

reasons that do not make sense from an investment standpoint.

The transport minister and finance minister, both from the centre-left Democratic party, are pushing for a compromise where Autostrade maintains the concessions while also discounting toll fees by 5 per cent and selling a stake to CDP and F2i, according to two people involved in the talks.

Edizione, the Benetton family holding company that owns 30 per cent of Atlantia, could also sell part of its stake, further diminishing the family's role within Autostrade. "This solution would

give Five Star the Benetton family scalp while also avoiding very risky legal consequences for the state," said one of the people.

Edizione said it was "not against being diluted if credible partners step in" with proposals that work in the interest of all the companies and the stakeholders involved, including the shareholders.

Autostrade and Atlantia have been downgraded below investment level, making access to credit increasingly complicated. Autostrade said its revenue would be down at least €1bn in 2020 because of an 80 per cent drop in road traffic due to the coronavirus lockdown, while its debt has risen to €9bn.

Several people with knowledge of the Benetton family's thinking said it had no intention of being forced by the government to sell stakes and it would not do so if it did not make financial sense. Autostrade is also awaiting the government's green light for a €1.25bn state-backed credit line. According to several people briefed on the matter, while UniCredit and a pool of other banks have approved the request pending the state guarantee, public authorities' clearance is dependent on the government's decision on the future of the concessions contract.

COMPANIES & MARKETS

How to Lead. Andrew Ballheimer, Global Managing Partner, Allen & Overy

Keeping a law firm on track as Covid-19 strikes

The Allen & Overy managing partner had experience of sudden crisis after a failed merger, writes Kate Beioley

With just weeks to go before stepping down as managing partner of Allen & Overy, one of the world's largest law firms, Andrew Ballheimer was plunged into the biggest crisis the legal sector had seen since the 2008 financial crash.

The spread of coronavirus triggered an urgent shutdown of the group's 42 global offices and a rapid shift to remote working in the midst of its first IT upgrade in 15 years.

Mr Ballheimer, 58, speaking from his North London home, where he is working alongside his wife and two of three children, says he ideally "wouldn't have introduced a new IT system as we went into a global pandemic. But that's what's so destabilising about this crisis — we couldn't have predicted it and we can't predict its long-term impact."

A&O's overhaul was tested with its 5,500 staff just three days before the firm shifted entirely to remote working. He admits the process did involve "some element of stress".

IT issues have been the least of the firm's worries, however. The pandemic has caused a sharp decline in lucrative work on corporate deals and accelerated an already growing need for cash on the group's balance sheet.

Although it has no long-term debt, A&O, like most law firms, runs with low cash reserves, creating a rapidly worsening financial situation if clients pay late and work dries up.

"Our business needs a certain amount of cash flow and clients were having issues and saying they couldn't pay their bills on time. We had to make sure we weren't pushing them too hard but obviously we had to look after the business," he says, adding a cash buffer was important as "the priority was the preservation of jobs of our people".

It is a sudden turn in fortunes for a



Andrew Ballheimer at his home in North London
Charlie Bibby/FT

firm that generated a record revenue of £1.6bn last year on the back of top-tier banking work and corporate dealmaking and whose top echelon of partners took home £1.7m in profits on average.

Mr Ballheimer had intended to ask his 550 partners to stump up more capital during the summer for the first time in 11 years after its cash position had grown too thin.

Facing a slowdown in revenue, he was forced to accelerate that plan and hold back partners' quarterly payouts as well as freezing pay reviews for less senior staff. The measures — echoed across the sector — were discussed with senior partner Wim Dejonghe and the finance team over the weekend on March 14 before being approved and communicated to partners on March 26 on a conference call.

"Partners were asking why we had gone first [taking action before other firms]. But we presented an analysis

of the issue, we said we needed a cash buffer."

Handling the fallout of coronavirus followed a difficult 18 months of high-stakes and ultimately unsuccessful merger negotiations with US law firm O'Melveny & Myers, which collapsed last summer.

Conquering the US market has become a pressing need for the elite cadre of UK firms known as the "magic circle", who work on the City's most lucrative deals but have lost ground in recent years to aggressive US legal groups moving in on their territory.

Firms such as the Los Angeles-founded Latham & Watkins — the largest in the world by revenue — have surfed a decade-long private equity boom driven by US fund houses and benefited from links to the US investment banks financing the world's largest deals. Such firms have lured partners with generous pay deals, such as

the \$10m a year package Kirkland & Ellis paid for Freshfields private equity specialist David Higgins in 2017.

A&O saw an opportunity to leapfrog its magic circle rivals overseas by tying up with West Coast law firm O'Melveny & Myers to create a group with more than £2bn in combined revenue. Until that point, A&O's efforts to expand in the US had revolved around hiring big-hitting partners, including a leveraged finance team led by White & Case partner Scott Zenser in 2016 and three finance partners from Paul Hastings the year after that.

The hires involved breaking the firm's sacred "lockstep" remuneration struc-

ture, in which partner pay is tied to seniority, unlike the more aggressive "eat what you kill" model prevalent in the US. But highly paid partners can be lured away, making a more sustainable strategy vital. "[The merger] was a chance to accelerate away from our competition," says Mr Ballheimer. "A&O is the magic circle and the global elite, but we want to be part of the global elite who are equally at home in English and US law," he says. "The States is half of the world's legal industry and we are much smaller there than we are here so we had to build it out."

Discussions proved knotty and time-intensive, not least because the two groups were pushing for a fully integrated firm at the time the merger closed. Others have opted instead for a Swiss verein structure, meaning merging entities remain separate after the deal is done.

"That was ambitious and it also

meant that detailed discussions took a long time, as each side tried to better understand what the combined firm would look like," says Mr Ballheimer. His "pragmatic and insightful" wife was on hand to give counsel, while partners helped him draft 550 written answers to questions posed internally. "People were anxious about the loss of identity but O'Melveny had the same [concern]. We were each proud of our culture and anxious about losing our heritage."

By summer 2019, partners were on board and the deal was on the brink of going ahead. But at the last moment, sterling moved sharply against the dollar, throwing the merger into disarray.

"We ultimately reached agreement on all [the] issues but then FX and interest rates moved against the deal," he says. "The strengthening of the dollar against the pound impacted valuation and interest rate cuts in the US affected pension costs on their side. That meant that we couldn't agree a financial deal that both sides could support."

FT Leadership
More interviews illuminating the personalities of high-profile leaders by focusing on the issues they faced ft.com/howtolead

Mr Ballheimer was in Spain with his family when the dream died. "Wim called me as I was having a cup of tea on our terrace and said, 'This doesn't look good, does it?' and I said, 'No, I think it's over.'"

Lawyers often claim that the longer a merger process takes, the more unlikely it becomes. Mr Ballheimer concedes that time "becomes a real challenge in pulling off a merger of this complexity, but resolving complex issues of detail of course takes time. So it's a bit of a Catch-22."

"If we could have got to a deal more quickly, I think it would have helped," he says.

Mr Ballheimer would have remained in post for at least three more years if the merger had completed. Instead he will leave to advise companies coping with crisis situations. His six-month transition period at A&O is likely going to be as good a primer as any.

How AI is receiving an emotionally intelligent reboot to perform more 'front office' roles



John Thornhill
Technology

Rana el Kaliouby has spent her career tackling an important challenge: computers don't understand humans. First, as an academic at Cambridge university and Massachusetts Institute of Technology and now as co-founder and chief executive of a Boston-based AI start-up called Affectiva, Ms el Kaliouby has been working in the fast-evolving field of human robot interaction for more than 20 years.

"Technology today has a lot of cognitive intelligence, or IQ, but no emotional intelligence, or EQ," she says. "We are facing an empathy crisis. We need to redesign technology in a more human-centric way."

That was not much of an issue when computers only performed "back office" functions, such as data processing. But it has become a bigger concern as computers are deployed in more "front office" roles, such as digital assistants and robot drivers. Increasingly, computers are interacting directly with random humans in many different environments.

This demand has led to the rapid emergence of "emotional AI", which aims to build trust in how computers work by improving how they interact with humans. But some researchers have raised concerns that emotional AI might have the opposite effect and further erode trust in technology, if it is misused to manipulate consumers.

In essence, emotional AI attempts to classify and respond to human emotions by reading facial expressions, scanning eye movements, analysing voice levels and scouring sentiments expressed in emails. It is already being used across many industries, ranging from gaming to insurance.

Gartner, the IT consultancy, forecasts that 10 per cent of all personal devices will include some form of emotion recognition technology by 2022.

Amazon, which operates the Alexa digital assistant, has filed patents for emotion-detecting technology that would recognise whether a user is happy, angry, sad, fearful or stressed. That could, say, help Alexa select what mood music to play or how to personalise a shopping offer.

Affectiva has developed an in-vehicle emotion recognition system, using

cameras and microphones, to sense whether a driver is drowsy, distracted or angry and can respond by lowering the temperature or tugging the seatbelt.

And Fujitsu, the Japanese IT conglomerate, is incorporating "line of sight" sensors in shop floor mannequins and sending push notifications to nearby sales staff suggesting how they can best personalise their service to customers.

A recent report from Accenture suggested such technology could help companies deepen their engagement with consumers. But it warned the use of emotion data was risky because it involved an extreme level of intimacy, felt intangible to many consumers, could be ambiguous and might lead to mistakes that were hard to rectify.

The AI Now Institute at New York University has also highlighted the imperfections of much emotional AI (or affect-recognition technology, as it calls it), warning that it should not be used exclusively for decisions involving a high degree of human judgment, such as hiring, insurance pricing, school performance or pain assessment. "There remains little or no evidence that these new affect-recognition products have any scientific validity," its report concluded.

In her recently published book *Girl Decoded*, Ms el Kaliouby makes a powerful case that emotional AI can be an important tool for humanising technology. Her own academic research focused on how facial recognition technology could help autistic children interpret feelings.

But she insists that the technology should only ever be used with the full knowledge and consent of the user. "That is why it is so essential for the public to be aware of what this technology is, how and where data is being collected, and to have a say in how it is to be used," she writes.

The main dangers are perhaps twofold: either it works badly, leading to harmful outcomes, or it works too well, opening the way for abuse. All those who deploy the technology, and those who regulate it, will have to ensure it works just right for the user.

john.thornhill@ft.com

Some academic research has focused on how facial recognition technology could help autistic children interpret feelings

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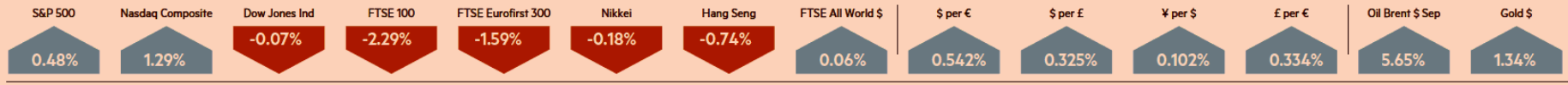
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MARKET DATA

WORLD MARKETS AT A GLANCE

FT.COM/MARKETS DATA

Change during previous day's trading (%)



Stock Market movements over last 30 days, with the FTSE All-World in the same currency as a comparison



Table with columns: Country, Index, Latest, Previous. Lists various international indices and their values.

STOCK MARKET: BIGGEST MOVERS

Table with columns: Active Stocks, Active Stocks, Active Stocks, Active Stocks. Lists top gainers and losers in various markets.

CURRENCIES

Table with columns: Currency, Closing, Mid, Day's Change, etc. for various currencies like Dollar, Euro, Pound, etc.

FTSE ACTUARIES SHARE INDICES

Table showing FTSE Actuaries Share Indices for various sectors like Health, Education, etc.

FT 30 INDEX

Table showing FT 30 Index performance metrics like P/E ratio, Dividend Yield, etc.

FTSE SECTORS: LEADERS & LAGGARDS

Table showing FTSE Sector performance metrics for various industry sectors.

FTSE 100 SUMMARY

Table showing FTSE 100 Summary metrics like Closing Price, Change, etc.

UK STOCK MARKET TRADING DATA

Table showing UK Stock Market Trading Data including Order Book Turnover, Total Shares Traded, etc.

UK RIGHTS OFFERS

Table showing UK Rights Offers with columns for Issue, Amount, Latest price, etc.

UK COMPANY RESULTS

Table showing UK Company Results with columns for Company, Turnover, Pre-tax, etc.

UK RECENT EQUITY ISSUES

Table showing UK Recent Equity Issues with columns for Issue, Issue price, Sector, etc.

Figures in £m. Earnings shown basic. Figures in light text are for corresponding period year earlier. For more information on dividend payments visit www.ft.com/dividends. FT.com is a trademark of the Financial Times Group. All rights reserved. FT.com is a trademark of the Financial Times Group. All rights reserved.

MARKET DATA

FT500: THE WORLD'S LARGEST COMPANIES

Table listing FT500 companies with columns for Stock, Price/Week, 52 Week High/Low, Yld, P/E, MCap, and various financial metrics.

FT 500: TOP 20

Table showing the top 20 FT 500 companies with columns for Stock, Price, Prev, Day, Week, and Month.

FT 500: BOTTOM 20

Table showing the bottom 20 FT 500 companies with columns for Stock, Price, Prev, Day, Week, and Month.

BONDS: HIGH YIELD & EMERGING MARKET

Table listing high yield and emerging market bonds with columns for Issuer, Coupon, Maturity, Bid, and Spread.

BONDS: GLOBAL INVESTMENT GRADE

Table listing global investment grade bonds with columns for Issuer, Coupon, Maturity, Bid, and Spread.

INTEREST RATES: OFFICIAL

Table showing official interest rates for various countries and currencies.

INTEREST RATES: MARKET

Table showing market interest rates for various countries and currencies.

BOND INDICES

Table listing various bond indices with columns for Index, Day's change, and 12-month return.

BONDS: BENCHMARK GOVERNMENT

Table listing benchmark government bonds with columns for Issuer, Coupon, Maturity, Bid, and Spread.

GLTS: UK CASH MARKET

Table listing UK cash market GLTs with columns for Issuer, Coupon, Maturity, Bid, and Spread.

COMMODITIES

Table listing various commodities with columns for Commodity, Price, Change, and Unit.

BONDS: INDEX-LINKED

Table listing index-linked bonds with columns for Issuer, Coupon, Maturity, Bid, and Spread.

BONDS: TEN YEAR GOVT SPREADS

Table listing ten-year government spreads with columns for Country, Spread, and Bid.

GLTS: UK FTSE ACTUARIES INDICES

Table listing UK FTSE Actuaries Indices with columns for Index, Price, Yield, and Return.

GLTS: UK FTSE ACTUARIES INDICES

Table listing UK FTSE Actuaries Indices with columns for Index, Price, Yield, and Return.

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WORK & CAREERS

Every manager is having a midlife crisis — and that's good



Gianpiero Petriglieri
On management

Until the start of this year, the future of work was the main focus of the academics, consultants and executives whose business it is to make profitable predictions. The century of management seemed past. Some lamented the lack of new theories. Others observed that the bureaucracies of the 20th century, whose existence depended on managers, were giving way to tech platforms that had little use for them. Algorithms were better at coordinating those platforms' loosely affiliated and widely distributed workers. The robots were slowly coming for managers' offices. Only tech-savvy leaders would survive.

Then the virus came, and all that future seemed to arrive at once. The pandemic turned out to be a boon for that new breed of tech leaders and their platforms, turning them from disruptors to protectors of our working lives overnight. Zoom, Skype, Slack and their likes were there to bolster the productivity of people who can work from home, the very knowledge workers whose jobs tech was meant to threaten next.

The new normal does not just look like the old future of work. It looks a lot like its distant past. The digital revolution — a world of work without workplaces and management without

managers — owes much to a theory dreamt up by Frederick Taylor, considered by many to be the first management guru, in the early 20th century. Putting forward his principles of "scientific management", Taylor cast managers in his own image, as dispassionate engineers whose duty was to use hard data to improve efficiency and minimise human errors.

Taylor's vision sparked the same sort of opposition that today's technocratic disrupters encounter from management pundits. In his case it came from Elton Mayo, a Harvard Business School professor whose work provided the inspiration for the "human relations" movement. Experimenting with conditions at a Western Electric plant outside Chicago, Mayo and his colleagues observed that employees were most productive when they were given enough rest and attention, and were encouraged to cultivate informal relationships.

The distillation of the scholars' tussle became a mantra that survives to this day: managers must be ruthless, nicely. Business school curricula and many corporate models still have that imperative at their core.

There have always been those who argue that management should be a more human, artistic and political

profession. That it should foster wellbeing, civility, equality, and democracy at work. But these concerns have earned, at best, secondary roles in the history of management. The pursuit of efficiency remained its protagonist.

This mechanical view has drained many organisations of the humanity they need when things get tough — and it set management up for disruption. It was only a matter of time until actual machines could provide the comforting surveillance that managers did.

No wonder that the pandemic seems to have plunged management into a midlife crisis, the kind of existential strain that many of us experience when a sudden illness reveals our vulnerabilities. The break in our routines, and suddenly salient mortality, force us to ask questions that we can easily ignore in the daily grind of work. What is the purpose of what I do? Whose life is it that I am really living? What must I let go? What can I no longer postpone?

If they are not wasted amid blame and denial, those crises can change our way of life. So while the existential crisis of management was under way before the coronavirus arrived, it has now become impossible to ignore. The pandemic has exposed the limits of

The pursuit of efficiency has drained many organisations of the humanity they need when things get tough

managers with a singular concern for productivity. But it has renewed appreciation for those who show equal concern for people's wellbeing.

Ever since the crisis hit, many of us have been moved by managers' gestures of care big and small, be they efforts to avoid lay-offs and keep workers safe, or reassurances that performance assessments would take into account individuals' circumstances. Those concrete gestures have been far more convincing and inspiring than statements about caring for purpose as much as profits.

Building a movement on those sentiments could let us humanise management, at last. We could call it "Human Relations 2.0", although the name doesn't matter. As long as it helps management mature into an enterprise that counters digitally enhanced isolation and polarisation and frees people up to live and work in pluralistic institutions.

Then this existential crisis might bring to life a new future of work. One in which rumours of the demise of management will turn out to have been greatly exaggerated.

The writer is an associate professor of organisational behaviour at Insead
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Working lives

Will ageism get worse in the post-pandemic workplace?

The new focus on older people as 'vulnerable' has serious consequences for employees over 60, writes *Michael Skapinker*

In 2017, a group of US researchers reported what happened when they sent out more than 40,000 job applications. The applications, all fictitious, were for positions in administration, security and retail, and came from people aged 29-51, 49-51 or 64-66. The results were predictable. The older the applicant, the less likely they were to get a callback, particularly if they were female.

Age discrimination has long blighted labour markets around the world, in spite of legal prohibitions against it. Do campaigners worry the coronavirus crisis is about to make age discrimination far worse? "Hugely," says Ros Altmann, a former UK pensions minister and member of the House of Lords. "I'm so upset to see it."

Covid-19 has reinforced the idea of older people as frail and vulnerable. Some previous pandemics have largely affected the young — the polio outbreaks of the 1950s mainly hit children under five; the devastating 1918-19 flu killed millions of young adults — but Covid-19 mostly kills older sufferers. In the US, 80 per cent of those who have died of Covid-19 have been over 65, with the most severe rates for those aged over 85, according to the Centers for Disease Control and Prevention. The same pattern has been repeated throughout the world.

The UK government advised particularly strict social distancing for the over-70s, "regardless of medical conditions". There was speculation that when lockdown rules were relaxed in May, over-70s would be kept inside. In the end, the government made no distinction on age, continuing only to advise older people to "take particular care".

"It's dressed up as trying to protect these old dears," says Lady Altmann, adding that it makes no sense to blanket age groups in this way. "A fit and healthy 70-year-old is more likely to survive Covid than a 40-year-old with underlying health conditions."

While there has been justified anger about high mortality rates in UK care facilities, the majority of older people are not in care homes. Lady Altmann points out there are 13m UK pensioners and 400,000 care home residents.

Positive views of ageing

The focus on older people's vulnerability reverses the mood of recent years, when commentators have pondered what to do about old people living longer and in better health.

In their book *The 100-Year Life*, Lynda Gratton and Andrew Scott told 60-year-olds that many of them still had a third of their lives to live and that they should devote themselves to working longer and to community activism. Don Ezra,



Few companies hold data about the role of age in their recruitment, bonus awards and training in the way that they now do about gender

AFF/Getty Images

author of the book *Life Two: How to Get to and Enjoy What Used to be Called Retirement*, wrote last year in the Financial Times: "If ever there was a word that needed to be retired, it's retirement."

For these pre-coronavirus commentators, it was not just that, with anyone over 60 having a good chance of living past 90, people needed to find ways to fill those added years productively. It was that many risked running out of money before they died. To indicate the scale of the challenge, Gratton and Scott wrote that if today's young workers put aside a hefty 11 per cent of their salaries every year, they would have to work until they were 85 to have an adequate retirement income. For many older workers, it is too late for that.

There are older people with adequate retirement incomes, including those who spent many years in companies with final salary pension programmes. Those schemes "were such a good deal in the 1970s, '80s, '90s even," says Yvonne Sonsino, global co-leader of Next Stage, which explores the work implications of greater longevity at Mercer, part of the Marsh & McLennan professional services group. But most such schemes have now closed. The generations behind will have no such security. "That golden age has gone," she says.

Many of those who are today reaching or are past retirement age do not have final salary pensions, relying instead on defined contribution schemes that depend on investment performance and which have taken a huge knock during the current economic downturn.

Longevity challenges

Anti-ageism campaigners point out that Covid-19 is not going to change societies' overall longevity challenge. While coronavirus deaths are highest among the elderly, and devastating for bereaved

families, Covid-19 is not going to wipe out or substantially diminish the older generation. An ageing population will remain an issue for many countries, bringing increased concerns about how to fund pensions and how to prevent older people from falling into poverty.

In recent years, Ms Sonsino says, government policies on dealing with the issue have been clear: people need to work for longer. State pension ages have risen. The difficulty now for older workers is that they will be competing for jobs, or trying to remain in the ones they have, at a time of mass unemployment.

In the US, joblessness has hit 14.7 per cent, the highest level since the second

'Judge workers on their skills... You have to have objective justification for forcing someone to retire'

world war. In the UK, between March and April, the numbers claiming unemployment benefit rose by 69 per cent to more than 2.1m. And that does not include the 10m who are currently living on government wage subsidies that will eventually have to be wound down.

Last bastion of discrimination

Companies will continue to cut labour costs and their older workers will be easy targets. As people struggle to remain in jobs, is there a danger of inter-generational conflict? "We really do worry about that," Ms Sonsino says. There is also the risk that employers will become further entrenched in the age discrimination evident in the US applications experiment.

Are the same attitudes prevalent in all countries? Ms Sonsino says she has, in her multinational work, found that, in

broad terms, respect for age is greater "the further east you go". Joan Costa-Font of the London School of Economics also wrote recently that international surveys showed that "whilst many Asian countries report more positive perceptions towards older people, in many western societies we observe a certain level of 'age aversion', where individuals praise youth stereotypes and older people pretend to be younger to avoid the effects of ageism".

But Ms Sonsino says she sees little difference in employment: age discrimination practices "hold true across the world". Few companies hold data about the role of age in their recruitment, bonus awards and training in the way that they now do about gender. "Age is almost the last bastion of diversity to be tackled," she says.

What can concerned employers do? "Judge workers on their ability, skills and their experience," says Lady Altmann. "You have to have objective justification for forcing someone to retire." If you have a 65-year-old employee who is better at the job than someone aged 50, why would you not want to keep the 65-year-old?

Rather than talking to employees about retirement, she advocates discussions about "pre-retirement", which could involve people working fewer days or job sharing. This reflects the thinking of many pre-coronavirus commentators: organisations should adopt flexible approaches to all ages in their workforce. The current widespread working from home provides clear indications that old office-based approaches are not always necessary.

And stop referring to people as elderly, Lady Altmann says. What word would she prefer? "Senior, mature, just a person. What does it matter what the age is?"

Dear Jonathan

YOUR QUESTION FOR OUR EXPERT — AND READERS' ADVICE

How do I get my first graduate job in a tough economic climate?



This week's problem

I am about to complete a business degree. It included a year in industry, where I worked in market research for a pharma group. I now face two challenges. One is that I would like to enter the emerging industry of customer experience consulting. Two, I will be trying to secure a job in a difficult economic climate. How should I go about breaking into this market?

Female, 20s

Jonathan's answer

Compared with graduates in the past 10 years, your employment path more resembles John Bunyan's *The Pilgrim's Progress* — a protracted journey with its many challenges — than a smooth, well-worn path. While most large employers are honouring job offers they have made for current graduates, these will be for mainstream industries.

While you will not find yourself in the "Slough of Despond" — a deep bog of sin — as Bunyan's Pilgrim did, you will have to scale your own version of his "Hill of Difficulty", where you will face challenges, and only reach your objective in your niche area once you have learnt to overcome these.

It is helpful that you have set a goal, even if the pandemic means you may have to follow an indirect path towards your objective. While you consider the diminishing available opportunities, start by assessing what you know about the industry. What skills and experiences do they seek? Can you gain those skills now in other routes?

The study of customer experience (CX), rather than just the product or service offered to them, has expanded in the past 20 years. While trade has always been with us, it is relatively recent that a more analytical approach to the broad subject of CX has emerged.

Although you have direct consumer experience, this is the time to read around the subject, find all the academic research, watch online talks, and become knowledgeable on all the historic and current thinking around CX. Build on your year in industry to understand the structure of the market, the key employers, and how and to whom they sell consulting services.

Holbrook and Hirschman's 1982 paper was an early study that focused on the

experiential aspects of consumption. They proposed that the hedonic responses of "fantasies, feelings, and fun" should be included in understanding consumer behaviour, rather than assuming consumers are purely logical thinkers.

The pandemic will profoundly affect job prospects for you and most of this year's graduates. Not only has the way of working changed, but also the types of jobs, the roles, and the industries themselves. Recent events have highlighted the fragility of food supply chains, the dependence on home delivery networks, the importance of health and social care, and it is unlikely that these will diminish.

Fundamentally it is challenging every aspect of consumerism, maybe bringing the emotional elements (for example of sustainability) to the fore, so your choice of career could be in a fast-moving and fascinating field.

Readers' advice

Get out of the UK for the next few years. Use your youth and energy to gain experience and skills that will make you a valued asset. **Chuck Tatam**

Leverage your experience in pharma to push for a role with the company you did your year in industry with, or one of its competitors. **George Horsington**

The job you want is not the job you need. Find something that is secured and relevant to your career aspirations. One to three years of having a graduate level job will allow you to make a move when you are ready to find something you love. **Gromit**

The next problem

I work for a multinational that is asking employees to take a 20 per cent pay cut because of coronavirus. I am worried that if I refuse, my career at the company will be over. I like my job but even before the virus I was considering moving on. I worry my failure to win promotion may be due to personal failings including an inability to play office politics. How do I assess my next move?

Jonathan Black is Director of the Careers Service at the University of Oxford. Every fortnight he answers your questions on personal and career development, and working life. Do you have a question for him? Email dearjonathan@ft.com

WORK & CAREERS

How virtual worlds can help real-life recruitment

Testing applicants outside an interview setting offers useful insights and can keep social distancing in place. By Janina Conboye

As I step into an Egyptian tomb holding my burning torch, I look around, then walk across to the far wall where my task is to solve a puzzle involving various symbols.

This is not the realisation of an ambition to be in an *Indiana Jones* film. It is a virtual reality exercise used to assess graduates applying for a technology role at Accenture, the professional services group.

The advantage of introducing VR to a candidate assessment programme is that “seeing people in action is a better indicator of their potential”, says Adrian Love, Accenture’s recruitment director for the UK and Ireland. The virtual world is all encompassing, so “your brain cannot fake it”, he adds. “You can’t game the system.”

Other simulations – using an impressive headset and hand controls – test the mettle of potential graduate consultants. One offers entry into a virtual meeting room with slides on the wall providing details on a specific project. I select an exercise from the tablet device on the conference table and am given eight minutes to assess the information presented in the charts and other formats. When the time is up, a telephone on the conference table rings and I have to give a project briefing.

Accenture is using the VR assessments for both consultancy and tech roles. The company says it is not looking for people who can find the right answer in the quickest time, but rather it examines how they deal with the situations presented to them.

While VR is yet to go mainstream, the pandemic is accelerating interest in the technology in a number of areas, including recruitment, says Jeremy Dalton, head of VR and augmented reality at PwC. “This is to be expected as people seek ways to connect more deeply while



Bring your whole avatar to work

With the office water-cooler abandoned, some companies are adopting 3D virtual spaces to encourage the chance encounters that are a catalyst for creativity.

WeTransfer, the computer file transfer service, has launched Breakroom, a 3D virtual office modelled on its Amsterdam HQ. Employees create avatars to enter the space, which is used for social interactions.

“We felt a 3D office that reflected our physical space would give employees a sense of familiarity and comfort, along with a fun experience to brighten up the monotony of quarantine,” says Gordon Willoughby, WeTransfer’s CEO.

maintaining social distancing,” he says.

He cites his own experience of a recent virtual team meeting. Via digital avatars, the team can be “next to each other, having a shared experience in the same space without the danger of transmitting the virus”. In the future, he believes that managers and candidates who are in different places could put on headsets and join each other in a virtual environment.

Mr Love adds that while virtual recruitment can remove location issues, Accenture intends to continue to use the same technology when face-to-face engagement can return.

According to a 2019 report by PwC, VR and augmented reality – which presents digital information, objects or

media in the real world through a mobile device or headset – have the potential to boost global GDP by 2030 by up to \$1.5tn by allowing developments such as new customer experiences, speeding up product development and improving workplace safety.

Mr Love says that Accenture decided to introduce VR to its graduate scheme’s assessment process because “we’re a tech company, so we wanted to showcase [that]”. It also helps improve the recruitment experience for both the company and applicants. Even if they don’t get the job, candidates can still learn something.

Okikiade Oloyede, a consultant at Accenture who was put through her paces in two VR exercises during her

Accenture is using virtual reality exercises, including one set in an ancient Egyptian tomb, to assess graduate job applicants

recruitment, says it is a really good way to assess people.

The two-stage process included a choice of activities, including naming as many planets as possible, or even critiquing capitalism versus socialism. There are no rules on how many activities that the applicants can choose to do. They can focus on one or many; the purpose is to see how individuals choose to work.

Ms Oloyede says: “Because you’re in a new environment, you have to . . . stay grounded, remain calm and focus on your objectives.” Importantly, she feels she was able to be herself: “I was able to show different parts of my personality.” With an increased awareness of neuro differences and that the best candidates may not necessarily perform well in an interview, VR can level the playing field. It offers a “compromise of connection and privacy”, Mr Dalton says. The connection through an immersive, shared experience and the privacy allowing people to put forward an image of their choosing through a digital avatar and environment “gives them a sense of control over the experience,” he adds.

Virtual reality is already being used to assess candidates for jobs where it would otherwise be impossible to put them in the real-life situations they will face. London’s Metropolitan Police, for example, use VR during assessment days, while the technology is also helping the child adoption process. Adopt South – the regional adoption agency made up of Hampshire, Isle of Wight, and Portsmouth and Southampton City councils – is using a VR experience developed by the Cornerstone Partnership, which allows prospective adopters to experience the traumatic scenarios children have faced by placing them, as the child, in a room with abusive parents or other adults. Rachel Reynolds, head of Adopt South, says the VR, used in the first two stages of the adoption process, has been transformative.

While headset prices have fallen in recent years, PwC’s report points out that the cost of high-end VR and AR is still a deterrent for some businesses.

But Mr Dalton says such obstacles are being eroded and believes it offers a great way for candidates to see and get a feel for work environments.

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ARTS

Lady Gaga: all grown up now?

The singer's career-topping new album 'Chromatica' evokes emotional experiences and a need for healing.
By Ludovic Hunter-Tilney

Lady Gaga's breakthrough hit "Just Dance" portrayed an over-refreshed Gaga getting messy in a nightclub, losing her phone, drink and man, and wondering "How'd I turn my shirt inside out?" But its actual message was meant to inspire. The song "speaks to the joy in our soul and in our hearts", the singer commented after its release in 2008. Presumably she spoke with a poker face, to cite the title of another of her big hits.

The language of inclusivity and self-empowerment has always been part of the Gaga package. At the start of the New Yorker's career, dresses made of raw steak and innuendo about "disco sticks" drew on outré Manhattan club culture. But her songs also came with talk of "self-discovery and being creative", sentiments drawn from Main Street traditions of positive-thinking. "I want to invite you all to the party," she said when her debut album *The Fame* came out in 2008. The emphasis was on "all" — as in everyone, not just club kids and the demi-monde.

Her new album *Chromatica* revisits the dancefloor milieu of *The Fame* and its successors, 2011's peerless *Born This Way* and 2013's misfiring *Artpop*. After the latter's failure, the Gaga ship was left listing. But, like the consummate star she is, the course has been righted with several abrupt switches in direction.

First came the classy Gaga of *Cheek to Cheek*, 2014's duet album with veteran crooner Tony Bennett. Then we met the country music-loving Gaga of 2016's dull but well-received *Joanne*. Now comes the resurgent Gaga who starred in the blockbuster 2018 film *A Star Is Born*, whose soundtrack was also a huge hit.



Lady Gaga in action earlier this year; below, cover of her new album 'Chromatica', released yesterday



Chromatica, she says, is about "my journey to healing". As one of the things to have been healed is her career, currently in its rudest health for a decade, the timing is right for a return to the dance-pop mode of her formative years. The results are solid and pleasing — but not quite the triumph for which one might have hoped.

The main producer is Michael "Blood-Pop" Tucker, who worked on *Joanne*. He's joined by numerous other big-ticket dance-pop producers (Max Martin, Axwell, Skrillex). The music is sinewy and focused, like the muscular synthesiser riff rippling through "Stupid Love". Gaga performs with characteristic vim, whether belting with Ariana Grande in "Rain on Me" or cruising at lower velocity through sleek synth-pop: she has never been one to phone a performance in. But the relish for absurdity with which she

once invested her material is muted.

Her earlier songs balanced positive messages of inclusion with antic stagecraft and song-writing. Out of such contrasting forces are the best pop stars made. Over time, however, her outrageous persona has become fleshed out by autobiography, a logical process in her growth as a performer. The "healing" on her new album refers to various severe challenges that she has revealed herself as having faced, including mental illness, sexual assault and a painfully debilitating physical condition, fibromyalgia. Next to such details, it has become harder for her to keep alive her sense of the ridiculous.

The cabaret-like Gaga of old isn't entirely absent. "Plastic Doll" finds her taking the role of a Barbie-style figurine, complete with poker-faced refrain of "I'm no toy for a real boy". "Babylon" is a Madonna-inspired vogue through ancient civilisation. But other songs are neutralised by positive-thinking clichés ("Free Woman", "1000 Doves"). They make the album's most emotive moment stand out all the more — "Sine from Above", a hands-in-the-air dance music duet with Elton John about companionship, which manages to be at once implausible and touching.

That, one suspects, is the register Lady Gaga wants to achieve these days.

'Chromatica' is out now on Interscope Records

TELEVISION
The Plastic Nile
Sky Documentaries, 9pm tonight
★★★★

Suzi Feay

The one issue that has never apparently been addressed in the furore about personal protective equipment for healthcare workers was where all those extra gloves, aprons, masks and visors were going to end up. *The Plastic Nile* reminds us that we'd be foolish to take our eyes off the monstrous plastic ball. Journalist Alex Crawford embarks on a 4,000-mile journey along the Nile, from its twin sources to the mouth that vomits thousands of tonnes of plastic waste annually into the Mediterranean. But never mind the knock-on effect for Europe; Crawford is concerned to stress the impact on Africa, and especially the subsistence farmers and fishermen who depend on the river for life.

She begins at Kisumu on Lake Victoria in Kenya, source of the White Nile. Rather than a case of western busybodies and know-betters lecturing the less informed, at every stop Crawford gives the lead to local heroes, from vets to politicians. She goes on a fishing trip with environmentalist Tom Mboya, only it's grotty decaying nappies and bottles that they bring up from the tea-brown waters. Given that Victoria is Africa's largest lake, it's disheartening to see the extent of the pollution. Dwindling catches are a looming catastrophe, given that fish is the main source of food and income.

Here's the antidote to all those ravishing nature documentaries:

hippos dodging plastic bags as they wallow in the turbid waters; vistas of sewers, storm drains and choked tributaries. The spectacular Blue Nile Falls form the only visual respite. As Crawford discovers, travelling on to Kampala in Uganda and Juba in South Sudan, the specifically African issue is a rapidly rising urban population combined with a lack of infrastructure to deal with waste. A refugee camp is built with the stuff, with sheeting creating shelter and plastic containers essential for water distribution.

There are loud environmental voices in these regions, with some countries banning plastic bags. But the move has proved deeply unpopular in local markets where traders resent having to pay more for the environmentally friendly alternatives. Criminal gangs have moved in to make good the supply. Juba's deputy mayor, Nihal Majak, is determined to enforce the regulation with regular raids on stalls, with the result that he has to travel everywhere with armed guards: "I'm prepared to be unpopular for the future of this country." 2020's pressing issue looks to be the asymmetry between government dictat and mass compliance.

In Cairo, where the military rulers have taken to imprisoning anyone who criticises the state of the Nile, Crawford meets some of the Zabbaleen, the 70,000-strong army of professional garbage sifters. The worst jobs — trawling through rotting vegetables picking out broken glass — are reserved for women (I'm sure it's just because of their dainty little hands). But even the Zabbaleen are now overwhelmed by the truckloads of plastic refuse. The urgent conclusion comes right back at us: we all need to be, as Malak urges, "responsible global citizens".



Looming catastrophe: plastic pollution along the river Nile — by UK

Nature's ambient soundscape

PODCASTS

Fiona Sturges



It's only natural to dwell on what we are missing during lockdown: being able to enjoy restaurants, concerts or overseas holidays still seems a long way off. But it has also provided an opportunity to appreciate what is happening on our doorstep, whether in our streets and town parks or local countryside.

In *The Stubborn Light of Things*, the nature writer and novelist Melissa Harrison immerses herself in nature in and around her home in rural Suffolk. Best heard on headphones to bask fully in its ambient soundscapes, this elegantly produced series invites us into a calm and comforting world as Harrison guides us on solitary ambles across fields and meadows, around churchyards and through woodland, pausing to listen to birdsong or look at wildflowers, insects or a retreating rabbit. Recorded during lockdown, the podcast launched in April and is set to continue through summer and into autumn as it documents the changing seasons.

Each episode brings a new excursion: in "Mystery" we find Harrison crouching in a hedge in the middle of the night listening out for nightingales; in "Care" she goes in search of barn owls; and in "Time" she walks to nearby woods and to a ruined cottage smothered in ivy and nettles. As she picks her way through the undergrowth, a blackbird overhead sounds the alarm that an interloper has arrived. "They have a different alarm call for danger from the ground and danger from the air," notes Harrison. "I'm very much danger from the ground."

In "Change" she is up before sunrise, listening to the dawn chorus and chronicling what she sees as night turns to day. In the same episode, she

reflects on the concept of change and how we are coping in the midst of a pandemic: "What we're living through is huge and we didn't choose it," she reflects. "Whether we want the old world back or we want something new, none of us wants things as they are right now... With something as big as this, it's not about accepting change, it's just surviving it."

Along with recordings of Harrison's walks, each episode features short extracts from the journals of the 18th-century clergyman and naturalist Gilbert White, which contain his observations on local animal and plant life in the village of Selborne in Hampshire, along with updates on the movements of his tortoise, Timothy. There are also guest contributions from nature writers including Will Burns, Kathleen Jamie, Kate Bradbury and Jini Reddy.

But the main draw of *The Stubborn Light of Things* — the title of which comes from a line in a poem by Alison Brackbury — are the field recordings which allow us to hear the outside world anew. The pace is deliberately slow and Harrison isn't afraid of silence, often staying quiet to ensure we hear nature's ambient sound in all its glory. Richly

Unafraid of silence: nature writer and novelist Melissa Harrison



atmospheric and intensely therapeutic, the series finds wonder in the everyday events of nature and in the process offers much-needed respite in stressful times.

HumaNature is a podcast from NPR and Wyoming Public Media that looks at the intersection of humans and nature, and tells remarkable stories such as that of the barefoot runner whose running partner is a donkey, a migration of people and water buffalo in northern India, and the first African-American team to scale Mount Kilimanjaro.

The latest episode tells the story of Taylor Thibodeau, whose life was one long adventure until he was assailed by fatigue and short-term memory loss. Doctors were baffled and unable to provide a diagnosis, while he was frustrated to have had his life slowed down. "I wasn't able to be the version of myself that I thought I was," he says. But, rather than retreat, he decided to repeat an epic bike ride that he had taken on the US aged 19, only this time accompanied by his partner, Kelsey. Here he cheerfully recounts their journey, which takes in several spokes, an epic storm and an alarming encounter with a black bear.

FT
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FT BIG READ. CORONAVIRUS

Just as the pandemic is forcing a reappraisal of work, socialising and travel, so too for death. The inability to say goodbye to loved ones could lead to mental health problems but also to political activism.

By Emma Jacobs

In almost 29 years of marriage to a rabbi, attending many of her Jewish community's significant life events, Susannah Kraft had never attended a virtual funeral. Then in March, she went to her husband's.

The service for Rabbi Neil Kraft, the 69-year-old father of their two sons and wrestling superfan who she describes as wise, mischievous and kind, was extremely personal. Nonetheless, she says, it felt "one removed – we weren't there".

Mourners may have been distanced physically by the coronavirus pandemic that claimed her husband's life but hundreds showed up virtually: more than 1,300 smartphones, tablets and laptops logged on to the live-streamed funeral.

There were some upsides to the format: it enabled overseas and elderly friends and relatives, including Ms Kraft's 93-year-old mother, to participate from home. There were also poignant absurdities, like Ms Kraft's son who was self-isolating outside the family home, forced to watch by going on a Skype call with his cousin in Spain after losing his connection.

But overall, the disruption to the traditional funeral, burial and mourning rites has been disorientating. "It's very difficult," says Ms Kraft, who was allowed to visit her husband's grave this weekend. "The grieving and mourning when you haven't actually been to the grave, it enhances the air of surrealism. Everything's magnified; when are we going to go to the cemetery, who knows? When are we going to see family, who knows? Time is stretchy."

Just as the global pandemic is forcing a reappraisal of the way we work, socialise and travel, so too for death.

From Bergamo to Brooklyn, Lille to London, the events of recent months have been so fast-moving that it can sometimes be difficult to take in the immensity of the personal trauma so many people have gone through – losses that could leave scars that last for years.

With the jobs that have disappeared, the careers upended and the businesses closed, the economic impact of the crisis will take a toll on the wellbeing of millions of people. Domestic violence charities have warned about a sharp increase in cases during lockdown.

But one of the hardest wounds to heal will be the sheer volume of deaths and the way that the natural order of saying goodbye to loved ones has been upended by the special conditions

'I'm hopeful we will see a return of that political engagement, demanding that something be done. Grief can be a motivator'

imposed by an infectious disease pandemic. The death toll in the US has now passed 102,000, while in the UK it is more than 38,000.

For individuals, this will leave a private anguish that some – although not all – might find hard to come to terms with: for societies, it means a potential mental health crisis that could start to emerge as the lockdown is eased.

Grief is chaotic and uncertain, says Julia Samuel, a bereavement psychotherapist in London who warns about the mental health impact from mourning under the isolation of lockdown. "What helps is that ritual. Touch, hugging, people coming round."

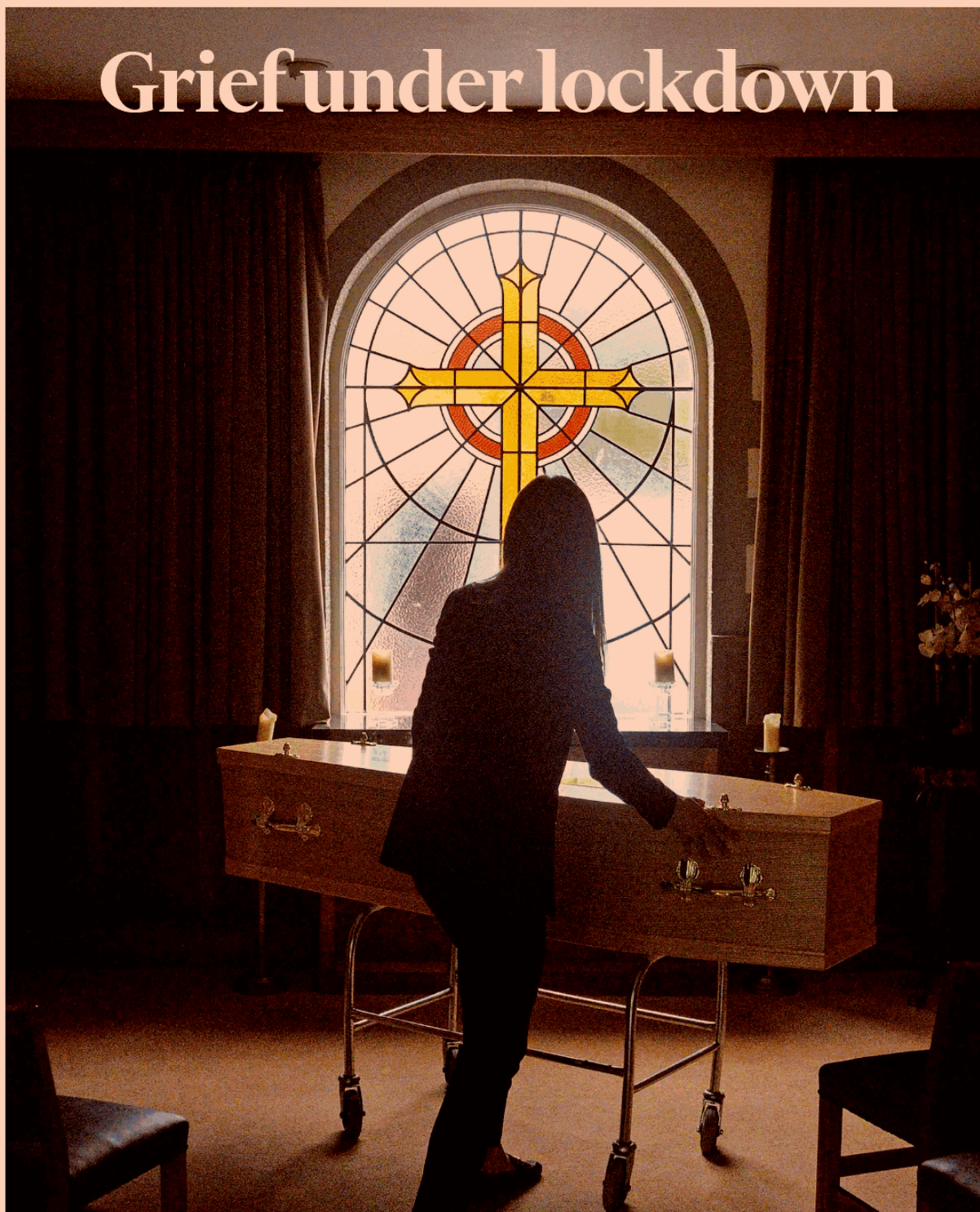
Rosena Allin-Khan, the British shadow mental health minister who is also working in a south London hospital during the crisis, has witnessed the difficulties at first hand. "Frontline medics are having to tell countless people that their loved ones have died over the phone or behind full PPE [personal protective equipment], with only eyes visible," Dr Allin-Khan says. "This virus has stripped the humanity out of grieving."

Mental health services were already stretched before the pandemic. "Anxiety and depression are on the rise across the country – yet it could be months or even years before the full extent of the impact of the inability to properly grieve for a loved one is understood."

The impact could stretch well beyond mental health concerns. Some observers predict that grief in the age of coronavirus may lead to cultural changes around commemoration and the way funerals are conducted.

It could also prompt political activism. In the UK, public anger over Dominic Cummings, the special adviser to the prime minister who has been accused of breaking the lockdown rules, has been particularly acute among people who were unable to say goodbye to loved ones or go to their funerals.

John Troyer, director of the Centre for Death and Society at the University of Bath, draws the parallel with the political impact of the Aids epidemic in the



Top: a body is moved into a chapel of rest at a funeral home in Manchester, northern England, last week. Right: Rabbi Neil Kraft and Susanna Kraft. Ms Kraft says her late husband's virtual funeral service felt 'one removed – we weren't there'. Below: people wearing face masks pray for a loved one at a funeral last month in Istanbul

Oli Scarff/AFP/Getty Images



1980s and 1990s. "I'm hopeful, as with the case for Aids, that grief will inspire a push that demands public health is no longer ignored in the way that it is," he says. "If there's anything that came out of the Aids epidemic [in the US] it was the rage. I'm hopeful we will see a return of that political engagement, demanding that something be done. That kind of grief can be a motivator. It can be a very powerful force."

Transmission fears

It is not just the rituals of funerals that have been upended by coronavirus but also the precious last moments of contact with a dying relative.

Dean Burnett's father died of coronavirus in hospital in Swansea, with only intensive care nurses and doctors around him.

"I was able to say a tear-choked final goodbye to him, over the phone, while a consultant doctor held my father's phone up to his ear," he says. "Dad wasn't conscious, he never would be again. I was in my kitchen, in pyjamas, as it was early morning and the situation was unexpected, to say the least."

His final conversation was an earlier video chat with family. "He was on a less severe ward, receiving oxygen, but in good spirits. It seemed all OK then, that the worst was over, but he declined a day or two later, and that was it."

Alison Pittard, dean of the Faculty of Intensive Care Medicine, says the decision of whether to allow relatives to visit was a local one, but in the early

stages "most hospitals didn't allow it, even at end of life, due to concerns about infection risk". Hospitals in the UK now allow visitors – an immediate family member or carer – to see patients at the end of their life.

For funerals, UK government rules still only allow close family to attend and to abide by social distancing rules, meaning those in separate households cannot physically comfort the bereaved.

Lucy Coulbert, owner of the Oxford-based Independent Funeral Company, made the difficult decision in March to ban relatives and friends from attending funerals and cemeteries because she did not want to be responsible for infecting an attendant. "Each cemetery and local authority [was] making up their own rules and were changing, in some cases, on an hourly basis. It was making people so much more anxious."

It has been frustrating to comfort the bereaved at a distance. "Frankly, it's fucking weird. As it's over the phone it feels quite robotic. It's really tough. How can it not be?" Ms Coulbert began conducting services again in mid-May.

Mr Burnett agrees. "People need their rituals and ceremonies in order to obtain a sense of closure... The stark difference between how it should happen and how it currently happens is another potential cause of distress, which is already abundant."

The rules around social distancing have amplified grief, says Andy Langford, the clinical director of Cruse, a bereavement charity. "There will be some long-term impact on how people grieve as a result."

The inability to say goodbye to a loved one can be very troubling, says Colleen Bloom of the Center for Complicated Grief, Columbia University School of Social Work, in New York. She believes that Covid-19 deaths can derail grief, inhibiting a mourner's adaptation to loss. "They may be feeling guilty about something they did or didn't do, or questioning why they lived and their loved one died," she says.

It may not be until the lockdown is

fully lifted that the bereaved will fully register their grief. Rabbi Emily Yael Reitsma-Jurman, from Edgware and Hendon Reform Synagogue in north London, who conducted Rabbi Kraft's funeral, believes that there might be a delay in "appreciating loss" because lives have been so upended. "When people go to the grounds to see where their loved ones are buried, I'm concerned about that. I'm thinking about how to support them."

Yet George Bonanno, a professor of clinical psychology at Columbia University's Teachers College in New York, who



has studied grief and epidemics, is optimistic. "Most people deal with grief pretty well. We get through it. We are pretty resilient, not as fragile as the mental health professionals like us to believe."

Digital memorial

In all parts of life – work, socialising and now death – technology is filling a void created by social distancing. Relatives have spoken to patients over smartphones; friends and family Zoom instead of visiting the bereaved.

Jo Bell, senior lecturer at the University of Hull's School of Health and Social Work, who has researched the use of technology in grief, says that the "pandemic has accelerated the need" to understand the "range of harmful and helpful ways in which digital technologies can be harnessed to help support and alleviate distress".

The role of technology is not entirely new. The Victorians pioneered the use of photography for capturing images of the dead, says Mr Troyer. "Today's social media and video technology for funerals and to remember the dead makes sense. We humans seem to always use the available communication technology when it comes to death."

Funeral directors in the past videoed funerals so that distant relatives could watch. PowerPoint is used at some services to show photographs of the deceased's life. "What pandemics often do is accelerate change and require newish technologies to be adopted faster than we might imagine," says Mr Troyer.

Elaine Kasket, a member of the British Psychological Society's Covid-19 bereavement task force and author of *All the Ghosts in the Machine*, says the pandemic has given technology a makeover. "Psychologists like me were trying to help people put down their tech for the sake of their mental health. And now experts like me are exhorting people to pick their tech devices up for their mental health."

When Sebastian Yuen's father was near the end of his life in a south London hospital, he arranged a group video call on WhatsApp. "I was surprised by the intensity of our connection," he says.

"We said we loved each other and shared a feeling of inspiration, comfort and peace. This was a life-changing moment for me in many ways. It strengthened our family relationships,

'It could be months or even years before the full extent of the impact of the inability to properly grieve is understood'

led to reflection which changed my appreciation of my father and myself."

He adds: "While this could have taken place face to face, we had never before had a conversation like that. I will never forget it."

Public gestures

The coronavirus crisis is prompting a much broader re-examination of how we think about and celebrate death. Tagore Charles, a paediatric consultant now working with Covid-19 patients, says health workers and the public are "thinking about mortality in a way we haven't since the second world war. There will be a recalibration. These might be subtle."

The way that people commemorate their dead after the lockdown lifts could change traditions. One way for the bereaved to cope with restricted funerals has been to plan post-lockdown memorials. Matt Fowler, whose father, Ian, died from coronavirus, held a small funeral in the Midlands town of Nuneaton but "about 300 people lined the streets – maintaining social distance – to watch the funeral procession go by... The plan is to hold a proper celebration of his life for everyone once we are safely able to."

David Collingwood, director of funerals at Co-op Funeralcare, believes mourners will realise that "there are different ways to hold a funeral service. It might give people the permission to organise the size and style of a funeral they want."

Death has been brought to the forefront of public debate. Bereavement charities hope that this will encourage families to talk about their wishes for death and funerals. Lawyers have reported an increase in will services. It has also highlighted the need for employers to create good, paid, bereavement policies.

In the UK, there are already signs of grieving families organising themselves to push for political change – a process that has been magnified by the furor over Mr Cummings.

Mr Fowler helped form the Covid-19 Bereaved Families for Justice UK Facebook group. As well as being a resource of funeral services and counsellors, he says it is campaigning "for an immediate public inquiry and pressure the government to take responsibility for the lives lost by their inaction".

He adds: "We believe that the choice to relax lockdown has come too early... with the recent scandal surrounding Dominic Cummings it is likely that people will be less attentive of social distancing rules."

Mr Troyer says some of these changes take a while to percolate but can have a lasting impact on society.

"Aids radically transformed funerals, turning the funeral into more of a celebration of life that broke with traditional funeral customs and introduced concepts like playing popular music at funerals," he says. "These are all things we still do today, but hardly anyone talks about the Aids connection."



FINANCIAL TIMES

'Without fear and without favour'

MONDAY 1 JUNE 2020

Urban unrest raises the stakes of US politics

Trump risks worsening the troubles with his provocative tweets

What has happened in US cities in recent days is no less distressing for its familiarity. The country has known protests to turn violent before, as it has known police aggression and racial strife. If there is a difference now, it is the immediacy with which camera phones and social media bring home the severity of the unrest – and, at times, enable them to spread.

There are evening curfews from Los Angeles to Philadelphia, and in Minneapolis, where the death in police custody of a black man, George Floyd, prompted the first marchers last week. The criminal proceedings against an officer who was filmed kneeling on his neck have not stanching the anger (most of which, it must be said, is peacefully expressed). Some states have fielded the National Guard to restore and maintain order.

The clashes beleaguer a country where more than 100,000 people have died of Covid-19, and the pandemic has pushed unemployment to 15 per cent. Both the health and economic crises have brought out underlying inequalities. In early May, a video was released showing the killing of another black victim, Ahmaud Arbery of Georgia. A racial incident in New York's Central Park was non-violent, but led to enormous anger and the firing of a woman from her investment company. These are disparate events, but they add up to a certain mood. Perhaps not since 1968, a year of urban riots and a losing war in Vietnam, has a presidential election taken place against a more fraught context.

It matters, then, how the current holder of that office comports himself. Donald Trump is not responsible for the street skirmishes or the events that led to it. American politics was combustible long before he entered it. The issues at hand – race, police conduct – will post-date him.

Borrowing long is the way to borrow safely

Governments can afford much more debt at today's low interest rates

Public-sector debt is spiralling in high-income countries. But this is no cause for panic. Governments are right to borrow freely during the Covid-19 crisis. The debt will also remain affordable – provided they take the trouble to lock in today's ultra-low interest rates.

Average government financial liabilities are expected to jump to more than 137 per cent of gross domestic product in high-income countries this year, similar to the current level in Italy. That will be just the beginning. But it is the role of governments to spend and borrow in a crisis of such magnitude.

Fortunately, the manageability of debt depends on its cost, not its size. Today, governments of high-income countries can borrow ultra-cheaply, partly because private spending has collapsed, partly because people are looking for safety, and partly because central banks are purchasing so much.

As of Friday, nominal rates of interest on 30-year debt ranged from zero in Germany to 0.5 per cent in Japan, 0.6 per cent in the UK, 0.8 per cent in France, 1.4 per cent in the US and 2.4 per cent in Italy. The real interest on the UK's 30-year index-linked securities was minus 2 per cent.

The ability to borrow so cheaply for long maturities allows governments to eliminate the risk of having to pay higher interest rates for decades. Indeed, they could even eliminate the risk altogether: in the 19th century, the UK issued irredeemable debt. Borrowing long will impose a small additional cost: in the UK, for example, the yield on the 50-year gilt is 0.25 percentage points higher than on the 10-year. Yet this is surely a tiny price to pay for the insurance offered by being able to borrow at such low rates for so long.

The case for borrowing ultra-long has been strong for some time. It is stronger still today, since rates are so low and indebtedness is going to jump.

Through rhetoric, however, a president makes an outsized contribution to the national atmosphere. This is doubly true at tense moments. And Mr Trump's interventions have been incendiary of late. Typically for a social media platform, Twitter is loath to be seen as taking a political position. But even it decided to hide a presidential tweet that seemed to glorify the "shooting" of looters.

Mr Trump has also goaded the "Democrat mayor" of Minneapolis for losing control of the city. He proclaimed "MAGA night at the White House" as protesters gathered outside, and pinned the troubles on the leftwing group Antifa. (Speculation about out-of-state, far-right or even foreign involvement is rife, though not rich in evidence.)

The president's better-judged remarks in Florida, where he called for "healing", seem to elude him on social media. Most of the time, his online truculence is merely undignified. On this occasion, it is no metaphor to say that he is playing with fire. It is mostly property that has been damaged in recent days, but human life is also at stake. A stray word can incite. Even silence would be better.

A more responsible leader would try to soothe the streets, as lots of municipal and state-level politicians have attempted. Joe Biden, Mr Trump's Democratic challenger, has condemned the treatment of George Floyd but also those who seek to avenge him themselves. He might go further and pledge to confront the vexed question of how police officers are trained. Even the occasional celebrity has found measured and unprovocative things to say of late. No one in the world has a platform to match the US president's, though. If he misuses it, the consequences are for ordinary Americans to live with.

Yet the average maturity of outstanding US debt was under six years at the end of 2019.

At just over 14 years, the UK's average maturity was the longest in the Group of Seven leading economies, with the other countries clustering between just over six and just over eight years. Borrowing at short maturities seems a little cheaper now. But it is a false economy. If, as is likely, real and nominal interest rates rise over time, these countries might be driven into a fiscal crisis and inflationary finance.

Governments should not just finance – and refinance – their debt at ultra-long maturities. They should also borrow as much as they can on inflation-protected terms. This would not just lock in today's ultra-low real rates, but would also reinforce their commitment to keeping inflation low in future, since governments could not then benefit from inflicting inflation surprises.

The fact that central banks are buying a great deal of the debt today does not change the case for governments to borrow at long maturities. At some point, the central banks may sell some or all of the debt they hold. If rates of interest are higher then, they will make losses. This is unimportant. Central banks are not commercial ventures.

Given today's interest rates, governments do not face any constraint on borrowing. The market is almost paying them to do so. Moreover, that is what governments are also supposed to do in a crisis. Provided they lock in low rates: in the UK, for example, the yield on the 50-year gilt is 0.25 percentage points higher than on the 10-year. Yet this is surely a tiny price to pay for the insurance offered by being able to borrow at such low rates for so long.

The opportunity to borrow so cheaply is the other side of a disaster. Yet it offers governments the closest they may get to a free lunch – though one that is unlikely to last. They should order their meals now for years ahead.

Letters

A fair deal must set Britain free of EU laws

May I, as a Remainer, strongly disagree with Philip Stephens' assertion in his article ("Britain's Brexiters still do not understand Europe", May 29) that the British government has gone back on its commitment to "a level playing field" in its current negotiations for a free trade agreement with the EU.

Mr Stephens knows perfectly well that the British government continues to have no objection to a level playing field. What it is, rightly, objecting to is the EU's insistence that that level playing field must be the EU's existing

and future regulations and laws on environmental matters, health and safety standards, and state aids. It is also, rightly, objecting to the EU's insistence that any dispute should be resolved by the European Court of Justice on which no British judge serves.

The British government, unlike Norway and Switzerland, is not seeking membership of the EU's internal market. No other country with which the EU has a free trade agreement has been asked to incorporate in its own

laws existing and future EU laws on these matters. For better or for worse the UK is not a member of the EU. It is an independent state. None of us, whether Remainer or Brexiter, should expect our government and parliament to oblige itself to accept, automatically, the laws and regulations of foreign, though friendly, states. Can you imagine the French or the Germans being willing to do so if they were in our position?

Sir Malcolm Rifkind
London SW1, UK

Goldman's change of heart on crypto hits a nerve

Jemima Kelly's article ("Goldman Sachs betrays bitcoin", Alphaville, FT.com, May 29) deftly captures Goldman Sachs' change of heart or epiphany on cryptocurrencies, but it's the reactions she provides that struck a nerve with me. I was reminded of the moment when my older brother told me that Santa Claus wasn't real: I thought he just wanted my stuff for himself. It couldn't be true. All my other friends believed.

I hope that Goldman hasn't come up with a view on (Parker Brothers') Monopoly money... it does still buy houses and hotels on its kitchen table. Their price stability meets at least one of the Goldman criteria.

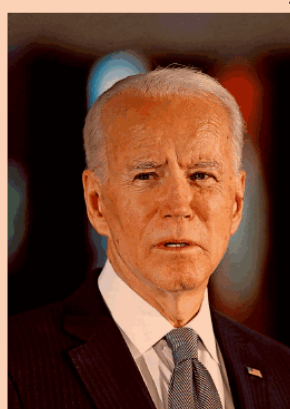
Pete Hahn
Retired Dean, The London Institute of Banking & Finance,
London EC3, UK

Union power never did New York any harm

I do not agree with Mr Khezri's letter ("Union power weakens New York's magnetic pull", May 28). Mr Khezri mentions the past resilience of New York, even citing the 2008 financial crisis, and how the city came back as strong as ever. Now, in 2020, according to Mr Khezri, the unions have killed the entrepreneurial spirit that is the hallmark of the "Big Apple". This I do not understand. Unions were equally as strong – if not stronger – in 2008. Which unions is he referring to? Public sector, teachers, police, fire department, airline workers and pilots, Broadway actors and workers in theatre and entertainment? All these were or have been present for the past 60 years or so. New York has gone through a number of reversals in that time period – and keeps coming back as strong as ever, and still as much a union town as you're going to find south of Albany. And, of course, the Democratic party lock on the unions – and vice-versa – is a huge factor in who runs the state.

I remember that my brother had a classmate at Cornell who, on graduation, drove to New York to work as a Broadway stage hand because he had an uncle who could get him union membership. This was in 1978, and this guy – with an Ivy League degree – saw greater job stability and financial reward in pulling ropes and moving stage props than the bright future that his newly-minted, very prestigious, degree promised him. And, yes, nepotism and self-interest are alive and well in the union culture, but clearly it does no harm to New York City.

Ted Gaffney
Waterford, CT, US



Joe Biden and the Democratic party are fighting for America's future

Don't expect presidency to fall into Biden's lap

Edward Luce ("Trump risks landslide defeat after alienating crucial older voters", Opinion, May 29) makes a mistake common to many US Democrats. He says that "all Mr Biden need do is not interrupt the president while he is defeating himself". If Mr Biden just sits back, the ripe fruit of the presidency will fall into his hands in November. This is a reprise of Hillary Clinton's strategy which failed in 2016.

Mr Luce needs to watch more Fox "News", listen to rightwing talk radio and attend a Trump rally. His supporters are beyond rabid – they will walk through fire for the man. Would Mr Biden's supporters do the same? Hardly.

As much as one may despise Mr Trump, his tweets and his policies, a failure by his opponents to acknowledge his political genius will only mean that he will be re-elected. If the Democrats fail to fight for the future of America like they mean it, they will lose the presidency in November to Mr Trump – again.

Guy Wroble
Denver, CO, US

Gender pay submissions will be another casualty

Mirror mirror on the wall, who is the fairest payer of them all? Covid-19 means we shall not know in 2020, alas. Shame that some companies will not make a submission on the gender pay gap this year as your article on May 29 says. Companies that do go the extra mile and make a voluntary submission in 2020 clearly see diversity as an essential business operation, not as an extracurricular activity.

Sarah Dudney
London SE24, UK

The difficulty in making 'robust' comparisons

I read with some horror your article entitled "Britain suffers highest death rate from coronavirus" (May 29). It then goes on to state that the data used were sufficient to make "robust comparisons".

Then I saw online that the article had been revised, placing Britain as second highest after Spain revised its "estimate" of excess deaths by 12,000, up to 43,000.

My understanding of the word "robust" applies neither to the previous statistic 31,000, nor clearly incorrect, nor indeed to a revised "estimate" of 43,000. And how robust is the other data used?

Dick Sands
London TW11, UK

Envoy's wife reprised treatment seen in harem

John Barchilon's letter (May 27) credits Edward Jenner as the original pioneer of vaccination. Yes, Jenner observed the milder effects of smallpox on milkmaids and developed a vaccine from cowpox in the 1790s. However, by 1720, Lady Mary Wortley Montagu (1689-1762) had developed a successful smallpox treatment, using variolation – a precursor of a vaccine administered through subcutaneous abrasion. Lady Mary had encountered smallpox variolation in the harems of Constantinople (where her husband was ambassador). She tried it first on her son, Edward, her daughter Mary, and then – with the help of Caroline, Princess of Wales – on convicts and orphans. Volunteers, it seems, are ever in short supply.

Dr Georgina Lock
Snape, Suffolk, UK

Too much supply chain data goes untapped

It's right that the global supply chain has remained remarkably resilient despite wobbles (Report, May 28). But these testing times have also exposed a distinct reticence to prepare for tomorrow's challenges, which is most apparent within the agricultural sector.

The supply chain can never work at peak efficiency until there is a common "language" to join up the data dots. As it stands, about 90 per cent of farming data goes untapped – a huge missed opportunity for supply chain efficiency. Consequently, the industry has an ethical responsibility to address a perilously fragmented supply chain. Connecting the data is a good place to start.

Graeme McCracken
Managing Director, Proagricra,
Sutton, Surrey, UK

Covid-19 practises age discrimination

You report Ros Altmann ("Will ageism get worse in the post-pandemic workplace?", May 29) as saying "a fit and healthy 70-year-old is more likely to survive Covid than a 40-year-old with underlying health conditions".

Perhaps the most reliable source is the recent Open-Safely paper by Elizabeth Williamson and colleagues at the London School of Hygiene and Tropical Medicine. This fine study uses the health records of 17m anonymised UK citizens, links to data on later fatalities, and can be read on the web by anyone who understands hazard ratios.

The authors show that sheer age is far more important than underlying health conditions. Going in age from the 40s to the 70s is associated on average with a 15-fold rise in risk of Covid-19 death, after adjusting for all health conditions, obesity, race and other influences. This can be thought of as the "pure" age-risk effect. The authors estimate the effects of conditions like uncontrolled diabetes at a two-fold rise; recently diagnosed cancer as between a two-fold rise and a three-fold rise; having had a stroke at a two-fold rise; and chronic heart disease at a 1.3-fold rise. Far smaller effects, in other words.

Whether we like it or not, this virus practises severe age discrimination. Fit people in their 70s need to understand that they are at significant risk.

Andrew Oswald
Professor of Economics
and Behavioural Science,
University of Warwick, UK

UK's Hong Kong passport offer must be just

Dominic Raab and Priti Patel have announced ("UK opens door to citizenship for 300,000 HK residents", May 28) that if China continued to breach the Joint Declaration and destroy the autonomy of Hong Kong by introducing a national security law, they would consider allowing British National Overseas passport holders to come to the UK to work and study for an extendable 12-month period. As much as I welcome this announcement, I wish to draw two matters to their attention.

First, there is a large group of Hong Kong people (known in the local community as "blue ribbons") who are in open support of the Communist regime. Instead of being persecuted, they directly or indirectly participate in and facilitate the very persecution of the protesters in Hong Kong. While many of them have a BN(O) passport because they were born before 1997, they are clearly not the group of people who need the help of the British.

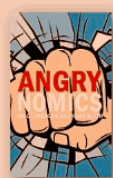
Secondly, many of the protesters currently on the streets were born after 1997 and thus do not have a BN(O) passport. Merely extending a helping hand to those who have a BN(O) will mean that they are excluded. This is neither fair nor just to them.

One easy way is to have a reviewing system to identify who are the genuine Hongkongers who need help. Those who were, or may be persecuted by the Communist regime, and only they, should be accepted. This should enable the UK to save the "wheats" of Hong Kong from the sickle of the Chinese Communists, without putting the tares into its warehouse at the same time.

Thomas Hoyle
Bowburn, County Durham, UK

An ingenious solution for an unequal world

Book review
Edward Luce



Angrynomics
by Eric Loneragan and Mark Blyth
Agenda Publishing, Columbia
University Press, \$16.95

In recent weeks I have felt pangs of sympathy for authors publishing books on today's world that they wrote before Covid-19. The pandemic has turned our existence inside out. A striking quality to *Angrynomics* is that it could just as well have been written yesterday. Everything it addresses – the causes of western democratic anger and how to fix it – has been magnified by the lockdown and the resulting economic deep freeze. Big companies drink deep from the hose of central bank liquidity, while their smaller counterparts fight over the trickles to survive.

Coronavirus has bought the roots of populist anger into sharper relief. This book is that rare pre-Covid-19 manuscript that has been made fortuitously more relevant by the virus. It would have been well worth reading anyway. Co-authors, Mark Blyth and Eric Loneragan, have studied populism for years. Loneragan is a macro hedge fund manager who writes about the philosophy of money. Blyth, who is a scholar at Brown University, is the author of *Austerity: The History of a Dangerous Idea* – a stinging rebuke of the response to the 2008 crisis that he calls "the greatest bait and switch in human history".

The two authors engage in a series of dialogues to make sense of "what appears at first sight to be an incoherent outpouring of primitive emotion". Most of us take it for granted that we live in an angry world. Their book makes an optimistic

case for how we can escape it.

Key to their thesis is the distinction between tribal anger, which appeals to our primal instincts, and moral outrage, which protests against the wrongs done to us by inept and sometimes corrupt governments. Both are a reaction to the vacuum created by the failure of technocratic politics. Only the second form is healthy.

Between 1981 and 2017, Britain's gross domestic product doubled, while the use of food banks rose by 1,000 per cent. At a rally in Sunderland, home to the Nissan auto plant, a pro-Remain politician said withdrawal from Europe would damage "our GDP". To which someone yelled, "your GDP!". As the authors write: "The disconnect between our experience of the world and the model used to explain it has come to a head... We cannot 'nudge' this system back to stability."

Blyth and Loneragan say that cultural explanations for populist anger are circular. Explaining a rise in racism by a rise in the number of racists is both true and trivial. It is also a counsel of despair. "It is easier to chastise the poor for their racism than do anything about their poverty," they write.

Focusing on our economic choices, and, specifically, on inequality, offers a road map out of the morass: keep it simple, make a difference and cut across political lines. Their biggest idea is to create a national wealth fund. Real negative interest rates are the equivalent of discovering oil.

When the cost of borrowing is lower than GDP growth, governments should issue bonds and invest in diverse assets, much as sovereign wealth funds do. The gains over time should be distributed to people as investment trusts that can be used for education and health.

The idea is simple and ingenious. It is arithmetic lunacy to spurn the opportunity of lenders paying us to borrow from them. The proceeds of a national wealth fund would redistribute wealth without raising taxes on the rich, who have perfected a system of worldwide tax avoidance.

It would also generate good returns. In 1998, Hong Kong's monetary authority put \$15bn into the Hang Seng to prop up equity prices. It was initially pilloried for interfering in the markets, but won eventual praise after earning huge returns.

Other solutions include a data dividend in which big technology companies, such as Amazon, Google and Apple, would be required to pay us for use of our private data. Again, this would be much easier politics than breaking up the giants – and far more lucrative for ordinary citizens.

In recent years, the toxic sense that people are voiceless and action is futile has paralysed our democracies. *Angrynomics* is a rebuke to that "failure of the mind". If we would only take the trouble to look, many solutions are hidden in plain sight.

The writer is the FT's US national editor

Opinion

Europe cannot fudge its way to a federal future

EUROPE

Wolfgang Münchau



Some celebrate the European Commission's €750bn budget increase as a "Hamiltonian moment", in reference to the first US Treasury secretary who brokered a historic compromise in 1790 for America's federal government to take over the debt of the states. Others dismiss it as too little, too late. Neither of these views captures its true nature.

I have noted that commentators and Brussels-based journalists often fall for big headline numbers that conflate categories such as grants, loans and spending capacity. The commission is a willing accomplice in this obfuscation. The official document that accompanied last week's announcement lists the total investment that could be generated as €3.1tn. Numbers like these are meant to

impress the gullible. It's the statistical sleight of hand you might expect from a disreputable election campaign.

The commission says that €500bn of the proposed €750bn comes in the form of grants, and €250bn in loans. The loans are economically irrelevant, since there is no shortage of low interest rate borrowing for the private sector. The grants are what matters.

But beware. Not everything that is called a grant constitutes a fiscal transaction. Some of these grants are used to generate lending. By my calculations, the fiscally-relevant part of the package is a little over €400bn. Of that, the main part is the recovery fund, worth €310bn over four years, plus an extra €11.5bn this year.

Dividing the €310bn recovery fund equally over four years, I arrive at an annual fiscal boost of 0.6 per cent of the EU's 2019 gross domestic product. This is not nothing. But if you still want your Hamiltonian moment, you will have to look elsewhere.

The package contains other measures of about €100bn for structural funds, climate change, agriculture, civil protection and health. That way, some

of the money goes to the countries of central and eastern Europe — they have not been as heavily affected by Covid-19 as Italy and Spain. Those payments would constitute a further 0.4 per cent of EU GDP in 2021 and 2022 each.

However you count this, you will struggle to identify anything that comes close to a fiscal bazooka. Furthermore, at this stage the package is only a pro-

The EU article allowing 'the means necessary' is the legal equivalent of 'whatever it takes'

posal. All 27 EU member states have to agree. The final numbers are more likely to be lower than higher.

For one thing, the recovery fund money comes with strings attached. The spending should be in line with EU investment priorities. It is entirely possible that not all the money will end up being spent.

Second, the so-called Frugal Four —

the Netherlands, Austria, Sweden and Denmark — might succeed in reducing the overall fiscal impact of the package. I do not think they will veto it, but their support is needed for the EU budget to pass. There are subtle ways to shrink it. Sweden and Denmark are not members of the eurozone. They could argue that the fund should be eurozone-only. Or the four might ask for a rebate.

Since EU member states eventually have to contribute to the repayment of the borrowed money, a rebate for some countries means a higher burden for others, including for Italy and Spain. This will partially offset the size of the net fiscal transfer they stand to receive.

Finally, consider that the extra spending at EU level might be offset by less spending at national level. The EU will not repeat the catastrophic error of the austerity that followed the previous crisis. But the fiscal rules are still in place. There is a presumption that member states will have to revert to running balanced budgets eventually.

I do not wish to dismiss what Ursula von der Leyen, commission president, did last week. She went to the limits of what is politically and legally possible. A

bigger fund would have been vetoed by the Frugal Four. And none of us really knows for sure whether this will fly legally.

The EU is not supposed to run on debt. To get around this, the commission invoked Article 311, which states that "the Union shall provide itself with the means necessary to attain its objectives and carry through its policies". This is the legal equivalent of "whatever it takes". Someone will almost certainly take legal action against the commission, so this will probably end up in the courts.

Last week's budget proposal is as good as it can get in the current regime. The way the eurozone has been set up does not allow for more. If you want trillions, you will need to change the European treaties. You cannot fudge your way to a federal future.

It is true that Angela Merkel's position has softened. But make no mistake. The German chancellor is still not a convert to a fiscal union. The EU is keeping the show on the road, but it is, by and large, still the same show.

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Companies should start showing more national loyalty

Elisabeth Braw

During the coronavirus crisis, democratic governments have discovered — again — that businesses act in their own interest, not in the interests of the country where they happen to be based.

Ryanair chief executive Michael O'Leary wants to relaunch 40 per cent of flights in July, whether or not it suits Ireland, the UK or any other government. Coffee chains closed during Britain's lockdown, despite the government encouraging cafés to stay open for take-aways. The issue predates the pandemic: UK entrepreneur James Dyson, a vocal supporter of Brexit Britain's economic potential, has moved his company's headquarters to Singapore.

All this suggests that nationalities matter less than they once did. When McDonald's opened its first restaurant in Moscow 30 years ago, it was seen as a symbol of US victory over the Soviet Union. McDonald's remains a quintessentially American company, but today its leadership includes executives from Poland and the UK. The chain was until recently led by another Briton.

The picture is the same in most companies that operate globally. Executives hail from a wide range of countries, have lived in more countries still and consider themselves international creatures. In 2018, only about half of FTSE 100 CEOs were British; the rest hailed from 20 other countries. The trend extends beyond the UK. Indra Nooyi, former chief executive of PepsiCo, was born in India. Rajeev Suri, who runs Nokia of Finland, is Singaporean.

In this crisis we have learnt governments would achieve a lot more with goodwill from businesses

Stefano Pessina, an Italian, is chief executive of Anglo-American drugstore chain Walgreens Boots Alliance.

Companies have gone transnational along with their top executives: Volvo Cars, once closely identified with its home country of Sweden, is now owned by Geely of China. That's how globalisation works. And, until now, it has largely worked well. Governments have not insisted that companies act in the national interest, despite complaints about tax avoidance and offshoring. As long as they create jobs, they have been allowed to go on their merry commercial way without consideration for obligations to their home countries.

Unsurprisingly, during Covid-19 and other recent crises, many companies have not prioritised the interests of their home countries. Governments certainly can't expect businesses to act out of patriotism. In a world of increasing foreign ownership and overseas operations, to which country should a company show allegiance? If we have learnt anything during this crisis, it is that governments would achieve a lot more with some goodwill from businesses. Amazon, which has prospered during the pandemic, could enhance conditions for its workers. Ryanair could accept governmental pleas for empty middle seats.

By contrast, during the cold war, the Swedish government made clear that it expected Volvo and other market pillars to do their part for the nation during a crisis. It designated them "K Companies", involved them in war planning and underwrote their preparedness efforts. For the past several years, the Pentagon, the US Department of Energy and other American government departments have held regular meetings with senior executives to inform them about national security threats.

Such initiatives could be expanded. To be sure, no business leader likes commitments to causes that don't generate revenues, and many companies are torn between their home base and their foreign owners. But the alternative would see countries further weakened during future crises. Liberal democracies face an unpalatable combination of threats from mother nature and hostile states.

Such deterioration is in no one's interest. Governments could, of course, simply nationalise vital businesses. After all, a government-run coffee chain or airline would have to obey the rules around opening. Business leaders, unite! For national wellbeing, that is.

The writer is a senior research fellow at Rusi, a think-tank

The world may be entering a post-dollar era

BUSINESS

Rana Foroohar



Unfettered globalisation is over. That is not a controversial statement at this point for obvious reasons, from the post-Covid-19 retrenchment of complex international supply chains to the decoupling of the US and China. It's hard to imagine a reset to the 1990s neoliberal mindset, even if Joe Biden wins the US presidential elections, or if the EU experiences a moment of renewed cohesion in response to the pandemic.

The world is more likely to become tripolar — or at least bipolar — with more regionalisation in trade, migration and even capital flows in the future. There are all sorts of reasons for this, some disturbing (rising nationalism) and others benign (a desire for more resilient and inclusive local economies).

That begs a question that has been seen as controversial — are we entering a post-dollar world? It might seem a straw-man question, given that more than 60 per cent of the world's currency reserves are in dollars, which are also used for the vast majority of global commerce. The US Federal Reserve's recent bolstering of dollar markets outside of the US, as a response to the coronavirus

crisis, has given a further boost to global dollar dominance.

As a result, many people would repeat the mantra that in this, as in so many things, "you can't fight the Fed". The dominance of the US banking system and dollar liquidity, both of which are backstopped by the Fed, will give the American dollar unquestioned supremacy in the global financial system and capital markets indefinitely.

Others argue "you can't replace something with nothing". By this they mean that even though China, Russia and other emerging market countries (as well as some rich nations such as Germany) would love to move away from dollar dominance, they have no real alternatives. This desire is especially sharp in a world of increasingly weaponised finance. Consider recent moves by both Beijing and Washington to curb private sector involvement in each other's capital markets. Yet, the euro, which represents about 20 per cent of global reserves, can't compare in terms of liquidity and there are still big questions about the future of the eurozone. The gold market is far too tight, as evidenced by the fact that it is now virtually impossible to buy the physical metal.

But there are economic statistics, and then there is politics. It's telling that China has been a big buyer of gold recently, as a hedge against the value of its dollar holdings. It is also testing its own digital currency regime, the e-RMB, becoming the first sovereign nation to roll out a central bank-backed cryptocurrency. One can imagine that



would be easy to deploy throughout the orbit of China's Belt and Road Initiative, as an attractive alternative for countries and businesses that want to trade with one another without having to use dollars to hedge exchange-rate risk.

This alone should not pose a challenge to the supremacy of the greenback, although it was enough to prompt former US Treasury secretary Hank Paulson, a man who does not comment lightly, to write a recent essay surveying the future of the dollar. But it isn't happening in a vacuum.

The European Commission's plan to bolster its recovery budget for Covid-19 bailouts by issuing debt that will be repaid by EU-wide taxes could become the basis of a true fiscal union and, ultimately, a United States of Europe. If it

America can get away with a lot economically as long it remains politically credible, but less so if it isn't

does, then I can imagine a lot more people might want to hold more euros.

I can also imagine a continued weakening of ties between the US and Saudi Arabia, which might in turn undermine the dollar. Among the many reasons for central banks and global investors to hold US dollars, a key one is that oil is priced in dollars. Continuing Saudi actions to undermine US shale put a rift in the relationship between the administration of US president Donald Trump and Riyadh. It is unlikely that a future President Biden, who would probably follow Barack Obama's pro-Iran stance, would repair it.

Even with oil prices this low, Dallas Fed president Robert Kaplan recently told me that energy independence remains "strategically important" to the US and that "there will still be a substantial production of shale in the US in the future". Who will fill the Saudi void, then? Very probably China, which will want oil to be priced in renminbi. A decoupling world may be one that requires fewer dollars.

Finally, there are questions about the

way in which the Fed's unofficial backstopping of US government spending in the wake of the pandemic has politicised the money supply. The issue here isn't really a risk of Weimar Republic-style inflation, at least not any time soon. It's more about trust. Some people will argue that the dollar is a global currency and that its fortunes do not really depend on perceptions of the US itself. Certainly, events of the past few years would support that view.

But there may be a limit to that disconnection. The US can get away with quite a lot economically as long it remains politically credible, but less so if it isn't. As economist and venture capitalist Bill Janeway recently told me: "The American economy hit bottom in the winter of 1932-3 after [Herbert] Hoover lost all credibility in responding to the Depression and trust in the banks vanished with trust in the government."

It could be that one day, trust in the dollar and trust in America will reconverge.

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The effects of Covid-19 risk deepening secular stagnation

ECONOMICS

Gavyn Davies



When former US Treasury secretary Lawrence Summers delivered his famous address on the return of secular stagnation at the IMF in 2013, he revived interest in a Keynesian construct that had fallen into disuse since the 1940s. He argued that a chronic excess of savings, relative to capital investment, may be developing in the global economy, forcing long-term interest rates down and threatening a persistent shortage of demand.

Since 2013, there have been brief periods of strong output growth in the large economies, suggesting that the risks of secular stagnation were abating. But these cyclical upswings proved

temporary and the trend decline in global long-term interest rates towards zero was never ended.

On top of these deflationary trends, the Covid-19 lockdowns have caused a seismic shock in all the big economies. In a recent Princeton Bendheim webinar, Mr Summers argues that this will trigger structural responses from households and businesses that will strengthen the forces of stagnation. If he is right, the consequences for macroeconomic policymakers and asset managers will be profound.

What are these changes in behaviour? Mr Summers believes risk aversion in the private sector will increase permanently, leading to more precautionary savings by households, and less investment by businesses. As he puts it, "just in case will replace just in time", with the private sector wanting to hold greater financial reserves in case of further shocks to globalised markets. There may also be a long-lasting hit to labour utilisation — the productive deployment of people of working age — and reductions in consumer spending in sectors affected by social distancing

until an effective vaccine is found.

Whether or not Mr Summers is right about the long-lasting effects of coronavirus, the underlying trend towards secular stagnation has been manifest for two decades. There seems no reason for it to reverse itself spontaneously.

Now policy interest rates in all the major economies are at or below the

Monetary policy as we know it has become redundant. Central banks' golden era is probably over

zero lower bound, monetary policy as we know it has become redundant. Central banks still have an important role to play in providing emergency injections of liquidity in crises and in regulating financial institutions, but their golden era is probably at an end.

A permanent state in which the equilibrium nominal interest rate throughout the developed world is at or below the central bank policy rate is,

to put it mildly, really worrying.

There are three possible consequences of this. The first is that the world could be stuck at zero. All the advanced economies may follow Japan since 2016, with interest rates across the entire yield curve stuck at zero, and fiscal policy battling against a continuous rise in government debt ratios. For asset markets, this would represent a low-return world, with demand management becoming increasingly hamstrung in recurring recessions.

With the second, we could have permanent fiscal stimulus and rising debt. Before the full effects of the virus became apparent, Paul Krugman suggested that the US should permanently increase public investment and the budget deficit by 2 per cent of gross domestic product, with the debt ratio eventually rising to 200 per cent of GDP. This would increase equilibrium interest rates, raising the average level of policy rates and bond yields. The yield curve would shift higher and adopt a more normal upward slope, allowing more scope for easing during recessions.

By reversing the trend decline in

interest rates, this policy may result in an immediate period of negative returns for both bonds and equities, though the long-term effects are less clear.

And the third could give us very negative interest rates. Japan and the eurozone have attempted to increase scope for active monetary policy by reducing policy rates slightly below zero, eventually dragging bond yields into negative territory. However, as Kenneth Rogoff has argued, this policy could only succeed if pursued far more aggressively, taking policy rates to minus 3 per cent, or even lower, in recessions. By extending the decades-long downward trend in interest rates, this approach would probably prolong high returns from both bonds and equities.

The political feasibility of these extremely radical fiscal and monetary policy changes seems highly questionable. But if Mr Summers is right about the deepening of secular stagnation, such reforms might be needed to avoid Japanese-style deflation in Europe, and even the US.

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Employment rights Will ageism at work be made worse by the pandemic?

WORK & CAREERS

Why we're about to learn if we are really in the A-team



Pilita Clark
Business Life

Where do you rank in the pecking order at work? Do you have a solid footing in the boss's inner circle? Could you be in line for the boss's job? Or are you in the middling ruck, plodding along and getting things done but very much in the B-team?

In ordinary times, it is easy enough to pretend we neither know nor care about this sort of thing. But Covid-19 is stripping office hierarchies bare with a brutality that is impossible to ignore.

The first time I noticed this was back in March, when some firms began to divide their workers into two teams that took it in turns to go to the office or work from home. A friend said her husband, who thought he was in line to replace his boss, had been appalled to learn he was in the team being led by the boss while a rival had been put in charge of the other team. It was, as she said, fairly obvious who was deemed more important.

Nearly three months on, as lockdowns ease and offices gingerly prepare to reopen, I find myself in anxious conversations about how many days one should work from home and how many should be spent in the office. A lot of people I have



The pandemic is stripping office hierarchies bare
AF Archive/Getty

spoken to are working for companies in serious trouble. If they stay at home, they worry they will be overlooked in the way that remote workers so often are. Worse, they fear thrusting colleagues who ditch their trackuits and go back to the office will become a gang of stalwarts who forge such lasting bonds in adversity that they become the new A-team. The evidence suggests this is precisely what will happen.

I say this having watched an excellent online talk last week by Nicholas Bloom, an economics professor at Stanford University who has spent years studying the pros and cons of working from home.

He spoke about some of his best-known research, which concerns a large Chinese travel agency called Ctrip. In 2010, it decided to see what would happen if some of its Shanghai call centre staff worked from home four days out of five for nine months.

Proximity can be destiny in the office but that needs to change in an age of home working

Managers hoped to cut both office rent costs and quitting rates, without creating a horde of shirkers.

The results, said Prof Bloom, were "an enormous surprise". Workers' performance went up 13 per cent, meaning the firm got close to an extra work day a week from them. Sick days fell. Quit rates halved. Ctrip reckoned it saved nearly \$2,000 a year per employee and staff said that they were happier. (One was especially pleased: in the office she was driven mad by the woman sitting next to her who was always sneakily cutting her toenails.)

There was just one problem. The people working from home were promoted at half the rate of their colleagues in the office. That might not be as dire as it sounds, said Prof Bloom. The home workers might not have wanted a promotion because it would have meant returning to the office. But it is also possible that the people at home were out of sight and therefore out of mind. I would go with that.

Geography is destiny and rarely more so than in the office. One very successful man I know came to work for a big company in London in his 20s and deliberately chose a desk

near the men's toilets. That way, he could saunter in after any male superior and strike up useful chats at the urinal. Try doing that at home.

Location also helped to put Jon Favreau on the path to become Barack Obama's chief speech writer. After college, Mr Favreau took a relatively junior job on John Kerry's 2004 presidential campaign team. One day, the desk right next to his was taken by the chief speech writer. Mr Favreau was soon asking his neighbour if he could be deputy speech writer. He eventually did and later joined (then) Senator Obama's team.

So what should workers do now? The lucky will have a manager who understands the power of proximity and makes sure people at home are not overlooked. That is vital at any time but doubly so when large swaths of the workforce cannot risk commuting for health or childcare reasons, while others can.

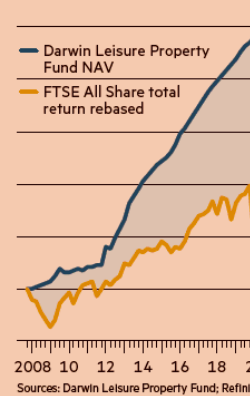
People at home will always find it harder to be impressive. But only the most unimpressive manager will consign them to the B-team.

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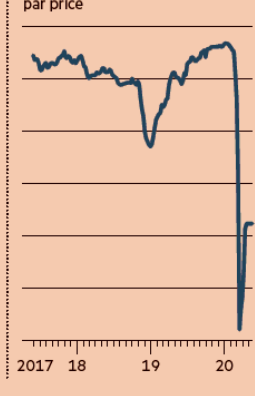
Lex.

UK staycations: caravan Cannes

Holiday parks earn profits for Darwin ...
DLPF Unit Value (pence)



... but Center Parcs has had problems
CPUK Finance 2017 class B notes, par price



Travelling will really be better than arriving for British air passengers. A new government decree is forcing quarantine for 14 days. That bad news might depress Britons hoping for a trouble-free summer trip to the Med.

Banish memories of sleeting rain and cold picnics, staycations now look like an unstoppable trend for summer 2020.

Low-cost European airlines brought an end to mass bucket-and-spade vacations in the UK. Why drive for hours to a Welsh seaside when cheap flights to Malaga beckon?

Yet holidays at home have staged a modest resurgence. The annual total rose 14 per cent in the five years to 2019, says VisitBritain.

One property fund, Darwin Leisure, has done well from staycations over the past decade. It focuses investments on residential holiday parks typically furnished with static caravans. These cheap vacation options are perennially popular, as shown by the performance of the specialist investment manager.

The net asset value of the main £500m fund has surged 2.4 times in the eight years to March of this year — and so far has held up in this latest quarter.

Prime Minister Boris Johnson, himself keen on sunny destinations abroad, has encouraged citizens to holiday at home

this year. His government has set a provisional opening date of July 4 for the domestic hospitality industry.

Months of potential summer holiday spending is up for grabs.

Tourists crowding Britain's beaches and hills spent nearly £14bn last year. But even if holidaymakers avoid foreign trips this year the industry worries they may not return to local resorts. Last year's total spending figure could fall by half, says the National Coastal Tourism Academy, which has been studying the data. Elsewhere, bond investors for the more upmarket Center Parcs have taken fright. The group, which rents out its holiday homes (often for weekends) in green spaces with lots of pricey add-on activities, has suffered from restrictions on travel. Its long-term debt has collapsed from over par to about 86 pence on the pound.

Regardless of opening dates, the travel and leisure business will no doubt suffer this year, as folks avoid crowding into enclosed bars and restaurants. Outdoor pursuits and accommodation close by may still benefit. After months cooped up in their homes, lockdown fatigue has set in. If the weather holds up, a surge in staycations will not only refresh holidaymakers but battered local economies, too.

WEATHER

Asia. Insight Out.

City	Temp	Condition
Amsterdam	23	73
Athens	25	77
Atlanta	28	82
Beijing	29	84
Belgrade	19	66
Berlin	24	75
Bermuda	24	75
Bogota	19	66
Brussels	25	79
Buenos Aires	14	57
Caracas	31	88
Chicago	25	77
Copenhagen	22	72
Dallas	31	88
Delhi	36	97
Doha	41	106
Dubai	39	102
Dublin	20	68
Edinburgh	23	73
Frankfurt	27	81
Geneva	25	77
Hamburg	22	72
Helsinki	17	63
Hong Kong	31	88
Honolulu	30	86
Jakarta	33	91
Karachi	35	95
Lima	21	70
Lisbon	24	75
London	25	77
Los Angeles	26	79
Luxembourg	26	79
Madrid	31	88
Mankato	34	93
Melbourne	10	50
Mexico City	26	79
Miami	30	86
Montreal	16	61
Moscow	11	52
Mumbai	32	90
Nassau	31	88
New York	21	70
Nice	22	72
Oslo	26	79
Paris	27	81
Prague	21	70
Reykjavik	11	52
Rio	29	84
Rome	24	75
San Francisco	21	70
Seoul	25	77
Shanghai	31	88
Singapore	31	88
Stockholm	26	79
Sydney	23	73
Taipei	33	91
Tel Aviv	27	81
Tokyo	22	72
Toronto	22	72
Vancouver	19	66
Vienna	22	72
Warsaw	19	66
Washington	24	75
Zurich	24	75

Get the business insights you need to succeed in Asia

NIKKEI ASIAN REVIEW

CROSSWORD

No. 16,491 Set by SLORMGORM

ACROSS

- Worry that the Queen's ignored duty (6)
- It's a crop cultivated for fruit (8)
- Rigid structures one might see on 10 down, I'm told (5)
- Awfully nice hat I put over fellow's head (9)
- A poor actor will need support in Lincoln? (7)
- One publication that is covering new hit record (7)
- It's okay in Paris to have Spanish wine (4)
- Insult bunch in shock to create this? (8)
- Animal crossing placard? I might create that! (8)
- Young animal found near area in country (4)
- Salesman and male tucking into eggs brought over for the boss? (7)
- Treasonous speech missing introduction creates issue (7)
- One tight young man quickly earned cash (1,4,4)
- High-ranking soldier punches vacuously abrupt spy (5)
- Use hands to sort out parasol? (8)
- Swamp-like planet with hairy yeti-like leaders (6)

DOWN

- Knight to open a centre rebuilt for access (8)
- False Tory attempted to take in Vatican leader (9)
- Be very angry if article is sat on by court (6)
- A real problem that Dracula might cause? (4,2,3,4)
- Blow up stylish apartment with bit of explosive (7)
- I love to go around hugging chap from Muscat? (5)
- A Rat? Bob Geldof could be described as one! (6)
- A place to pitch upcoming grand dances (7,6)
- Lasclivous behaviour causes sin unfortunately (9)
- Part of a yacht seen in seas as well as river (8)
- Small problem with resistance leader in nick (7)
- Hit show originally about old Americans (6)
- Nasty chap that spies must detain or bug (6)
- Simple idea containing bit of ingenuity (5)

JOTTER PAD

FT FINANCIAL TIMES

In my role, you certainly have to be informed on economic, financial and political developments around the world. Being an FT reader has helped me stay on top of the issues that matter.

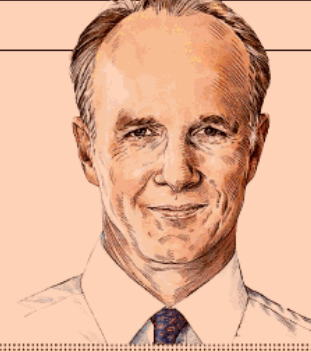
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LOMBARD ODIER



Mark Machin
‘No place to hide’ in crisis, says Canada pension chief

PAGE 4

Threat of negative rates hangs over US money funds

US president Donald Trump's view that the country should accept the "gift" of negative interest rates would be hugely damaging for the nation's \$4.8tn money market funds sector. Yields across US money funds have already tumbled towards zero from about 1.5 per cent at the start of the year. Some investors fear negative rates could spark a disruptive exodus from this vital funding channel for businesses across the US economy.

PAGE 6-7



US pension plans at risk of depleting their money

CHRIS FLOOD

The weak financial condition of seven US public pension plans threatens to deplete their assets by 2028, leading to severe risks for the living standards of thousands of American employees and retired workers.

Many US public pension plans had not fully recovered from the 2007-08 financial crisis before coronavirus struck, triggering turmoil across markets. The correction in the US stock market has increased the long-term structural problems across the entire US public pension system, particularly for the weakest funds.

"Public plans with extremely low funded ratios in 2020 may face the risk of running out of assets in the foreseeable future if markets are slow to recover," said Jean-Pierre Aubry of the Center for Retirement Research at Boston College, which carried out a detailed study on the plight of US public pensions.

More than 320,000 members of the New Jersey Teachers and Chicago Municipal public pension plans face the biggest risks as severe cash outflows are draining the assets of these two schemes.

A slow recovery for the US stock market could result in Chicago Municipal's funded position falling from 21 per cent this year to just 3.6 per cent by 2025. This would leave assets to cover just three months of the fund's retirement payments

continued on page 2

Shareholder climate rebellions surge despite Covid-19 pandemic

ATTRACTA MOONEY

Shareholders have ramped up pressure on companies to tackle global warming even as businesses grapple with the fallout of the coronavirus pandemic.

Climate change resolutions at annual meetings received average shareholder support of 23 per cent up to May 20 this year, compared to 16 per cent during all of 2019, according to data compiled for FTfm by Proxy Insight, the research group.

The support comes just weeks after eight big investors, including

BNP Paribas Asset Management, DWS and Comgest Asset Management, warned that tackling global warming must continue to be a priority for public companies despite the pandemic.

Businesses including JPMorgan, the bank, Woodside Petroleum and Santos, the Australia energy companies, Rio Tinto, the miner, JB Hunt Transport Services, the shipping business, and Ovintiv, the energy company, are among those that suffered big shareholder revolts over climate change this year.

Jeanne Martin, campaign manager

at ShareAction, the charity that coordinated a shareholder resolution on carbon emissions at Barclays Bank, said investor support for environmental proposals this year has been remarkable.

"For all its difficulties, 2020 has seen unwavering investor action at fossil fuel companies and their financiers, despite – or perhaps because of – the global pandemic," she said.

"Coronavirus has exposed the vulnerability of oil markets and investors could see fighting for climate action as a way of building resilience for future shocks."

Asset managers upped their focus on tackling climate change in recent years amid rising demand for environmental, social and governance investing. Sceptics, however, dismissed some of the focus on global warming as "greenwashing" and warned big investors would backtrack on their environmental push once market conditions became difficult again.

But the data suggest big investors are continuing to demand action from companies around climate change, even as the coronavirus pan-

continued on page 2



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NEWS

SEC chairman highlights risks of ESG ratings

GREENWASHING

Clayton says merging separate metrics can lead to faulty analysis

CHRIS FLOOD

The US asset management industry's top regulator has warned about the risks of relying on simple ratings when considering environmental, social or governance issues as part of an investment decision.

Jay Clayton, chairman of the Securities and Exchange Commission, said any analysis that combined separate environmental, social and governance metrics into a single ESG rating would be "imprecise".

"I have not seen circumstances where combining an analysis of E, S and G together, across a broad range of companies, for example with a 'rating' or 'score', particularly a single rating or score, would facilitate meaningful investment analysis that was not significantly over-inclusive and imprecise," said Mr Clayton.

The SEC has asked for feedback from asset managers about ESG ratings as concerns rise about the spread of so-called greenwashing by companies that make misleading claims about their environmental credentials to appeal to unsuspecting investors.

Large public protests demanding action on climate change are driving more asset managers to incorporate ESG measures into their investment processes.

More than 2,000 asset managers have signed up to the UN-backed Principles for Responsible Investment,

which have become widely accepted standards over the past decade.

Many funds attract new assets after becoming PRI signatories but only a small number improve their ESG performance, according to a critical study published this year by academics at Northwestern University and Georgia Institute of Technology.

"Only select signatories make visible changes to ESG while most [asset managers] are using the PRI as a mechanism to attract capital," said Aaron Yoon, assistant professor at Northwestern University's Kellogg School of Management.

The concerns expressed by Mr Clayton over combining E, S and G scores have previously been described as "aggregate confusion" by academics. One example of this is the electric car maker Tesla. The business, which scores highly on environmental metrics, has often been criticised for its record on workers' rights. As a result, different ratings providers give it wildly different scores.

ESG-focused funds attracted record inflows from investors in the US and Europe last year as fears grow that the world faces an environmental catastrophe. Investors ploughed \$20.6bn into US sustainable funds last year, almost quadrupling the \$5.5bn of net inflows gathered in 2018, according to data provider Morningstar.

That momentum carried into the first quarter of 2020 with US sustainable funds attracting \$10.4bn in new cash despite the violent correction across stock markets.



Founding partner Sean Healey stepped down as AMG's CEO in 2018 after being diagnosed with motor neurone disease – AMG

Sean Healey, ex-AMG chief, dies at 59

ATTRACTA MOONEY

Sean Healey, co-chairman and former chief executive of Affiliated Managers Group, the \$600bn asset management business, has died of motor neurone disease aged 59.

Mr Healey drove AMG's strategy of buying stakes in boutique investment companies, including Cliff Asness's AQR, the UK's Artemis, David Harding's Winton Capital and activist investor ValueAct. He joined the business as a founding partner in 1995.

He was named chief executive in 2005, stepping down in

2018 after being diagnosed with the illness, which is also known as amyotrophic lateral sclerosis (ALS). Following his diagnosis, he set up the Sean M Healey and AMG Center for ALS at Massachusetts General Hospital, raising more than \$40m.

Jay Horgen, chief executive of AMG, said Mr Healey was an "inimitable leader, always exhibiting an indefatigable entrepreneurial spirit and unwavering dedication to friends, colleagues and affiliate partners".

He added: "Sean transformed AMG from a nascent start-up into a leading global

asset manager with an innovative partnership approach and unmatched track record of partnerships."

Mr Healey joined the business from Goldman Sachs. Under the model he helped pioneer, AMG takes stakes of generally between 40-60 per cent in the businesses and works with them on marketing, distribution and leadership succession. Mr Healey also spearheaded AMG's initial

'Sean transformed AMG into a leading global asset manager with an innovative approach'

public offering in 1997. Under his tenure, the company grew from just a few boutiques to one of the world's biggest investment groups, with assets under management growing from almost \$40bn at the IPO to \$600bn today.

In an interview with the Financial Times in 2018, Mr Healey said that reflecting on AMG's origins had made him realise "how much of life and success is luck".

"The growth reflects good fortune, markets that have been up... it's good luck, it's over time good markets and great results by our affiliates," he said.

Shareholder climate rebellions surge

continued from page 1

demic piles pressure on businesses. Mirza Baig, head of governance at Aviva Investors, said: "Rather than derail the climate agenda, the pandemic has bolstered investors' commitment to tackling systemic risks."

He added that while European oil majors had set out "bold net zero ambitions", companies such as "Exxon and Chevron continued to stifle shareholder dialogue and absolve themselves of responsibility for the environmental impacts".

Meryam Omi, head of sustainability and responsible investment strategy at Legal & General Investment Management, the UK's largest asset manager, said this year's vot-

ing season had "shown that shareholders are increasingly aware of the importance of climate action and strong governance, and that this has not lessened because of Covid-19".

The Proxy Insight figures do not include lobbying proposals, which are often focused on how businesses and the trade groups they belong to are working behind the scenes to influence or delay action on climate change.

Several lobbying resolutions have received strong support this year, including at Woodside and Santos.

The data also do not include meetings with significant climate votes that took place last week, including at Chevron, the US oil major.

US pension plans face running out of money

continued from page 1

according to CRR's analysis. New Jersey Teachers is also burning through cash, with its funded position projected to decline from 39.2 per cent to 23.2 per cent over the next five years. By that time, New Jersey Teachers would have assets to cover 19 months of payments.

Mr Aubry did not expect any US public pension plan to run out of money over the next five years but more severe problems could emerge.

If stock market weakness persists, the public pension plans of Kentucky and Providence along with Dallas Police and Fire, Charleston Fire and Chicago Police could end up with less than three years of retirement benefit payments saved as assets. The Chicago

Teachers fund, which is also bleeding cash, might have enough assets to cover a little more than three years of benefit payments.

Thomas Aaron, a senior credit officer at Moody's, the rating agency, said the unfunded liabilities of Chicago's pension funds would continue to grow for more than a decade even if investment return targets were met.

"Chicago has particularly high pension risks. The city has built up very large unfunded liabilities through years of very weak pension contributions," said Mr Aaron.

"Reaching an actual depletion date can have a severe impact on a state's finances," said Les Richmond, an actuary at Build America Mutual.

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ANALYSIS

Investment industry slow to learn lessons a year after Woodford scandal broke

Questions still hang over fund rules, conflicts of interest and role of ACDs

SIOBHAN RIDING

A year ago yesterday, a group of local government officials in Kent made a decision that would trigger the downfall of Britain's most famous fund manager and spark Europe's biggest investment scandal for a decade.

Kent county council's termination of a £263m mandate managed by Neil Woodford started a dramatic series of events culminating in the former star stockpicker being forced to close the doors of his eponymous investment business, rocking confidence in the UK's £9tn asset management sector.

Yet one year on, many are critical about the lack of progress made in fixing the shortcomings that led to Mr Woodford's demise. "The more profound implications of the Woodford crisis have been brushed under the carpet," says Paul Myners, the former City minister. According to Lord Myners, the scandal "exposed the design faults" of funds by illustrating "the peril involved in allowing illiquid assets to be held in open-ended funds that permit daily dealing".

Kent's large redemption request sparked a liquidity crunch at Mr Woodford's flagship Equity Income fund. His high exposure to hard-to-sell assets meant he did not have the cash to pay Kent back, forcing him to suspend the fund and block hundreds of thousands of investors from accessing their cash.

The suspension, a rare event for a retail equity fund, served as a death knell for the fund, the liquidation of which was ordered four months later.

The events shone an uncomfortable light on active asset management, exposing flaws in fund liquidity and the cult of the star manager.

The risk of fund liquidity mismatches – when a fund cannot sell assets quickly enough to meet investor redemption requests – became a flash point in the aftermath of the fund suspen-

sion, with then Bank of England governor Mark Carney slamming such funds as "built on a lie".

The UK's Financial Conduct Authority indicated last autumn it would look again at daily dealing. It would also examine the problems posed by institutional and retail investors owning holdings in the same fund, as was the case with the Woodford fund. It floated the possibility of introducing financial penalties for daily fund withdrawals.

Yet so far the FCA has stopped short of banning daily traded funds from investing in illiquid assets. The UK could opt to change its fund rules after the Brexit transition, but it does not have the power to change the Ucits fund rules, the EU directive that governs most European retail funds.

Ryan Hughes of AJ Bell says: "The fact that holding unquoted assets is still allowed in the rules is a problem. I accept that the regulatory wheel turns slowly, but regulators could have been more vocal about this issue, as failure to address it leads to problems that undermine investor confidence."

The recent suspension of eight daily traded UK property funds during the coronavirus-induced market turbulence highlighted that the threat of liquidity mismatches has not gone away and is particularly acute at times of market stress.

There are tentative signs that market practices are evolving. Merian Global Investors, the £15.7bn group, has scaled back unlisted investments in its UK small and mid-cap fund range, while Invesco has pledged to offload unquoted stocks from Mr Woodford's former funds, run until recently by Mark Barnett.

But Mr Hughes says that no fund managers have moved away from the daily traded fund format since there is "no first-mover advantage" for doing so. "This will have to be led by the regulator," he says.

Peter Sleep, senior portfolio manager at Seven Investment Management, says a lack of progress on liquidity risk is not the only sign that asset managers have yet to learn the full lessons of the Woodford scandal. "The industry is guilty of



Many criticise the lack of progress in fixing what led to Woodford's demise — FT montage

many of the sins that created the environment for Woodford to fail," he says.

These include the widespread fixation on star managers as well as an overemphasis on funds with high active share, meaning that they diverge significantly from their benchmark, as Mr Woodford's did. This culture pushes investors into higher risk funds that they are not well equipped to deal with when things go badly, says Mr Sleep.

Efforts are under way to improve governance standards across the fund industry. The FCA is probing authorised corporate directors (ACDs), service providers tasked with overseeing funds, over fears they are beholden to their paymasters. Link Fund Solutions, Mr Woodford's ACD, attracted criticism for failing to act sooner to protect investors in the fund.

Despite this, no concrete action has been taken to stamp out the conflicts of interest lurking in the cosy relationships between platforms and fund managers – an issue brought to light by Hargreaves Lansdown's promotion of Mr Woodford's fund in its list of recommended investments until the day it suspended.

Hargreaves is in the process of revamping its recommended fund list in response to criticisms. But "best buy" lists in general remain unregu-

lated and there is little oversight of the criteria behind a fund's inclusion. "It's disappointing that, 12 months on, all of the questions posed regarding the influence of best buy lists as a result of the Woodford affair remain unanswered," says Mike Barrett, consulting director at research company the Lang Cat.

Investors will have to wait for the conclusion of the FCA's investigation into Woodford Investment Management and its ACD for explanations of what went wrong in the run-up to Equity Income's suspension.

But questions remain about the FCA's role and why it did not intervene sooner despite warnings of liquidity problems. "The FCA waited for the accident to happen rather than recognising there was an issue before," says Lord Myners.

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FACE TO FACE MARK MACHIN

‘No place to hide’ in crisis, says Canada pension chief

INTERVIEW

Machin expects low returns but backs private equity and emerging markets

JENNIFER THOMPSON

The Canada Pension Plan Investment Board, one of the world's biggest retirement funds, entered the crisis in decent shape.

With assets of C\$409.6bn (\$297.6bn) at the end of March it is far smaller than mega-groups such as BlackRock and Vanguard but unlike commercial businesses it can rely on steady inflows quarter to quarter from the millions of Canadian workers who are compelled to save into the fund.

The body manages the investments of the Canada Pension Plan, a key plank of the country's retirement savings system with more than 20 million contributors and beneficiaries that has been lauded by policy-makers.

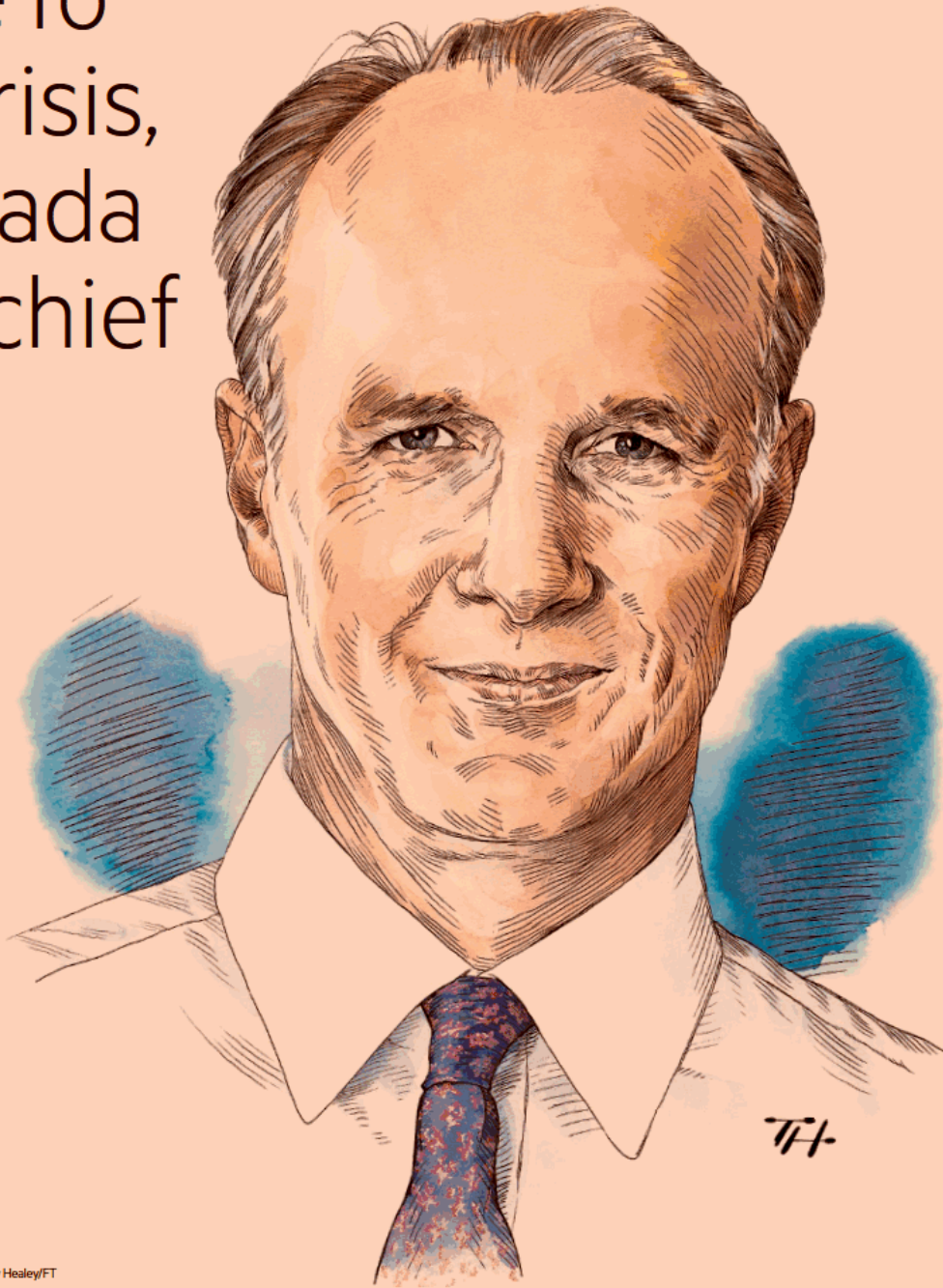
But as with all groups CPPIB is entering uncharted waters. “We do depend to some extent on inflows,” says Mark Machin, chief executive of the CPPIB, who is British.

Despite the immediate impact of Covid-19 on financial markets, Mr Machin sounds relatively relaxed.

“The strategy of diversifying around the world is paying off,” he says, even though the group made a net return of 3.1 per cent in the year to March, down from 8.95 per cent for the prior financial year.

At the time of publication, Canada had 6,982 confirmed Covid-19 deaths according to the Johns Hopkins Coronavirus Resource Center. This stands in stark contrast to the US, which hit 100,000 deaths last week. But the outgoing governor of the Bank of Canada, Stephen Poloz, recently warned that the country is “dealing with unparalleled uncertainty”.

Mr Machin expected lower returns even before the virus struck, calling the prospect of double-digit returns year on year “too optimistic”. He says



Tony Healey/FT

CV
Born 1966 Chester, UK
Total Pay C\$5.88m
Education 1984-87 BA in physiological sciences, Oxford university 1988-90 MB BChir, Cambridge university
Career 1990-91 Practises medicine 1991-2012 Goldman Sachs, various roles including vice-chairman of Asia ex-Japan 2012 to present CPPIB, various roles including president and chief executive

his views have not changed, but the group is not rushing to make big changes to its allocations in response to the crisis.

The independent CPPIB, in common with other Canadian pension funds, is known for being a proponent of “direct” investment, in which it bypasses intermediaries to make deals or buyouts of its own. Private equity is a large focus: just under a quarter of its portfolio is invested in the asset class. Like other Canadian groups, it is also known for its focus on so-called real assets: airports, office blocks and energy projects as opposed to complex derivatives, which accounted for about a fifth of assets at the end of March.

CPPIB's portfolio includes stakes in UK mega-shopping centres Westfield Stratford City and Birmingham's Bullring & Grand Central, as well as a 50 per cent stake in Ontario's Highway 407, a toll road. Those bets — made for good reasons such as hedging against inflation and providing

steady returns for pensioners — look less certain now.

Across the industry, commercial property valuations have taken a hit in expectation of the coming recession with uncertainty over demand from retail and office tenants. But Mr Machin says demand for private equity has not gone away.

“When the history books are written this [won't be] a surprise,” he says of the pandemic. “China was shut down at the time of Davos, but people didn't believe economies would be shut down. That's the surprise.” He adds: “The central banks and governments have moved with huge speed and huge size — that's really dampened the blow in the financial markets. The question is how long will this continue?” Mr Machin is better placed than most to follow the minutiae of medical developments, having trained as a doctor before switching to banking and a career at Goldman Sachs.

“I was always interested in how the

human body works,” he says. “I'm amazed at how people have little curiosity over what they are. That was an easy choice.”

He practised medicine in a hospital for a year before considering other careers. “The possibilities of the world I became more aware of,” he says. “Who owns this building, where's the capital? It seemed a massive hole in my understanding of the world.”

Being used to working “ridiculous hours” helped him make the shift to banking, he says. Initially based in London, he went to Hong Kong in the early 1990s just as the country's capital markets opened up. It was there he was recruited to run CPP's Asian business in 2012, before taking the top job four years ago.

Under his watch CPPIB has built its exposure to emerging economies and China in particular in the hunt for juicier returns.

Last year it revealed plans to increase its exposure to Asia's biggest economy and allocate up to 20 per cent of its assets to the country by 2025. Overall, it plans to allocate up to a third of assets to emerging markets, including China, over the same period; goals that Mr Machin says are unchanged. India is another market it has marked out as particularly promising, having opened an office in Mumbai five years ago. China is good for those seeking alpha — its inefficiencies suit “patient, fundamental investors” but he warns there is still “no place to hide” in the crisis.

One bright spot, he adds, is technology, with the health crisis spurring the development and uptake of things such as grocery delivery and online education. CPPIB opened an office in San Francisco last year, its second in the US after New York, bringing it closer to Silicon Valley. “All of these things have accelerated in adoption,” he says.

Canada Pension Plan Investment Board

Established 1997

Assets C\$409.6bn

Headquarters Toronto

Employees 1,824

Ownership Independent body



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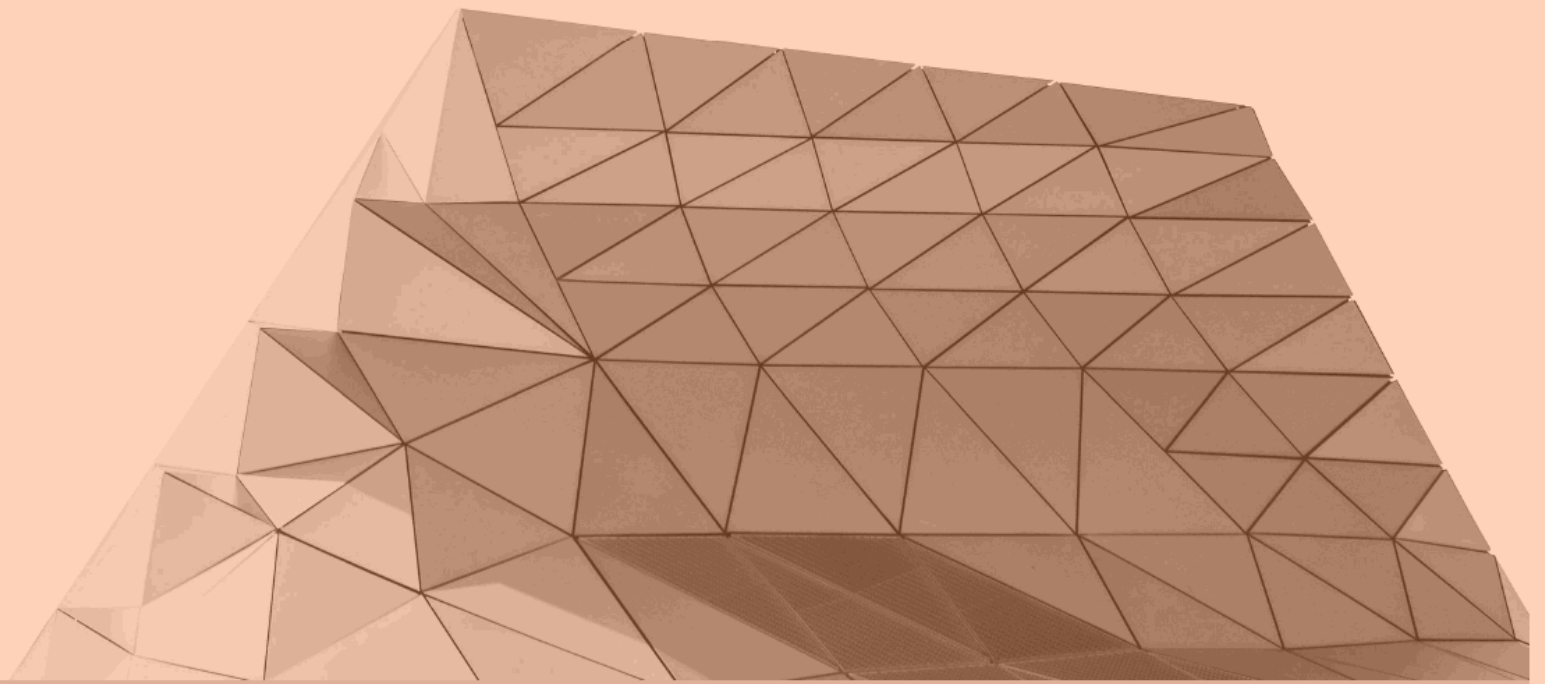
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THE BIG PICTURE

Threat of negative rates hangs over \$4.8tn US money fund industry



Thin margins and fee waivers jeopardise profitability as pandemic crisis hits home, writes *Chris Flood*

US president Donald Trump's view that the country should accept the "gift" of negative interest rates would be hugely damaging for the country's \$4.8tn money market funds sector.

Mr Trump believes that the US suffers a competitive disadvantage against nations that have more aggressively pursued unconventional monetary policies to support their economies.

So far, his exhortations have failed to influence Jay Powell, the chairman of the Federal Reserve, who is staunchly opposed to cutting US interest rates below zero. Even so, derivative markets are already pricing in an unprecedented drop into negative territory for interest rates.

Yields across the US money market fund sector have already tumbled towards zero from about 1.5 per cent at the start of this year. Some investors fear negative rates could spark a disruptive exodus from this vital funding channel for businesses across the coronavirus-stricken American economy.

TIAA-CREF, one of the largest US providers of financial services, warned this month that "returns could go negative" on its money mar-

ket funds. It has decided to waive fees on money funds until the end of the year to help avoid negative returns for investors. But the company also warned that any waived fees would be "subject to possible recovery" in 2021 if yields on its money funds turned positive.

Daniel Wiener, a US financial planner, said TIAA's disclosure of a fee clawback mechanism was "shocking" and warned that other asset managers also held similar contractual rights that were not widely appreciated by retail investors.

"TIAA investors should begin looking for a better alternative," he said.

That task is becoming more difficult as 360 US money funds with assets of \$923bn yielded zero or just 1 basis point, or 0.01 per cent, by mid-May, according to Crane, a data provider. It estimates zero rates will spread to about 40 per cent of US money fund assets.

The growing prevalence of zero yields means fee waivers have also become more common.

Asset managers historically earned wafer thin margins on money funds. So the combination of fee waivers and negative rates presents a toxic threat to the profitability of a sector that accounts for about 14 per cent of the

US mutual fund industry's total assets.

Across the US, disruption caused by the coronavirus pandemic has led to companies hoarding as much cash as possible. US money fund assets have increased from \$3.6tn at the start of the year to \$4.8tn.

Peter Crane, founder of the Crane consultancy, suggests uncertainty around the progress of the coronavirus pandemic has led to a fundamen-

tal shift in demand for cash among individuals, companies and institutions.

"No cash war chest is big enough for coronavirus. Everybody has to plan for operating for two months, three months, six months, two years with no revenue coming in, with no cash coming in," he says.

This shift in demand for cash persuades Mr Crane that negative rates will not lead to dramatic outflows

from money market funds. "I don't think it's going out anytime soon. [Companies] shouldn't just have a couple of days of spending money in the kitty. You better have a couple of months. And who knows? Maybe even a couple of years," he says.

US managers have also tried to draw lessons from the experience of Europe where interest rates dropped below zero in 2015 and have since moved deeper into negative territory.

Alastair Sewell, a senior director at Fitch Ratings, says investors withdrew money from euro money funds just before and after the advent of negative yields.

"Subsequently, a few months later, these funds began seeing inflows again. Investors eventually returned despite the negative yields after finding an inadequate supply of suitable alternatives," says Mr Sewell.

US money funds, however, have already demonstrated their alarming vulnerability to mass redemptions.

Investors pulled more than \$300bn from the sector in 2008 after the Reserve Primary fund "broke the buck" following the implosion of Lehman Brothers. The Fed was forced to intervene with emergency support measures to stem the bleeding and implemented rule changes in 2016 to

Sharp divide Top economists split on policy

Leading economists are divided over whether the US should adopt negative interest rates.

Kenneth Rogoff, professor of economics and public policy at Harvard University, believes negative rates should be combined with measures to preclude large scale cash-hoarding by financial companies and pension funds.

This policy combination would prove highly problematic for money funds but Mr Rogoff is certain it would have wider economic benefits.

"If done correctly, negative rates

would operate similarly to normal monetary policy, boosting aggregate demand and raising employment," he says.

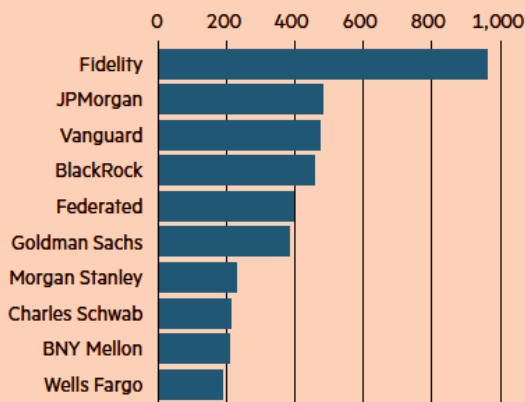
Torsten Slok, chief economist at Deutsche Bank Securities, disagrees. He warns that negative rates will increase the risk of an exodus where money is suddenly withdrawn and "stuffed into mattresses" to avoid the costs of holding cash in an account.

"The bottom line is that a negative Fed funds rate in the US is not the right response to this shock," says Mr Slok.

THE BIG PICTURE

Top 10 largest money market fund managers

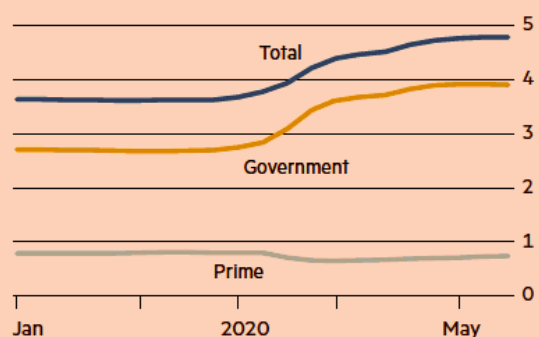
Assets under management (\$bn)



Source: Crane Data

Cash hoarding drives up money market fund assets

\$tn



Source: ICI

US money funds have already demonstrated their alarming vulnerability to mass redemptions — AFP

prevent a repeat of these problems. But severe difficulties erupted again in March when investors pulled \$160bn from prime money market funds that invest in short-term securities including commercial paper and certificates of deposits as the coronavirus outbreak led to a surge in demand for cash.

Large redemption orders from prime money funds forced BNY Mellon and Goldman Sachs to use a new emergency lending facility established by the Fed to swap commercial paper held in prime funds for cash. Bank of New York Mellon swapped \$1.2bn in assets from its Dreyfus Cash Management fund as it faced redemption orders for \$6bn — equivalent to about half its assets — in a single week. Goldman Sachs similarly swapped assets of \$1.9bn for cash to meet redemption orders from the Square Money Market and Square Prime Obligations funds on March 17.

With severe stresses continuing to affect financial markets on the following day, the Fed announced the creation of a new support facility to help money funds meet redemption requests and to support the flow of credit to the wider economy.

The Fed's new lending facility for money funds made loans worth just \$39.4bn by mid-May but it appears to have achieved its goals in calming the market. Prime funds have since regained all the assets lost during March but some stresses remain.

Northern Trust announced in May that it was closing its Prime Obligations Portfolio fund after intense volatility caused by the coronavirus pandemic led to investor withdrawals of more than \$2bn.

Neal Epstein, a senior analyst at Moody's in New York, says the problems in March resurrected old concerns about prime funds.

"Credit sensitive funds experience outflows and sharp net asset value declines, which spurred [fresh] regulatory intervention in spite of the reforms implemented in 2016 to fore-

stall such circumstances," says Mr Epstein.

Moody's downgraded its outlook on the global money market fund industry on March 18 from stable to negative.

"We expect that regulators will open the question of prime fund liquidity and [financial market] stability risks'

The Fed's new facility is due to last until September 30 but can be extended if required, raising the possibility that the central bank could find itself providing long-term support for money funds.

The latest problems are expected to prompt fresh scrutiny from regulators about the role of money funds as part of the shadow banking sector.

"We expect that regulators will once again open the question of prime fund liquidity and [financial market] stability risks," says Mr Epstein.

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Work and retirement will suffer crisis disruption

LAST WORD

John Dizard



People like me are invited to the best houses once, and generally only once. At dinner, when comfortable opinions and comic stories are traded, I announce to the room: "Nobody here has as much for retirement as they think they do." Then I go on and on about how it is arithmetically impossible, let alone physically impossible, for a third of the population to be "rich" high consumers, at the expense of working people or foreigners. Who wants to hear that at their own table?

In the past couple weeks, though, post-pandemic declinism has become a respectable industry. People wonder if their insurers and pension plans are already bankrupt. How to be a portfolio manager, if there is nothing to manage?

We are not there, yet. Among the problems with cable and satellite news is the power of the visuals, which, have got ahead of reality. Many more people are dead of Covid-19 than has been officially reported, but there are still too many old people with annuities and underwritten healthcare relative to the resources available to keep the institutions going.

As an accountant friend of mine says: "It's good for our solvency when old people die quickly. But not



The world's children are the only source of future income for all of us — Joaquin Sarmiento/AFP/Getty

enough people are living less long." Got that? There is still too much future income that has been promised to too many people who have not been killed off by Covid-19. In rich countries, I mean. People in poor countries have no illusions

Fewer workers equals less production, which leads to lower profits and interest payments

about how they are screwed if they get sick or old.

We now have some earnings reports for US life insurance companies for the first quarter of the year, which include some "normal" weeks. MetLife beat earnings expectations, thanks in part to \$4.2bn of derivatives gains that offset some of the investment portfolio losses and extra outflows due to Covid-19.

Some companies did relatively worse in the first quarter. Prudential, which has a larger-than-industry-

average equity position for variable annuities, had underperforming earnings. Hey, there are times when you eat the bear and others when the bear eats you. It seems unlikely that MetLife can have a continuing business of beating chumps out of their derivatives bets.

Enough balanced news. Business is unremittingly bad when it comes to the continuing healthcare costs of Covid-19. One trustee of a large health plan tells me: "The expense of being sick is increasing, and morbidity is

worse. Many of the Covid-19 'survivors' will be in trouble for the rest of their lives. At the same time our liabilities are increasing faster, our assets are declining in value."

There is a way around the immediate financial costs of continuing care of Covid-19 victims: enlist a wife, daughter, mother or girlfriend to do the brow-mopping and floor-cleaning. Lest we spend too much time thinking about the performance anxiety of portfolio managers, keep at the top of your mind that the pandemic is a crushing, decades-long tax on women. They know that, so keep thanking them.

What can women do to offset the increase in their unpaid menial labour? Stop having children. In order that all the husbands and sons can make it through many nights of illness, the present drought of child-bearing in the more prosperous countries can only get worse.

Since the world's children are the only source of future income for all of us, that is the worst consequence of Covid-19. In the past, after wars, there has usually been an increase in baby making. That is not in sight for the present disaster.

In the US, as in other rich countries, the decline in native population fertility rates has a far bigger impact on the size of the future labour force than liberal or populist immigration policies. Fewer workers equals less production, which leads to lower profits and interest payments.

You want to succeed as an investor? Wear a mask, help someone for no reason and thank a woman.

Now is the time to plan a brighter future for fund management

VIEWPOINT

Chris Cummings



Markets have been calmer in recent weeks, but many indicators in March when coronavirus fears hit global markets were eerily familiar to a decade ago during the financial crisis. In every crisis, there is a natural instinct to grasp for causes and to pinpoint culprits.

In 2008, it was the banks that were caught in the crosshairs and a wave of regulation swiftly followed, which spread to investment management. A decade on, some commentators have been quick to ask whether coronavirus exposes the industry as a systemic

risk to the proper functioning of the financial system because of the scale of what the industry does.

This is clearly a crisis triggered by a viral infection and government action is necessary to tackle it. It is not today, nor was it 50 days ago, a failure in financial services.

In fact to date, the investment industry has shown itself to be remarkably resilient, as it was during the global financial crisis. We have seen some fund suspensions in the commercial property sector, triggered by uncertainty over valuations. While suspension is by no means ideal, the right circuit breakers — designed to protect savers — kicked in as they were supposed to.

Meanwhile, the UK investment industry has just successfully managed the mammoth transition to a largely virtual operating environment in a matter of days.

However, resilience must not be

confused with complacency. The extraordinarily difficult conditions of March underlined the importance of ensuring effective capital markets and the need to be thoughtful about the right policy and regulatory tools.

Against this backdrop, our approach is not to revisit the battles of the past but to look ahead to the ways in which the industry can best serve its customers, secure the safety of staff, support our communities, and provide the capital the UK and other economies will sorely need in the months and years to come.

Our immediate focus is on the fundamental and urgent problems this crisis has exposed. Our economy will recover if investors support companies, large and small. As we all saw during the global financial crisis, when banks become more constrained in their ability to lend, the investment industry can take a long-term view, funding companies on the

road back to growth. More than ever before, our industry will have an opportunity to show that we invest in a sustainable way that prioritises companies that take seriously good governance, environmental concerns — and especially those that recognise their social duties.

This takes us to regulation and the attitude towards market-based finance since the 2008 financial crisis. The role of regulation should be to support the effective deployment of risk capital, while providing strong protection to customers and ensuring the integrity of markets.

Today, with the effects of the pandemic so obvious, the focus must be on achieving a prompt response that underpins a return to long-term growth and one founded on principles that promote sustainability and responsible business practices.

As we navigate the challenges of the months ahead, the industry is already

working hand in glove with policymakers and regulators to build an environment fit for the future.

We know there are opportunities to deliver new approaches that will give investors more reasons for confidence, freeing up pension funds to bolster economic recovery. For example, on fund liquidity and illiquid assets, the Investment Association has been working on proposals for a new long-term fund structure to help unlock different ways to support future economic growth in the UK.

The height of a pandemic may seem an odd time to plan for the future but it is at moments like these when the policymakers, regulators and the industry can set a clear course. We owe that to the millions of savers and investors who depend on us more than ever.

Chris Cummings is chief executive of the Investment Association