

## Making pay fairer

We must look after the carers as well as the coders — SARAH O'CONNOR, PAGE 17

## The teal deal

Australia's green campaigners set to make election inroads — BIG READ, PAGE 15



## Still bullish

Investors are too pessimistic on US outlook — EDWARD YARDENI, PAGE 11

# VW chief's call for settlement to end war draws outrage from Kyiv

◆ Diess fears damage to trade ◆ Putin hints at more land grabs ◆ Zelensky rails at 'atrocities'

JOE MILLER — LONDON  
ROMAN OLEARCHYK — KYIV  
MAX SEDDON — RIGA  
GUY CHAZAN — BERLIN

The boss of Volkswagen has called for the EU to pursue a negotiated settlement to the war in Ukraine for the sake of the continent's economy, an intervention that challenges the stance taken by European leaders.

"I think we should do the utmost to really stop this war and get back to negotiations and get back to trying to open up the world again," Herbert Diess told the Financial Times' Future of the Car summit yesterday. "I think we should not give up on open markets and free trade and I think we should not give up on negotiating and trying to settle."

The comments drew a sharp rebuke from Dmytro Kuleba, Ukraine's foreign minister. "The best strategy for major German business would be to fully sever business ties with Russia and then call on Russia to stop the war and return to diplomacy," he told the FT.

Andriy Melnyk, Ukraine's ambassador to Berlin, added: "In Kyiv people would prefer the VW CEO to address President [Vladimir] Putin personally, a man he knows well and the man who has unleashed this war of destruction against the people of Ukraine."

Diess spoke as Putin reasserted Russian war aims at the showcase annual Victory Day parade in Moscow's Red Square. In his address, the Russian president claimed the Kremlin's troops were "fighting on their own land" in the conflict, hinting that he would lay claim to more Ukrainian territory, including lands currently occupied by his forces.

Emphasising the difficulty that lies ahead to reach a negotiated peace, Ukraine's president Volodymyr Zelensky accused Russia's leadership of repeating the "horrific crimes of Hitler's regime" by waging a war of atrocities and land grabs. "This is not a war of two armies... this is a war of two world views, a war waged by barbarians."



Russian tanks roll through Red Square for the Victory Day military parade in Moscow  
Yuri Kochetkov/EPA-EFE/Shutterstock

Diess's comments on the need for a settlement come a day after German Chancellor Olaf Scholz vowed to continue to supply Ukraine with weapons, adding that "capitulating to brute force" was not an option for Europe.

While Scholz's stance has been pub-

licly supported by German industry, disruptions to supply chains continue to hurt the likes of Volkswagen, the world's second-biggest carmaker.

A shortage of wiring harnesses made in Ukraine forced VW to cut production, and it has sold out of electric models in US and Europe for the year.

Diess said that if global trade continued to struggle, then "Europe will suffer most, and Germany; but I think it will be bad for the whole world."

Germany is debating whether it could endure a sudden end to Russian gas supplies. A study by an adviser to the government found that the economy stood to lose about 12 per cent of annual out-

put if supplies stopped abruptly. Diess, who had previously warned that a drawn-out war would do more damage to Germany and Europe than the Covid-19 pandemic, has sparked criticism for previous comments.

In 2019, he apologised after using the phrase "Arbeit macht frei", or "Profits will set you free" — an apparent play on the phrase "Arbeit macht frei", or "Work will set you free", which was forged into the gates of the Auschwitz concentration camp. Later that year, he said he was "unaware" of China's mass detention of Muslims in Xinjiang province.

Additional reporting Robert Wright  
War in Ukraine pages 2-3



Gideon Rachman  
Page 17

There is an obvious danger to a situation in which both sides have convinced themselves they are fighting Nazis. It makes compromise much more difficult

### Briefing

► **Buffett-backed Chinese carmaker hit**  
Shares in BYD have fallen after authorities opened a probe into claims one of the company's factories was responsible for harmful pollutants that were causing respiratory problems in children. — PAGE 6

► **Sri Lanka turmoil as premier quits**  
Mahinda Rajapaksa has stepped down after weeks of violent protests, leaving the government of his brother, President Gotabaya Rajapaksa, in turmoil as the country is left on the brink of default. — PAGE 4

► **Chinese export growth slows in April**  
Draconian coronavirus lockdowns and weakening international demand have taken their toll on the world's second-biggest economy, with exports rising at their slowest rate in two years. — PAGE 4

► **Marcos' son on track for Philippines win**  
Early results have indicated that Ferdinand "Bongbong" Marcos, son of the late dictator, is on track for victory in the Philippines election by a wide margin. — PAGE 4

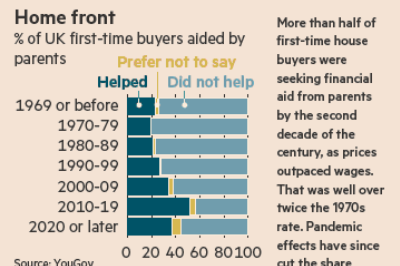


► **UK hands out £2bn defence contracts**  
BAE Systems and Rolls-Royce have benefited from London's £31bn programme, labelled Dreadnought, to renew its nuclear deterrent, amid heightened tensions surrounding the war in Ukraine. — PAGE 8

► **BioNTech propelled by vaccine demand**  
The German biotech company, which launched the first Covid vaccine in partnership with US drug group Pfizer, has beaten forecasts as the Omicron variant spurred strong demand for its jab. — PAGE 9

► **Philip Morris closes in on Swedish Match**  
Both companies have issued statements confirming takeover talks as the tobacco group nears a deal to buy its European rival for around \$16bn including debt in a bet on cigarette alternatives. — PAGE 6

### Datawatch



## Oil groups keep trading success under their hats

Europe's biggest energy companies have been coy about the contribution to their record-busting profits made by their trading divisions. These units not only offload oil and gas but also buy and sell third-party commodities. Shell, the largest trader of liquefied natural gas, produced 8mn tonnes in the first quarter but sold 18.3mn tonnes. In a world of volatility, getting trading right and communicating it to investors will be increasingly important.

Low profile ▶ PAGE 9

# World on course to pass critical 1.5C warming threshold within five years

LESLIE HOOK — LONDON

The world is increasingly likely to be hit by global warming of 1.5C within the next five years because of record greenhouse gas levels, according to research that adds to evidence of how quickly the planet is heating.

Earth's annual temperature has a 48 per cent chance of exceeding 1.5C of warming, compared with pre-industrial levels, in one of the years between now and 2026, the World Meteorological Organization and the UK Met Office say in a report published today. That probability is likely to keep rising, it adds.

The chance of exceeding a 1.5C rise for the subsequent five-year period was close to zero just seven years ago, according to the data.

"If we're going to keep to 1.5C, that may be difficult now," said Leon Her-

manson, the Met Office researcher who led the report.

"The 1.5C figure is not some random statistic," said Petteri Taalas, WMO secretary-general. "It's an indicator of the point at which climate impacts will become increasingly harmful for people and, indeed, the entire planet."

Severe heatwaves, fires, droughts and flood are among the events that become more likely as the world gets warmer.

India and Pakistan suffered a prolonged heatwave this month.

"For as long as we continue to emit greenhouse gases, temperatures will continue to rise," Taalas said.

Global emissions have risen as economic activity has rebounded after the Covid-19 pandemic, with carbon dioxide emissions last year reaching the highest recorded.

That makes it more difficult to

achieve the targets set by the 2015 Paris climate accord approved by 197 countries, which aims to limit global warming to "well below 2C" with best efforts to keep it below 1.5C.

Scientists have been reticent about predicting when exactly the 1.5C threshold will be crossed, with an Intergovernmental Panel on Climate Change report saying last year that long-term average temperatures were likely to be 1.5C higher within 20 years.

The Paris climate accord target refers to a long-term average, so it could still be intact even if annual warming topped 1.5C in any single year. The planet has already warmed about 1.1C compared with pre-industrial times.

The Ukraine war has hurt climate co-operation and some nations plan to burn more coal to replace Russian gas. Climate champions page 15

### World Markets

STOCK MARKETS				
	May 9	prev	%chg	
S&P 500	4028.32	4123.34	-2.30	
Nasdaq Composite	11767.64	12144.66	-3.10	
Dow Jones Ind	32413.12	32899.37	-1.48	
FTSEurofirst 300	1638.42	1688.96	-2.88	
Euro Stoxx 50	3530.58	3629.17	-2.72	
FTSE 100	7216.58	7387.94	-2.32	
FTSE All-Share	3987.87	4083.36	-2.34	
CAC 40	6086.02	6258.36	-2.75	
Xetra Dax	13390.67	13674.29	-2.15	
Nikkei	26319.34	27003.56	-2.53	
Hang Seng	20001.96	20793.40	-3.81	
MSCI World \$	2762.21	2784.12	-0.79	
MSCI EM \$	1031.50	1068.72	-2.57	
MSCI ACWI \$	643.67	660.08	-0.99	
FT Wilshire 2500	5396.95	5397.02	-0.74	
FT Wilshire 5000	41829.12	42148.30	-0.76	

CURRENCIES					
Pair	May 9	Prev	Pair	May 9	Prev
\$ per €	1.053	1.058	€ per \$	0.950	0.945
\$ per £	1.231	1.235	£ per \$	0.813	0.810
€ per £	0.856	0.857	£ per €	1.169	1.167
¥ per \$	130.510	130.405	¥ per €	137.427	138.008
¥ per £	160.612	161.083	£ index	79.253	79.499
\$/¥ per €	1.049	1.042	\$/£ per €	1.226	1.217

INTEREST RATES				
	price	yield	chg	
US Gov 10 yr	89.42	3.08	0.00	
UK Gov 10 yr	120.51	1.96	-0.04	
Ger Gov 10 yr	89.60	1.09	-0.04	
Jpn Gov 10 yr	99.61	0.25	0.01	
US Gov 30 yr	81.20	3.22	0.04	
Ger Gov 2 yr	99.43	0.22	-0.09	

COMMODITIES				
	May 9	prev	%chg	
Oil WTI \$	104.19	109.77	-5.08	
Oil Brent \$	107.03	112.39	-4.77	
Gold \$	1882.35	1892.30	-0.53	

Prices are latest for edition Data provided by Morningstar



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## WAR IN UKRAINE

## Penalties package

## Brussels seeks 'backdoor' Russian oil ban

## G7 lack of agreement and lobbying from Malta and Greece sink initial plan

ELENI VARVITSIOTI — ATHENS  
SAM FLEMING — BRUSSELS  
HARRY DEMPSEY — LONDON

Brussels has shelved its plans to ban the EU shipping industry from carrying Russian crude after failing to secure agreement from key partners to mirror the sanction.

However, the European Commission still aims to ban European companies from insuring tankers carrying Russian oil as a way of constraining Moscow's ability to make crude shipments.

The EU is trying to push through its sixth package of penalties aimed at Russia, which was intended to include the shipping ban and an embargo on Russian oil imports. The commission has been seeking to convince Hungary and other central and eastern European countries to sign up to the phased-in oil ban, with president Ursula von der Leyen travelling to Budapest for discussions yesterday.

The idea of the shipping ban has been dropped, according to several people familiar with the talks, following intensive lobbying from Malta and Greece, which is home to more than half of the EU flag tonnage.

During the talks, member states said

for the ban to be effective other countries such as the US should also be involved. The lack of agreement among the G7 nations was central to the proposal being dropped.

The EU's executive arm is also proposing to ban European companies from providing services, including insurance, needed to transport Russian oil globally. That provision is expected to stay despite a reluctance from some member states, the people said.

David Semark, a maritime lawyer at Quadrant Chambers, said a ban on EU insurance for tankers carrying Russian crude and refined products would "amount to a backdoor ban on Russian oil worldwide".

Targeting maritime insurance is a potent tool because most Russian oil exports are transported via tanker and the largest specialist insurers for the sector operate primarily in western countries. All of the 13 Protection & Indemnity clubs, mutual insurers for shipping that cover third-party liabilities including bunker fuel spills, wreck removals and personal injury, are managed from the UK, EU, Norway, the US and Japan and cover 90 per cent of oceangoing ships.

Most ports require vessels to have P&I certification and buyers of Russian oil would be very reluctant to be liable for claims that could run into hundreds of millions of dollars without P&I cover.

Von der Leyen was travelling to Budapest yesterday afternoon to meet Viktor Orbán, the Hungarian prime minister, in the hope of addressing his concerns about the impact of the mooted sanctions on his country's energy security.

Hungary is hoping for a longer phase-in period than the bulk of member states preparing to sign up to the ban on Russian oil, as well as seeking EU financial support to help engineer its transition away from the country's fossil fuels. Other member states including Slovakia and the Czech Republic are also expected to receive special terms under the terms of the energy sanctions given their reliance on Russian crude.

See FT View and Lex

## Damage bill

## EU's Borrell calls for seized assets to fund state renewal

SAM FLEMING — BRUSSELS

EU capitals should consider seizing frozen Russian foreign exchange reserves to cover the costs of rebuilding Ukraine after the war, the bloc's top diplomat has said, as the west debates how to force Moscow to pay for some of the damage the conflict has caused.

Josep Borrell, the EU's high representative for foreign policy, said the US had taken control of \$3.5bn of assets belonging to the Afghan central bank, in part to potentially compensate victims of terrorism as well as for humanitarian aid for the country, and that it would be logical to consider similar steps with Russia's reserves.

"I would be very much in favour because it is full of logic," said Borrell in an interview with the Financial Times. "We have the money in our pockets, and someone has to explain to me why it is good for the Afghan money and not good for the Russian money."

Early in the war the EU and its allies froze hundreds of billions of dollars of foreign exchange reserves parked in accounts by the Russian central bank. Russia said in March that the central bank sanctions had frozen about \$300bn of its gold and forex reserves, which total more than \$600bn.

EU officials have examined the question of whether Russia's reserves could somehow be deployed in the Ukraine reconstruction effort, but Brussels has not come forward with any policy proposals. Borrell raised the idea as one of several ways in which Russia could be made to contribute.

Asked last month whether the money could be seized and used to rebuild Ukraine, US Treasury secretary Janet Yellen said it was not something to be done lightly, should only be done in coordination with allies, and that it might require legislation in the US.

Borrell said the question of how to pay for the rebuilding of Ukraine was one of the crucial questions given the "incredible amount of money" that would be involved. He wanted to see a discussion about methods of ensuring "war compensations" came from Russia.

The European Commission has said the reconstruction price tag could run into hundreds of billions of euros, and Europe is expected to bear a significant share of the burden. Sums raised in recent pledging conferences by Ukraine's partners, he added, had been a mere "drop of water in the ocean" compared with what would be needed.

US president Joe Biden has proposed oligarchs' seized assets could be sold to help rebuild Ukraine, an idea advocated last week by European Council president Charles Michel.

Commission officials have been examining ways of making this legally more straightforward, but the topic is fraught, given the overriding need to respect due process and not to railroad individuals' legal rights.

Asset confiscations are sometimes possible following a criminal conviction, but that requirement would not be satisfied just because someone was targeted by sanctions.

Russian deputy foreign minister Alexander Grushko said yesterday that Borrell's idea was "total lawlessness [and] destruction of the very foundations of international relations".

Additional reporting by Max Seddon in Riga

## Scandinavia. Western alliance

## Nato dilemma convulses Sweden's ruling party

## Social Democrats pressed to shed non-alignment as Finnish membership looks likely

RICHARD MILNE — STOCKHOLM

Former Swedish foreign minister Margot Wallström once described opinions that her country should enter Nato as "absurd".

Now, the 67-year-old doyenne of the ruling centre-left Social Democrats is not so categorical about the prospects of joining the western military alliance.

Wallström, who is playing a central role in the debate triggered by Russia's invasion of Ukraine, said in an interview it was important to help prime minister and party leader Magdalena Andersson deal with a topic so sensitive it could split the Social Democrats ahead of general elections in September. She hinted a Nato membership application was a likely outcome.

"Everybody trusts Magdalena. Nobody wants this as an issue in the election campaign. It's obvious that it only takes us in one direction," she told the Financial Times.

"It's not ideal to have a decision like this when fear is the emotion that people have — maybe fear is what forces us to make these important decisions."

The change of tack within one of Sweden's political forces that has cared deeply about the Nordic country's non-alignment is one aspect of the security shock Russia president Vladimir Putin has caused by attacking Ukraine, another non-Nato country, and trying to topple its government in February.

This week, Sweden's parliament is set to issue a report on Nato, before a possible formalisation of the country's position by the ruling party on Sunday. By then, in neighbouring Finland, President Sauli Niinistö and Prime Minister Sanna Marin will have made their positions clear — with everything pointing to Helsinki saying yes to joining the western alliance.

In Finland, the Nato debate has been broad and largely consensual across all political parties. But in Sweden, it largely boils down to the Social Democrats, who have taken first place in every election since 1917. The Moderates and three other centre-right parties have long backed membership, and the nationalist Swe-



At the ready: Swedish soldiers on a parade ground near Visby. Below, Magdalena Andersson  
Mikael Sjoberg/Bloomberg



den Democrats have changed their mind to supporting it if Finland joins. "This is the single most important decision this country has taken," said one Swedish business executive. "And we are taking a decision at breakneck speed."

After 200 years of not having fought a war and decades of public commitments to peacemaking and nuclear disarmament, it is hard to overstate the importance of military non-alignment to the soul of Swedish Social Democrats.

"For the Social Democrats, this is a religious issue," said Hans Wallmark, MP for the opposition centre-right Moderates and a longtime supporter of Nato membership. "They need to be converted."

One of the main reasons for this reluctant conversion is Finland's decision to join Nato and its lobbying to get Stockholm to follow suit. "They are begging us," said

one Swede close to the talks. "Finland is Sweden's closest ally with historical, cultural and political ties which run deeply. Of course, Finland's choice will impact Sweden's future policies as well," said Aida Hadžialić, a member of the Social Democrat party board that will make the party's decision.

Another reason for Swedish Social Democrats to reconsider their position is that they do not want security to be an issue in parliamentary elections this autumn, especially with opinion polls showing a majority in favour of joining the defence organisation.

"They really want to avoid an election campaign on defence and Nato with a clear majority in favour of membership," said Wallmark.

For a party whose identity is in part built on two centuries of non-alignment, there is a sense of unease at the pace with which Sweden might do the previously unthinkable.

"Yes, there is part of the discussion

'For the Social Democrats, this is a religious issue. They need to be converted'

that goes really fast," said Lawen Redar, a Social Democrat MP who also sits on the party's board. "If Finland goes first on this, it leads to time limits."

Wallmark said one big difference was how the Russian threat was perceived in each country. Moscow was an "existential threat" for Finland, which shares a long border with it, but "Swedes know we are probably not the primary target".

As dozens of Social Democrat meetings take place up and down Sweden, Redar said there was "a huge respect" inside the party and an understanding that the geopolitical situation had changed.

Still, she said: "There are different opinions on this. It's not an easy move. The main question within our party on Nato is how can we remain an actor for democracy, peace and disarmament?"

Wallström said many worried about Sweden's credibility on nuclear disarmament, or peace in countries such as Yemen, if it joined Nato.

These concerns have revived fears of Sweden's dominant party being divided into two irreconcilable camps. "We must do everything to avoid the country and the party becoming split forever. It's not that we should be suddenly silenced on what we hold dear, though," Wallström added.

However, although factions in the party have come out against membership, the mood seems to be towards acceptance that Sweden has few options if its neighbour joins.

Redar said defence spending would have to increase enormously if Sweden stayed outside Nato; a business leader estimated it would have to be 4 to 5 per cent of gross domestic product.

Hadžialić said the main issue was "how we best defend our country and our security". A refugee to Sweden who fled the Bosnian genocide, she added that Russia's invasion had "brought back memories".

"I know what it is to face an aggressor where you have to stand defenceless when you don't have multilateral agreements to help you. In that situation, Nato came to the rescue."

Andersson, Sweden's premier, faces the task of balancing all these conflicting arguments to make a historic decision.

"She's walking a very thin tightrope," said the business leader. "It's a party that is all over the place."

Letters see FT View

## North Atlantic

## Faroe Islands come under fire for fisheries sanctions decision

EUR NOLSØE — LONDON

As most of Europe debates what sanctions to impose on Russia, one of its smallest territories, which relies on selling fish to Moscow, is just figuring out where to start.

The Faroe Islands, a self-governing part of Denmark outside the EU, approved legislation on Friday to allow sanctions against Russia, more than two months after the Ukraine war began. It will be the first time the Faroes, population 53,800, has levied sanctions.

The law excludes measures that could harm fish exports or fisheries agreements with other countries but is likely to strain ties with the UK, which has also imposed sanctions and which shares some fishing grounds with the islands.

"It's a sovereign Faroe matter," said Árni Skaale, fisheries minister. "As a nation we rely exclusively on fish and relations with neighbouring countries over fisheries. Limiting those opportunities... has much greater consequences for us than others realise."

The Faroes have licensed 20 to 29 Russian vessels to catch blue whiting, a white fish typically used for fish food

and oil, in the "special area" shared with the UK in each quarter of 2022. A 1999 agreement entitles both nations to grant fishing licences in the shared zone and treat it as separate jurisdictions.

The UK government, which does not allow Russian vessels in its waters, has said that not revoking the licences is "simply wrong" and it expects the Faroes to take a tougher stance.

Fish makes up more than 90 per cent of Faroe exports, with Russia the single largest purchaser buying close to a quarter of all exports in 2021. The government said in a statement that its fisheries agreement with Russia "does not allow" restricting the vessels' access to the special area in 2022.

Skaale said breaching the agreement could trigger retaliation with wider implications for the economy and the sustainable management of the Faroes' and Russia's joint stock of herring.

"There is no simple solution. If we cease all co-operation and communication with Russia [over fisheries], then we completely lose control," he said.

Russia became an increasingly important market for the Faroes after the EU imposed sanctions on the islands in

2013 for unilaterally raising their own fishing quotas. When Russia later blocked food imports from the EU, Norway and other western nations in retaliation against Ukraine-related sanctions in 2014, Faroe fish exports surged.

Jenis av Rana, foreign minister, said: "We are more closely aligned with the west now. Previously the EU boycott prevented this. But it doesn't mean we'll categorically say yes to everything the EU, Nato and other western countries are doing. In terms of fisheries, we're most inclined to look to Norway, which is in a very similar position to us."

Norway, which has several joint fish stocks with Russia in the Barents Sea,



Faroes: fish account for more than 90% of the islands' exports

has banned most Russian vessels from its ports, but not to the fisheries.

Faroe officials will study the EU sanction packages to determine measures that can be adopted, but the reluctance to touch fisheries raises questions about the impact others would have.

Av Rana acknowledged he was not sure if any of the oligarchs and other individuals on the EU's list whose travel is restricted "would have intended to visit" the islands.

The government's slow response has attracted criticism from neighbouring countries, with one Danish industry organisation describing the Faroe approach as "pirate-like". At home, the opposition has branded it "immoral, unethical and embarrassing".

Av Rana has insisted the criticism is unfair, since Faroe companies have largely stopped exporting to Russia voluntarily or have had their hand forced by EU sanctions blocking payments.

"The fact that our trade with Russia has ceased — which is so vital for the Faroes, it's around 25 per cent of our exports — is the equivalent to Denmark suddenly being unable to sell to its top three markets," he added.

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## WAR IN UKRAINE

## Seeing red Russian ambassador targeted in Poland



Sergey Andreev, Russia's ambassador to Poland, right, is covered in red paint after pro-Ukraine protesters pelted him as he went to lay flowers at the Soviet military cemetery yesterday. Video footage posted on Twitter showed the protesters surrounding the Russian delegation and chanting 'fascists'. — Wojtek Radwanski/AFP/Getty

# Macron backs 'community' of nations to take Europe forward

French president says EU is not only means of structuring continent in short term

VICTOR MALLET — PARIS  
SAM FLEMING — BRUSSELS

Emmanuel Macron has urged the creation of a broad "community" of European democracies to include non-EU members amid calls to reform the way the continent is governed following the Russian invasion of Ukraine.

In a speech to the European Parliament yesterday, Macron also joined a push for the rewriting of EU treaties to speed decision-making in the 27-member bloc.

Macron, re-elected French president last month, recalled that his predecessor, François Mitterrand, had proposed such a broad European federation as the Soviet Union collapsed in 1989.

Mitterrand's idea "posed a good question and the question remains, how to organise Europe politically in a broader way than the EU", Macron said in Strasbourg on the anniversary of Robert Schuman's 1950 declaration on European integration. "It's our historic obligation to respond to that today and to create what I would call a European political community."

He added: "The European Union, given the level of its integration and

ambition, cannot be in the short term the only means of structuring the European continent."

The proposal comes as EU leaders rethink the way the union handles relations with its close neighbours following the war in Ukraine. One of the key questions is how to manage the aspirations of non-EU countries aspiring to join the bloc.

The new federation would allow European countries adhering to the EU's "core values" to co-operate on security, energy, transport, infrastructure and the movement of people, the French president said. Joining it, he added, would not prejudice a country's application for EU membership.

Macron said he hoped Ukraine would be formally accepted as a candidate for membership, but countries aspiring to become members are likely to view his idea with suspicion, given frustrations that the union has been stalling their applications. Macron said the new club was needed because would-be EU members such as Ukraine were waiting for years and even decades before they could join.

There is also pessimism over the

speed with which any of the six countries of the West Balkans — Albania, Bosnia, Kosovo, Montenegro, North Macedonia and Serbia — will become members.

Macron suggested the community would not only be open to potential EU members, but those that had left — a reference to post-Brexit UK.

## Macron also joined a push for the rewriting of EU treaties to speed decision-making in the bloc

The French leader also endorsed the idea of opening up a convention to discuss reforms to EU treaties, echoing a call from the European Parliament and Italian prime minister Mario Draghi last week.

"We will have to reform our texts, it's clear," Macron said, adding that he wanted the matter discussed by the EU council as early as June.

Speaking shortly before Macron, Ursula von der Leyen, European Commission president, said she welcomed

the parliament's willingness to use its powers to propose a convention. "Let's work on all of this together, with no taboos, no ideological red lines," she said.

Among the ideas gaining momentum is a demand for the end to unanimous decision-making among EU member states in areas including foreign affairs and security.

Unanimity voting in some key areas "simply no longer makes sense if we want to be able to move faster", von der Leyen said, adding that Europe should play a greater role in areas such as health and defence. Macron backed the use of qualified majority voting on decisions "for our main public policies".

However, a group of 13 member states, including Croatia, the Czech Republic, Denmark, Estonia, Finland, Poland and Romania, in a joint paper yesterday warned against "unconsidered and premature attempts to launch a process towards treaty change".

This, they wrote, "would entail a serious risk of drawing political energy away from the important tasks... and handling the urgent geopolitical challenges facing Europe".

## Victory Day parade

# Putin claims invasion was pre-emptive strike

MAX SEDDON — RIGA  
ROMAN OLEARCHYK — KYIV

Vladimir Putin yesterday claimed Russia was forced to "strike back pre-emptively" against Ukraine, adding Moscow's troops were "fighting on their own land" in the conflict, just as Soviet forces did in the second world war.

In his speech at the annual Victory Day parade in Moscow's Red Square, the Russian president sought to justify his invasion by claiming Russia had to defend itself against imminent attack. He also hinted he would lay claim to more Ukrainian territory, including lands occupied by the Kremlin's forces.

Putin offered no evidence for his claims. Ukraine and its allies have said such accusations had no basis in reality and blamed the war on what Kyiv called Russia's "sick imperial ambitions".

The Russian president gave no indication that his country would seek to mobilise its forces or declare a wider war against the west, which western officials and military analysts had suggested he would be forced to do as his invasion of Ukraine continues to sputter.

But Putin's explicit parallels between the Soviet victory and the campaign in Ukraine made his commitment to defeating Kyiv clear. He has sought to use Russia's traumatic memory of that war, in which 24 million Soviet citizens died, to mobilise support for the invasion.

"The Donbas militia and the Russian army are fighting on their own land, which the heroes of the Great Patriotic War defended to the death," said Putin, referring to Kremlin-backed forces in the eastern border region of Ukraine.

By contrast, in a speech shortly before Putin's address, Ukraine's President Volodymyr Zelensky accused Russia's leadership of repeating the "horrific crimes of Hitler's regime" by waging a war of atrocities and land grabs.

"This is not a war of two armies," Zelensky said in a video address. "This is a war of two world views, a war waged by barbarians."

The Ukrainian president emphasised that millions of Ukrainians perished and fought against Nazi Germany during the second world war and said Kyiv's determination to resist the Russian invasion would ensure its victory.

"There is no occupier who can take root in our free land," said Zelensky. "There is no invader who can rule over our free people. Sooner or later, we win."

Putin claimed that some of the troops

participating in the Moscow parade had fought in the battle for Donbas and accused Ukraine of having prepared to "invade our historical lands", including Crimea, which Russia annexed in 2014.

He added this had created an "absolutely unacceptable threat for us directly on our borders" that meant a clash with what he called US-backed "neo-Nazis" was inevitable.

"Russia struck back pre-emptively against the aggression. This was a forced, timely and the only correct decision for a sovereign, strong and self-sufficient country," he said.

Ukrainian officials had suspected Putin would use the anniversary to wind down the conflict by declaring Russia had won a victory by capturing the key port city of Mariupol in the Donbas or annexing parts of the Kherson and Zaporizhzhia regions in south Ukraine.

"This is not a war of two armies. This is a war of two world views, a war waged by barbarians"

But battlefield setbacks forced Putin to withdraw his armies from central Ukraine after an apparent plan to seize Kyiv in a blitzkrieg and topple the government failed. A refocused offensive to take the Donbas has also so far not produced a breakthrough as Russia's forces continue to sustain heavy casualties.

Although the parade included a show of Russia's intercontinental ballistic missiles, Putin's message to the west was more restrained than in other recent speeches in which he has made thinly veiled threats of nuclear retaliation against the west for aiding Ukraine.

Putin said the west had "decided to cancel... thousand-year values" of patriotism and added that its "moral degradation has become the foundation for cynic falsifications of history of [the] second world war, spreading Russophobia, praising traitors, mocking the memory of their victims and crossing out the bravery of those who achieved and suffered for victory".

In London, UK defence secretary Ben Wallace responded by saying that Putin was "mirroring [in Ukraine] the fascism and tyranny" that Russia helped defeat in the second world war.

*Additional reporting by John-Paul Rathbone in London*



Paying respects: Vladimir Putin attends a wreath-laying ceremony at the Tomb of the Unknown Soldier in Moscow yesterday. — Anton Novozherezhkin/Sputnik/AP

## Labour market. Inflation

## Eurozone wage pressures grow as cost of living soars

Trade unions seek pay rises even as uncertainty from conflict clouds horizon

MARTIN ARNOLD — FRANKFURT

As Germany's biggest union, IG Metall, begins discussions on demands for a wage increase of up to 8.2 per cent for the country's 85,000 steelworkers in the coming weeks, Birgit Dietze expects reverberations for workers across Europe.

"When companies are making high profits, as they are at the moment, there can and must be compensation for the sharp rise in prices for employees," Dietze, IG Metall's chief negotiator in the east German steel industry, told the Financial Times ahead of a vote by the union's board on Sunday, when members backed the proposed rise.

The IG Metall discussions, which are set to conclude by the summer, are expected to provide a benchmark for negotiation rounds in other industries later in 2022. Esther Lynch, deputy general secretary of the European Trade Union Confederation, said: "Everybody who bargains on wages looks very closely at what these negotiations in German industry are doing."

A bumper pay deal for Germany's steelworkers would also raise eyebrows among policymakers at the European

Central Bank who are increasingly keen on raising interest rates in July to try to tackle record inflation of 7.5 per cent in April. Officials fear spiralling pay growth will mean price pressures becoming entrenched, risking a 1970s-style "wage-price spiral".

Yet, with a cost of living crisis looming and unemployment in the 19-country bloc falling to a record low of 6.8 per cent in March, demand for better wages is strong. Lynch added: "I'm now hearing from almost every delegate examples of how low-paid workers can't even meet the basics of paying for food and electricity, and they want action now."

Unions across the eurozone have called for rises for the region's worst off. FNV, the biggest Dutch union with almost 1 million members, wants the government to increase the minimum wage from €10 to €14 per hour and is pushing all companies to increase pay by €100 per month for all workers to offset the rising cost of living.

The German government has already committed itself to raising the country's minimum wage from €9.82 an hour to €12 an hour in October. The country's statistical office said this would affect 7 million workers, mostly women, or about one-sixth of the workforce.

France's minimum wage has risen three times in the past year for a total increase of 5.9 per cent, but unions including the leftwing CGT, which represents more than 700,000 workers,

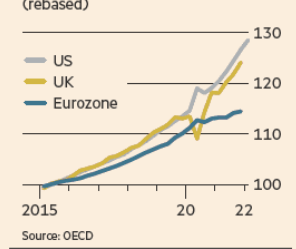
want it to go up by another 20 per cent to €2,000 per month.

In other countries such as Belgium, Cyprus and Luxembourg, workers receive automatic pay increases when inflation rises.

The Bank for International Settlements, the central bank for central banks, said last week that, while indexation and minimum wage increases raised the likelihood of a wage-price spiral, the share of workers covered by these contracts was lower than in the past. Coverage had fallen from 24 per cent in 2008 to 16 per cent last year, it said. Union membership in Germany, meanwhile, has dropped from 36 per cent after the country's reunification in

### Eurozone wages have lagged behind those of other advanced economies

Hourly earnings in the private sector (rebased)



1990 to 16 per cent in 2019, according to the OECD.

Still, a win for IG Metall's steelworkers could help bring to an end more than a decade of sluggish eurozone wage growth. Until now, pay rises in the region have been meagre, at less than 2 per cent in the fourth quarter from a year earlier. This is a big contrast with the US, where growth in average hourly earnings accelerated to an annual rate of 5.6 per cent in March.

But ECB chief economist Philip Lane said last week that the central bank's new wage tracker, covering the region's largest economies, showed pay deals agreed since January signalled wages were set to rise this year by about 3 per cent, a level not seen for a decade.

Wage growth is already accelerating in the Netherlands, which has one of the lowest rates of unemployment at 3.3 per cent and one of the highest rates of inflation at 11.2 per cent.

The worsening economic outlook could contain pay, however. Russia's invasion of Ukraine has already had an impact on some sectors. Unions representing workers in the German chemicals industry, a sector acutely exposed to the conflict due to its reliance on natural gas, postponed talks in return for a one-off payment of €1,400 per worker.

Dietze said IG Metall was "monitoring the economic situation very closely and taking it into account when making collective bargaining demands".

## Energy study

## Bar on Russian gas forecast to cost Germany 12% of GDP

MARTIN ARNOLD — FRANKFURT

Germany's economy faces losing about 12 per cent of its annual output if Russian natural gas supplies stopped abruptly, according to research by an adviser to the government.

The study by Tom Krebs, an economics professor at Mannheim university who advises the finance ministry in Berlin on economic policy, is more pessimistic than most previous estimates and is likely to stiffen the government's resolve in resisting calls for an immediate EU embargo on all Russian energy imports. It is also likely to fuel the debate between economists over whether Germany could handle the economic impact of a ban on natural gas.

The estimate comes as Brussels is preparing to step up its sanctions on Moscow by phasing in a ban on oil imports from Russia, adding to an earlier coal embargo, while Germany is searching for ways to reduce its heavy reliance on Russian gas.

"An instant and complete stop of Russian natural gas imports would, in combination with the already agreed coal embargo and the forthcoming oil embargo, probably amount to an economic slump comparable to the decline in GDP during the 2009 financial crisis or the 2020 corona crisis," said Krebs.

Other estimates have put the impact

of a sudden halt to Russian gas imports at between 0.2 and 6.5 per cent of German gross domestic product.

Krebs presented two scenarios. In the first, the loss of GDP in the year after an abrupt ending of Russian energy imports would be 5.2 to 12 per cent. In the milder scenario, the GDP hit would be between 3.2 and 7 per cent.

Germany until the Ukraine war received 55 per cent of its imported gas from Russia. It reduced this to 35 per cent in April by increasing alternative supplies, and aims to lower it to 30 per cent by the end of the year.

However, the economy ministry said recently it would take until 2024 to reduce the share of gas imports coming from Russia to 10 per cent, and industry leaders worry that a sudden gas shut-off could still paralyse large parts of the country's manufacturing sector.

Some economists support the government's gradual approach, warning a sudden, continent-wide supply cut-off could permanently damage the competitiveness of Europe's economy and even fuel social unrest.

But others say ending Russian energy imports would be "manageable" for the German economy. Rüdiger Bachmann, an economics professor at the University of Notre Dame, co-wrote a report that suggested the maximum hit was just 3 per cent of GDP.

## INTERNATIONAL

## South Asia

## Sri Lanka's PM resigns amid protests

Mahinda Rajapaksa steps down to leave brother's government in turmoil

BENJAMIN PARKIN — NEW DELHI

Sri Lanka's prime minister has resigned after weeks of violent protests, leaving the government of his brother, President Gotabaya Rajapaksa, in turmoil amid an economic crisis that has taken the country to the brink of default.

Mahinda Rajapaksa stepped down yesterday as clashes escalated after his supporters attacked anti-government demonstrators and the government deployed military to the streets of the capital, Colombo.

President Gotabaya, who imposed a nationwide curfew after declaring a state of emergency last week, asked for

his older brother's resignation in a bid to stem the protests and pave the way for a cross-party government. But analysts said the move could backfire, adding to the pressure on the president himself to quit. Senior opposition leaders have said they will not work with him.

Protesters first took to the streets in March, calling for the Rajapaksa family-led government to quit as Sri Lanka plunged into crisis with double-digit inflation and shortages of basics such as food, fuel and medicine causing a dramatic decline in living standards.

The country is at a "critical juncture", said Dimantha Mathew, head of research at First Capital Holdings financial group in Colombo.

He said while Mahinda's resignation could pave the way for a resolution to the political crisis, there was "mounting pressure now for even the president to

resign", despite a curfew being imposed.

Mahinda has been one of Sri Lanka's most consequential and divisive leaders. As president, in 2009 his government ended Sri Lanka's 30-year civil war with a ruthless campaign to crush the island's Tamil separatists. But he was voted out of office in 2015 amid public perceptions of corruption and authoritarianism in his administration.

After a spell in opposition, the Rajapaksa family continued its domination of modern Sri Lankan politics when Gotabaya was elected to the presidency in late 2019, on a wave of voter anger over the Easter bombings that killed nearly 300 people.

But protesters and opposition groups now accuse the Rajapaksa family of leading Sri Lanka into the currency crisis. A sharp tax cut implemented shortly after coming to power eroded the gov-

The finance ministry last week said foreign currency reserves had fallen as low as \$50mn

ernment's revenue base, prompting a cascade of rating downgrades that left Sri Lanka unable to refinance its international debts, which total about \$50bn.

Fast-dwindling foreign currency reserves, which the finance ministry last week said had fallen as low as \$50mn, have led to everything from medicine shortages to blackouts as generators struggle to import enough fuel to keep power running.

Sri Lanka said last month it would suspend international bond payments and began talks with the IMF, World Bank and bilateral creditors, including India and China, to restructure debt and take over emergency loans. It owes about \$8bn in foreign debt repayments this year, according to the finance ministry.

Additional reporting by Mahendra Ratnawera in Colombo

## GLOBAL INSIGHT

## ANKARA

Laura Pitel



## Tension grows over Turkey's 4mn refugees as economy struggles

As Turkey enjoyed a national holiday last week, a video swept the country's social media. The fictional narrative presented a dystopian vision of Istanbul in 2043, the city dilapidated and dangerous. A young Turkish man, an aspiring doctor relegated to the role of hospital cleaner owing to competition from migrants, complained to his parents that speaking Turkish was forbidden at work because the staff and patients only spoke Arabic.

The film, titled *Silent Invasion* and commissioned and funded by far-right politician Ümit Özdağ, attracted 2mn views on YouTube within a day of its release.

While Europe's attention has been on the millions of refugees forced from their homes by Russian president Vladimir Putin's assault on Ukraine, tension is rising in Turkey over those fleeing a longer-running conflict: the war in Syria, now in its 12th year.

Turkey, a nation of 84mn, hosts the world's largest refugee population — with 3.7mn Syrians and several hundred thousand from Afghanistan. Their presence has long been a source of simmering tension. But with deep problems affecting the Turkish economy and parliamentary and presidential elections due before June 2023, some experts worry the situation is approaching boiling point.

"It could lead to violence between host communities and Syrians," said Omar Kadkoy, a migration policy analyst at Ankara-based think-tank Tepav, who is himself originally from Syria. He describes the current atmosphere for refugees in Turkey as "hostile" and "stressful".

It is no coincidence that the fears over refugees are mounting against the backdrop of a struggling economy. Inflation reached an official rate of 70 per cent in April. The forthcoming elections have added to the charged atmosphere — and refugees have presented an easy target for politicians jostling for votes.

Among them is Özdağ, whose Victory party promises to send back all refugees — by force, if necessary. Although the party is unlikely to win many votes, such anti-migrant rhetoric appears to be influencing the political mainstream. The big parties have all made some form of pledge to return Syrians to their country. But all their proposals are considered by experts to be not only unethical but unrealistic.

The Republican People's party, the largest opposition party, claims all refugees will "voluntarily" return if it comes to power. It promises to secure guarantees from Syria president Bashar al-Assad, to ensure the returnees' safety, an idea many analysts see as a dangerous fantasy. Meanwhile, President Recep Tayyip Erdoğan last week announced a plan to build 100,000 homes in northern Syria that he said would convince 1mn people to go back.

But Nigar Göksel, Turkey project director at conflict prevention organisation International Crisis Group, draws a contrast with the employment opportunities, free health care and schooling available in Turkey, adding: "Who voluntarily leaves a place where they have basic needs met to a place where they would likely not?"

Where does all this leave the EU? Many in Turkey accuse the EU of treating their country as a "depot" for refugees after signing a €6bn deal to halt the flow of migrants to Europe with Erdoğan's government in 2016.

Kadkoy argues the bloc needs to pay more attention to what is happening in the country and speed up the dispersal of a fresh €3bn funding round announced last year.

Though the EU has strengthened its borders, Kadkoy believes some people could still risk the dangerous journey across the Aegean Sea, as hundreds of thousands did in 2015. "The conditions are placing Syrians between a rock and a hard place," he said. "The majority don't want to return to Syria. The feeling of them being rejected in Turkey is growing. So they might try and find a safe destination — and for most Syrians that is going to be Europe."

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## Middle East. Lebanon election

## Hizbollah holds sway with aid and threats

Iran-backed group has increased intimidation as voters run out of options

RAYA JALABI — NABATIYEH

In the run-up to the Muslim feast marking the end of Ramadan, Mona, a teacher in Lebanon for more than 30 years, worked in a parking lot to supplement her meagre income, now worth less than \$150 a month.

After a years-long crisis and the collapse of the Lebanese pound, "the only ones who can afford to buy anything for Eid this year are Hizbollah's people", she said, referring to the supporters of the Iran-backed political and paramilitary group that dominates politics.

In a country once known for its decadence, cabbage heads are now sold in thirds. "Those with [Hizbollah] pull out stacks of crisp L£100,000 notes, while the rest of us are counting petty change to buy our groceries," said Mona.

Areas traditionally dominated by Hizbollah, such as the southern city of Nabatiyeh where Mona lives, are among the hardest hit. Yet most experts expect Hizbollah and its allies to hold on to its parliamentary majority in this month's general election, the first since the collapse of the economy in 2019, anti-corruption protests and the 2020 port blast in Beirut that killed 215 people. The new government will face the onerous task of IMF negotiations over the economic reforms needed to unlock billions of dollars in loans and aid.

Despite discontent, Hizbollah — designated a terrorist group by the US and some European nations — has maintained its hold over a battered electorate through its vast patronage network, sectarian incitement and intimidation of opposition supporters, analysts say.

"The community that usually votes for Hizbollah still does not have a clear alternative, which Hizbollah knows and nurtures," said Lina Khatib, director of the Middle East programme at Chatham House. "They have also shown they have access to US dollars when other people don't."

The group has maintained a steady flow of dollars to its members, and its charitable organisations still provide



Waving the flag: supporters of Hizbollah gather to mark al-Quds Day in Beirut last month

Amr Anwar/AP/ Getty Images

extensive aid to the wider community. With salaries for civil servants worth less than \$100 a month, the party had retained loyalties by doling out up to 10 times that amount, several rank-and-file Hizbollah members said.

Its patronage aside, the straits Lebanon finds itself in could help ensure Hizbollah's continued powerful influence in a coalition government, said Mohamad Hage Ali, a Beirut-based fellow at the Carnegie Middle East Center.

Few believe the election will improve economic prospects. A recent Oxfam survey found only 54 per cent of voters were willing to vote. The apathy is particularly acute for Sunni who are leaderless after former prime minister Saad al-Hariri and his party withdrew from politics, complaining of Iran's influence.

Although Hizbollah could pick up seats if Sunni voters boycott the vote, they still need their Muslim and Christian allies to hold on to theirs to guarantee their majority. In 2018, Hizbollah and its Shia allies, including Amal, won

27 seats in the 128-seat parliament, divided equally between Muslim and Christian parties. With the Free Patriotic Movement, the Maronite Christian party of President Michel Aoun, and Amal, the Shia militia-turned-party, it commands a majority of at least 70.

Through its role as protector and provider, Hizbollah has been able to deflect much of the criticism of the ruling elite. Many direct their ire about corruption towards FPM and Amal. "This is an election to save their allies," said Hage Ali.

Hizbollah does have some cause to be nervous, analysts say. Many Lebanese blame it for the deadlock over reforms, the investigation into the port explosion and for the 13 months it took to form the last government. Others question the maintenance of an arsenal, which Lebanon's government and the group have argued is necessary to counter Israeli occupation of disputed territories along Lebanon's southern border.

"The Hizbollah of today is not the Hizbollah of 2006," said Mona, referring to

its war against Israel. She asked for her last name to be withheld. "We are with the resistance. We want them to keep their weapons to defend us. But, clearly, they're not doing a good enough job steering the country straight ... their allies are all completely corrupt."

This kind of public criticism is rare but on the rise, said Hage Ali. The fraying of a once reliable Shia voting bloc has pushed Hizbollah and Amal to deploy more intimidation tactics against opposition candidates and voters, activists say. Opposition candidates report threats of violence and trouble recruiting representatives at polling stations. Hizbollah and Amal loyalists monitor electoral rolls and harass those who do not vote their way, voters say.

Opposition candidate Wassim Ghandour's South 3 district, which includes Nabatiyeh, is the only one in Lebanon where opposition candidates have united. "Even if we don't win a seat this time, we are setting the foundation for 2026 and beyond," he said.

## Economy damage

## China export growth suffers double blow

EDWARD WHITE — SEOUL

JENNIFER CREERY — HONG KONG

Chinese export growth slowed sharply last month, as the world's second-biggest economy was battered by draconian coronavirus lockdowns and weakening global demand.

Exports increased 3.9 per cent in April from a year earlier — the slowest rate in two years — after growing almost 15 per cent the previous month, official data showed, as supply chains were choked by unpredictable, ambiguous Covid-19 rules and higher inflation sapped consumer spending in Europe and the US.

The latest signs of damage to the Chinese economy marked a blow to President Xi Jinping, who has come under pressure as his zero-Covid policy has drawn domestic and international criticism. The hit to the country's manufacturers has also dimmed hopes Beijing will be able to achieve its goal of 5.5 per cent annual growth, its lowest target in three decades.

Premier Li Keqiang has warned of the "grave" situation facing employment and vowed to intensify efforts to stabilise job market disruptions, reflecting

growing angst in Beijing over the economic outlook.

Yet the data were published just days after a top political meeting, chaired by Xi, reaffirmed his zero-Covid approach.

The commitment underscored the importance of China's relentless health and social controls to stamp out the virus, as Beijing prioritises avoiding the

Li Keqiang: the premier has voiced a warning about the 'grave' situation facing employment



potential deaths of tens of millions of unvaccinated Chinese over the immediate economic damage. Authorities in Beijing and elsewhere have increased mass testing and intensified localised lockdowns, including in Shanghai.

Julian Evans-Pritchard, senior economist at consultancy Capital Economics, said blame for China's slowing exports rested only "partly" on labour shortages and bottlenecks in the logistics sector caused by the pandemic controls.

"The drop in exports seems to mostly

reflect softer demand. The sharpest falls were in shipments to the EU and US, where high inflation is weighing on real household incomes," he said.

The export downturn signalled that global demand would slow over the long term, particularly for electronics, an end to a cycle that had helped supercharge China's recovery from its initial lockdowns in early 2020 at the start of the pandemic.

"The declines were also especially pronounced in electronics exports, which suggest a further unwinding of pandemic-linked demand for Chinese goods ... [People with] hopes that exports will rebound once the virus situation improves are likely to be disappointed," Evans-Pritchard said.

The negative sentiment seeped through Asian markets yesterday with China's benchmark CSI 300 index declining as much as 1.5 per cent while the renminbi fell 0.7 per cent to hit an 18-month low against the US dollar.

Western multinationals, including Apple, Adidas and Estée Lauder, have warned that China's economic slowdown and Covid policies would hit sales. Additional reporting by Maiqi Ding, Beijing

## Philippines

## Marcos scion on track to claim presidency

JOHN REED — MANILA

Early results showed Ferdinand "Bong-bong" Marcos Jr, son of the late dictator, was on track to win yesterday's Philippine presidential election by a large margin, after a campaign run in tandem with Sara Duterte, the daughter of President Rodrigo Duterte.

Partial and unofficial results representing 77 per cent of nationwide election returns showed Marcos had won more than 25mn votes, putting him on course to head an administration that would unite two political dynasties.

This was more than double the nearly 12mn won by Leni Robredo, Marcos's closest rival, a progressive candidate who promised a break with the country's increasingly authoritarian governance. Sara Duterte was leading her nearest vice-presidential rival, Kiko Pangilinan, by an even larger margin.

But yesterday's election was marred by malfunctions in vote counting machines that left many Filipinos queuing for hours or unable to cast their ballots. Participate, a coalition of non-governmental organisations and academic institutions, said the voting

glitches had "led to many Filipinos being unable to cast their vote and possibly being disenfranchised".

The group added: "As of 7pm ... queues outside voting centres are still long in many parts of the country. Many of these voters have been waiting in line for five to 10 hours to cast their vote."

Late yesterday, Marcos issued a

"Many of these voters have been waiting in line for five to 10 hours to cast their vote"

"statement of gratitude" video to supporters but stopped short of declaring victory, saying the count was not over.

If Marcos, 64, is confirmed as winner, it would mark the political rehabilitation of a family that ran one of Asia's most notorious dictatorships. It would also lift the fortunes of Sara Duterte, 43, who outpolled all competitors, including Marcos, for the presidency before deciding to run alongside him.

Robredo, 57, narrowly defeated Marcos for the vice-presidency in the

election that brought Rodrigo Duterte to power in 2016 and was a vocal critic during the latter's term. Her campaign won enthusiastic grassroots support on a platform of restoring trust in government and lifting the economy.

"We are not merely replacing the top position; this is an informal referendum on Duterte's politics and policies," said Aries Arugay, a professor of political science at the University of the Philippines Diliman. "It's clear that one campaign seeks to continue what Duterte started and one really wants to have a paradigm shift in how politics is conducted."

Analysts said Marcos's popularity had been helped by a careful campaign to reframe his father's dictatorship as a golden age of prosperity, even though billions of dollars were looted from state funds and the Philippines suspended debt payments during his rule.

The Marcos family fled to Hawaii in 1986 after facing the "People Power" mass protests and Ferdinand died there in 1989. But Imelda Marcos, his widow, Marcos Jr and his sister, Imee Marcos, returned to the Philippines and have since rebuilt their political base.

Additional reporting by Guill Ramos



# Companies & Markets

## Shares in China carmaker BYD fall after probe into pollution

- Residents report respiratory issues
- Buffett-backed group's stock dips 4%

GLORIA LI AND PRIMROSE RIORDAN  
HONG KONG

Shares of China's second-biggest carmaker BYD have fallen after authorities launched an investigation into claims that one of the company's factories was responsible for harmful pollutants that were causing respiratory problems in children near the plant.

Investors had poured into BYD, backed by Warren Buffett's Berkshire Hathaway, after blockbuster first-quarter results. But after the announcement of the pollution probe over the weekend, its Shenzhen-listed shares closed down 3.86 per cent yesterday.

On Saturday evening about 100 residents protested outside BYD's site in Changsha, a city known for its car industry.

Locals, including children, had suffered nosebleeds, dizziness, nausea and persistent coughs

try in central China's Hunan province, and accused the company of releasing harmful emissions. City authorities announced an investigation late on Sunday, according to a post on the Communist party committee's Weibo account.

The residents were from a housing compound within 1km of the factory in Changsha's Yuhua district. Videoclips circulating online showed parents holding pictures of children suffering nosebleeds alongside banners that read: "[BYD] spreads toxins day and night."

BYD, which also produced face masks during the pandemic, denied on social media that its factory was causing the nosebleeds but declined to provide further comment, citing the probe.

While other car companies posted lower than expected revenues owing to pandemic lockdowns in China, BYD

reported a 241 per cent rise in net profit year on year in the first quarter of 2022 to Rmb808.4mn (\$123mn).

Analysts partly attributed the strong performance to its integrated model, with the company manufacturing both cars and batteries. Some BYD vehicles use significantly cheaper lithium iron phosphate batteries, which do not require nickel or cobalt, raw materials that have become more expensive after global supply-chain disruptions.

Western Capital Group, wholly owned by Berkshire Hathaway Energy Company, held a 7.7 per cent stake in BYD as of late April. Berkshire Hathaway Energy Company did not immediately respond to a request for comment.

The factory in Yuhua is BYD's only production facility for its self-developed "DM-i" hybrid electric and gasoline vehicle systems, launched in 2020.

Residents in the community said that while pollution had been an issue for some time, within the past months there had been a pungent smell coming from the factory that was so strong that they had to close their windows at night.

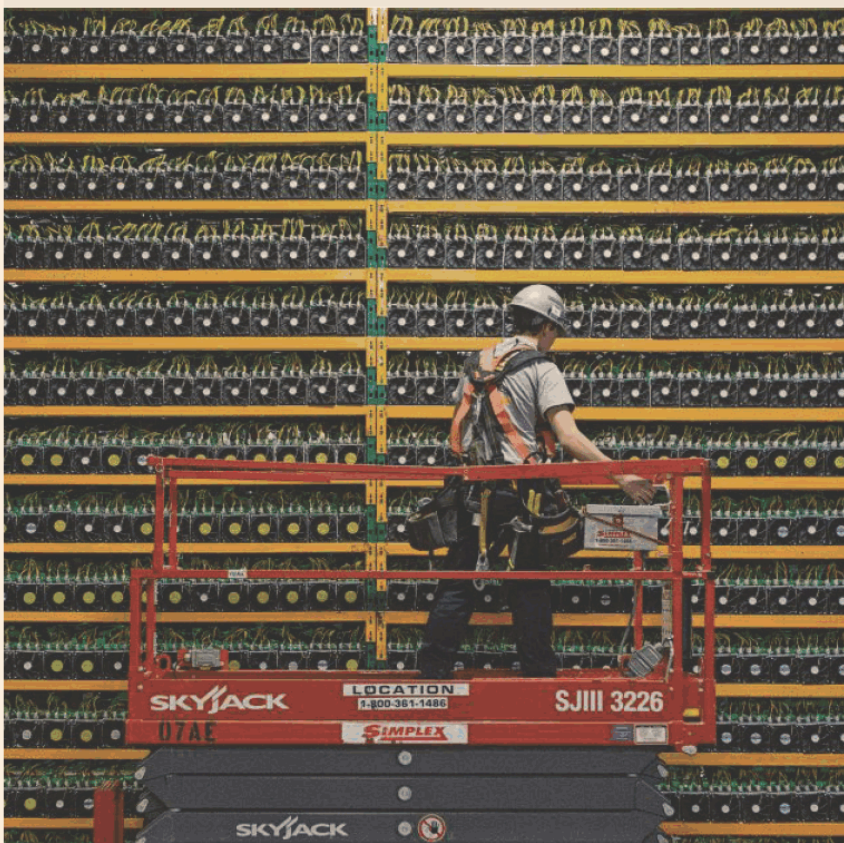
Locals, including children at a nearby primary school, had suffered nosebleeds, dizziness, nausea and persistent coughs, according to the Chinese magazine China Philanthropist.

A Yuhua resident, who declined to reveal her name, told the Financial Times that residents had become so concerned that they had purchased air-purifying equipment. "The indoor chemical emission levels were above national standards," she said.

The social media videos showed a group of police officers surrounding the factory's gate after protesters gathered.

Guo Sijun, deputy secretary-general of Yuhua district's Communist party committee, told the crowd. "We'll hold a late-night meeting today, with district party officials attending."

### Interest rate worries Crypto market value tumbles \$1.6tn since hitting November high



A technician inspects bitcoin 'mining' computer panels at Bitfarms in Saint Hyacinthe, Quebec — Lars Hagberg/AFIP

SCOTT CHIPOLINA — LONDON

Cryptocurrencies have shed \$1.6tn in market value since hitting an all-time high seven months ago as interest rate rises send investors fleeing from the riskiest corners of global financial markets.

The market value of the top 500 digital assets has tumbled 50 per cent from the record peak reached in November 2021 to \$1.6tn, CryptoCompare data collated by the Financial Times show. Bitcoin, the world's biggest digital token, has also lost half its value over the period.

The crypto fall comes as investors dash out of speculative financial assets after rate rises by global central banks sparked ructions across markets. Other risky assets such as shares in loss-making companies and junk bonds have also come under pressure, but crypto markets have sustained a particularly intense blow.

"This is a risk-off across all asset classes including crypto," said Daniel Ives, strategist at Wedbush Securities, who added that there was "nowhere to hide."

The crypto market flourished as central banks pushed interest rates to record lows at the height of the coronavirus crisis, sending traders hunting for assets that provided strong returns. However, a big sell-off in global government bond markets this year has pushed yields higher, amping up the potential returns investors can earn from holding high-grade debt.

Bitcoin is trading at its lowest level since July 2021, but losses are even deeper across the broader crypto market. An FT Wilshire gauge tracking the top five coins excluding bitcoin has fallen almost 70 per cent from its recent high.

Listed shares in crypto-exposed companies have fallen as well. MicroStrategy, which is led by crypto advo-

cate Michael Saylor, has dropped 55 per cent so far this year. Meanwhile, Coinbase has dropped 65 per cent in 2022, falling below \$100 yesterday for the first time since the exchange went public in New York last April.

Bitcoin "mining" firms such as Bitfarms and Marathon Digital Holdings, which use powerful computers to solve puzzles for which they are compensated in digital tokens, have also fallen sharply.

The pullback also highlights how the performance of bitcoin and other cryptocurrencies is tightly linked with the US stock market. The correlation between bitcoin and the Nasdaq Composite, a gauge weighted towards America's big tech companies, has reached record highs, according to data provider Kaiko.

"Some investors are playing crypto like a hedge against inflation, but it's trading like the Nasdaq's Siamese twin," said Ives.

## Philip Morris aims to strike \$16bn deal with Match

ARASH MASSOUDI AND  
PATRICIA NILSSON — LONDON  
JAMES FONTANELLA-KHAN — NEW YORK

Philip Morris International is nearing a deal to acquire European rival Swedish Match for about \$16bn including debt, as the tobacco group bets on cigarette alternatives.

A deal could be announced in the next few days and would mark PMI's biggest consolidation move since abortive merger talks with Altria in 2019, according to people close to the discussions.

Swedish Match and PMI both put out statements confirming the takeover talks yesterday, saying there could be no certainty that an offer would be made.

The Stockholm-based tobacco group is a leader in so-called snus, or oral nicotine pouches, that originated in Sweden but have in recent years grown increasingly popular outside the Scandinavian countries.

Swedish Match said sales of the product grew by more than 50 per cent last year in both the US and in Scandinavia.

Analysts at Bernstein said that there was a "high probability" the deal would close, citing a history of close collaboration between the two companies including a joint venture for snus outside of Scandinavia.

Best known outside the US for selling Marlboro, PMI has emerged as the most aggressive company in an industry that is scrambling to gain market share in so-called new-generation products, including vapes and heated-tobacco devices, which are pitched as being less harmful than combustible cigarettes.

Chief executive Jacek Olczak, who took over the reins of PMI last May, has committed the company to a diversification strategy that is more radical than most of its peers.

Olczak's promise to "unsmoke the world" has been met with scepticism, especially when PMI last year struck a £1bn deal to buy Vectura, a UK-based developer of asthma inhalers. Since 2008, PMI has invested roughly \$8bn in supporting its strategy for smoke-free products.

New York-listed shares in PMI have outperformed the broader S&P 500 and is one of a rare batch of large-cap stocks that are up on the year.

Shares in Swedish Match are also up for the year.

The company has a market value of \$Kr116bn, which equates to roughly \$11.6bn. It has net debt of \$1.3bn.

## Creditors must be nudged to show 'good faith' in debt restructures

INSIDE BUSINESS

FINANCE

Sujeet Indap



Hedge funds, private equity groups and their lawyers are not known for their spirit of generosity. Could the judiciary bind goodwill, earnest or otherwise, on to typically cold-blooded Wall Street titans?

In recent years, players in the leveraged buyout and distressed debt markets have fought each other over the restructuring of portfolio companies. The usual issue is one group of stakeholders trying to grab collateral or get priority repayment in a troubled business that their rivals believe belongs to them.

The disputes end up in court and often require a judge to rule on an esoteric part of a leveraged loan agreement or high-yield bond indenture. However, in an era where such contracts are free of restrictive covenants and have given borrowers substantial flexibility, private equity-owned companies have designed intricate, value-snatching transactions that, unsurprisingly, have mostly gone unpunished.

Judges are charged with making rulings predicated on what strictly resides within "the four corners of the document". And one prevailing view is that if the victims of an asset transfer or refinancing do not like how it went down for them, they should have bargained upfront for a tighter document.

Still, market participants and aca-

demics are worried that contentious distressed debt markets are reaching a breaking point where the constant flurry of deal litigation may be commercially, if not socially, destructive.

In a notable March decision, a New York federal court refused to dismiss a lawsuit against the mattress maker Serta Simmons Bedding brought by LCM, a credit investing company that owned \$7mn in Serta loans.

Serta, in 2020, had raised \$200mn in rescue financing.

The machinations behind that financing led a minority group of lenders including LCM to believe that their loan contract terms about the addition of more senior debt had been violated. The judge has allowed the LCM case to go forward first, because the disagreement over what the contract language allowed was compelling enough for further fact-finding.

But more intriguingly, Judge Katherine Polk Failla latched on to another allegation from LCM, that Serta had restructured its debt in a way that violated the so-called "implied covenant of good faith and fair dealing". That is, the reorg was so antithetical to the spirit of the original agreement — the investor had bargained to be in the highest ranked category of debt — that even if there was not a strict contractual failing, the debt restructuring could still be found legally improper.

"Indeed, one could reasonably conclude from Plaintiffs' allegations that Defendant systematically combed through the Agreement tweaking every provision that seemingly prevented it from issuing a senior tranche of debt, thereby transforming a previously

impermissible transaction into a permissible one," wrote Failla.

The good faith doctrine has been around for at least a century. Judges, however, have been reluctant to utilise it given that it requires them to make a judgment on a defendant's state of mind. Rather, it is easier and perhaps more legitimate to examine the words written on the pages of a contract.

One lawyer said that plaintiffs just throw in a bad faith claim in their lawsuits when they have exhausted substantive arguments. But the creativity, if not malevolence, that now pervades has left the judicial branch struggling to keep up with the latest diabolical structures Wall Street cooks up. Nudging the actors to restrain their worst instincts may now be the remaining option.

The Serta financing transaction has become known as an "uptier exchange" in which a slight majority of creditors offers a borrower fresh financing while only the debt of these creditors is simultaneously exchanged for a higher priority debt. Companies pit one group of creditors against another to get the best possible terms on new cash. The creditors themselves are sophisticated and well-represented — all the brand-name asset managers and law firms are players in this market. *Caveat emptor* should be the prevailing philosophy.

Still, the idea that one group of loan or bondholders could surreptitiously modify legal documents to pick the pockets of their brethren — a practice colloquially labelled "creditor-on-creditor violence" — has shaken Wall Street combatants. Judges with a broader sense of justice may be offended enough now to stray beyond what has been a highly technical task of parsing contract language, something New York law allows.

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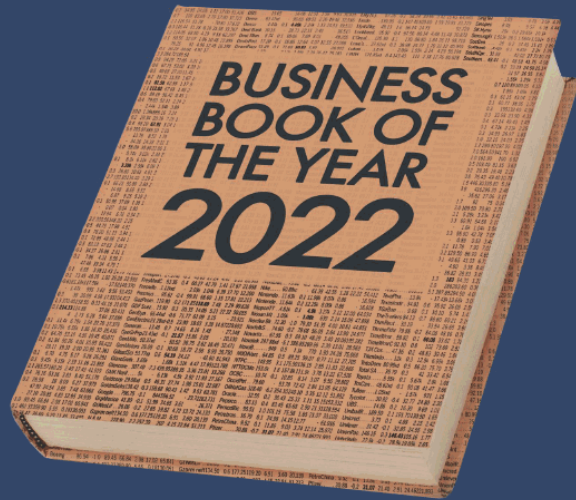
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**#BBYA22**

## COMPANIES &amp; MARKETS

## Aerospace &amp; defence

## BAE and Rolls-Royce win £2bn UK deals

Key submarine contracts awarded amid £31bn plan to renew nuclear deterrent

SYLVIA PFEIFER

BAE Systems and Rolls-Royce have won defence contracts worth more than £2bn as the UK moves ahead with the £31bn programme to renew its nuclear deterrent amid heightened security tensions caused by the war in Ukraine.

Dreadnought, as the nuclear deterrent renewal programme is known, is the biggest and most complex defence

project the UK has undertaken and has been described as the “engineering equivalent of building a space shuttle”.

The new funding will enable work on the first of four new submarines, HMS Dreadnought, to progress to sea trials before its entry into service sometime in the early 2030s. It is part of a planned investment of nearly £10bn for the delivery phase of the programme.

The government earmarked £31bn, plus a £10bn contingency, for the successor programme to the current Vanguard class of submarines in 2015 to maintain a continuous at-sea deterrent.

Admiral Sir Ben Key, first sea lord,

said the system would provide the “ultimate guarantee of security” for Britain over the next 50 years.

The programme brings together Britain's leading defence contractors. BAE Systems is building the submarines at Barrow-in-Furness in Cumbria alongside industrial partner Rolls-Royce, which is building a new reactor. Rolls-Royce has been the UK's sole provider of reactors to the Royal Navy since it first introduced nuclear-powered submarines almost 60 years ago.

The new submarines will be 153.6 metres in length, equivalent to three Olympic swimming pools, and will

be manned by 130 crew members. The programme is seen as a key part of the government's levelling-up agenda.

It supported about 13,500 jobs in the north-west of England and a further 16,300 over the rest of the UK last year. In total, it is estimated to support about 30,000 jobs across the UK.

Jeremy Quin, defence procurement minister, said: “The Dreadnought class will be crucial to maintaining and safeguarding our national security, with the nuclear deterrent protecting every UK citizen from the most extreme threats, every minute of every day.

“Designed in the UK, built in the UK

and supporting tens of thousands of jobs in the UK, the Dreadnought programme is a leading example of our commitment to defence manufacturing and will continue to boost British industry for decades.”

The Ministry of Defence has insisted that the plan stays within budget. As of last March, £10.4bn had been spent on the concept, assessment and earlier delivery phases, of which £1.9bn was spent in the financial year 2020-21.

Separately, Raytheon, the US defence contractor, has been awarded a £160mn contract to train the Dreadnought crew at HM Naval Base Clyde.

## Automobiles

## Renault boss says emissions rules threaten up to 70,000 French jobs

ROBERT WRIGHT — LONDON

The chief executive of France's Renault has warned that new European emissions regulations could cost up to 70,000 jobs in France, despite delivering little benefit in tackling climate change.

Luca de Meo made the forecast in an interview with the Financial Times' Future of the Car 2022 conference yesterday as he justified Renault's decision to call for delays in implementing fresh rules from Brussels. “Talking about the French environment and ecosystem, I think that that particular transition will probably cost 50,000 to 70,000 jobs,” he said.

De Meo fears job losses could result because the rules will potentially make cars more expensive, which could hit demand and involve extra costs in investment. He added: “My position is that actually that kind of set of rules will not be a huge advantage in terms of impact but it will add a lot of cost to the car unnecessarily.”

The new rules, called Euro 7 regulations, are planned to come into force in 2025 and will impose stricter limits on carbon dioxide and nitrogen oxide emissions from petrol and diesel cars, vans, trucks and buses.

De Meo said money invested in achieving Euro 7 standards, which are

“We're asking for a little bit of time to manage this thing without creating collateral damage”

still to be finalised and will replace Euro 6 standards, could have been invested in developing other clean technologies.

He added that a delay to the introduction of the new rules would reduce the harm caused in terms of potential job losses. “We're asking for a little bit of time to manage this thing without creating collateral damage.”

De Meo was sceptical about a number of aspects of the transition to lower-carbon vehicles.

For many drivers, even a large battery would cover only 85 per cent of vehicle use, he said. As a result, motorists would be reluctant to buy the car because it would not cover long annual trips of 600km or 700km.

If total extraction of raw materials through to a product's manufacture, distribution and eventual disposal is included – the so-called “cradle to grave” carbon cost for vehicles – then in some cases cars with petrol engines produced fewer carbon emissions over their lifetimes, he said.

“The choice of going all-electric for everyone and everywhere is not that obvious.”

If the rules made new vehicles more expensive, it might simply prompt customers to keep old cars going, he added.

“We want to ensure that people can still afford to buy affordable new vehicles. If we don't slow the regulations, people will continue to buy used cars and keep old cars in circulation.”



Luca de Meo: Renault boss is seeking a delay to Euro 7 emissions rules

## Aerospace &amp; defence. Military spending

## US weapons makers face battle to meet demand

## Supply chain woes and labour

shortages threaten efforts to

satisfy growing calls for arms

STEFF CHÁVEZ — CHICAGO

Northrop Grumman chief executive Kathy Warden delivered good news and bad news: the aerospace group expects more demand for its weapons systems, but supply chain issues could hinder efforts to expand production.

“Right now, it's a question of how do we scale production to backfill stockpiles?” Warden said at the Economic Club of Washington, DC last week. She has also acknowledged labour shortages.

The largest US aerospace defence contractors are due for a windfall as western governments recalibrate their security strategies and increase defence spending following the Russian invasion of Ukraine.

The chief executives of Lockheed Martin, Raytheon Technologies, Boeing, Northrop Grumman and General Dynamics – prime contractors for the US Department of Defense – acknowledged in April earnings calls that they will profit from increased defence spending. Stock prices for Lockheed, Northrop Grumman and General Dynamics are up 12 to 15 per cent since the start of the war.

Contractors are now expected to ramp up production to meet demand from both the US and European governments, which have renewed commitments to defence spending due to the war.

But the companies have supply chain issues, labour constraints and inflationary pressures that could hold back efforts to scale up production.

Greg Hayes, Raytheon's chief executive, told analysts that finding new, non-Russian sources of titanium has proved difficult, and that the Stinger will need an electronic redesign since “some of the components are no longer commercially available”.

Stingers and Javelins, both shoulder-fired missiles, have become the emblematic weapons of the Ukraine conflict as the country's soldiers employ them to beat back Russian forces. US president Joe Biden travelled to a Lockheed plant in Alabama on Tuesday to tout the Javelin. The US has committed more than 5,500 Javelins to Ukraine.

An estimated quarter of the US's Stinger stockpile has gone to Ukraine, according to Mark Cancian, a former Pentagon official now at the Center for Strategic and International Studies, a think-tank.

But the Stinger is produced at negligible levels – there is just one active international customer and the US has not



Heavy hitter: a Ukrainian soldier wields a Javelin missile system in Kyiv region. Russia's invasion is leading western states to spend more on arms  
*Gleb Garanich/Reuters*

bought one for 18 years. Hayes said large orders were not expected until 2023 or 2024 as “we have a very limited stock of material for Stinger production”.

A similar timeline is expected for Javelin orders, added Hayes. It could take two years to get Javelin production up to its maximum of 6,000 a year, said Cancian. Raytheon and Lockheed produced 866 Javelins for \$207.2mn for the US in 2021; the Pentagon wants 586 for \$189.5mn in 2023.

Long-range systems will take over from medium-range Javelins in the Ukraine war as it shifts to a “more conventional conflict in the east” of the country, said Greg Sanders, deputy director of CSIS's Defense-Industrial Initiatives Group, meaning those weapons could top procurement lists.

“Globally, there's an ongoing paradigm shift regarding national security, and several allies have pledged to increase defence spending as a result,” Warden told analysts during Northrop Grumman's first-quarter earnings call. This “will enable us to accelerate our revenue growth rate in 2023”, she added. The contractor expects 2022 sales to range from \$36.2bn to \$36.6bn, compared with \$35.7bn in 2021.

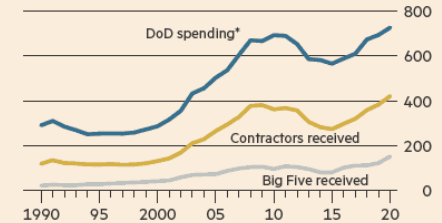
German chancellor Olaf Scholz upended his country's decades-long defence policy by announcing a €100bn military fund and a commitment to take spending to 2 per cent of gross domestic product. Meanwhile, there is growing interest in Sweden and Finland for the countries to join Nato.

“The depressing reality is that the last 30 years of [relative peacetime] might just be an aberration,” said Richard Aboulafia, an aerospace

“With US companies embedded in [clients'] military forces, that just gives them a little better feeling”

## DoD spending on US defence contractors

Defence contracts were 58% of DoD spending in 2020, with 36% going to the Big Five (\$bn per fiscal year)



\* Refers to Total Obligation Authority  
Source: Defence-Industrial Initiatives Group at the Centre for Strategic and International Studies

## Industrials

## Jindal's JSW conglomerate to make \$7bn offer for Holcim cement businesses in India

CHLOE CORNISH — MUMBAI

Indian industrialist Sajjan Jindal's steel-to-energy conglomerate JSW Group will make a \$7bn bid for Holcim's India subsidiaries as the Swiss cement company seeks to divest from international assets.

Jindal said in an interview with the Financial Times that JSW would offer \$4.5bn in its own equity and \$2.5bn from undisclosed private equity partners for Holcim's Indian assets Ambuja Cement and ACC.

The JSW chair said the acquisition of 63 per cent of Ambuja Cements, the India subsidiary of the European cement maker, would be a “game-changer”.

If the deal is successful, it will grow JSW's share of the Indian cement market from about 3 per cent to 16 per cent,

said analysts. “This M&A opportunity is a one in a decade opportunity,” said Sumangal Nevatia, senior vice-president for metals, mining and cement at Kotak Securities.

Jindal is reportedly up against other powerful Indian conglomerates including the Birla and Adani families for the cement company, which controls 15 per cent of the Indian market, Nevatia said, with annual production of 26mn tonnes in 2021.

Ambuja's shares have risen 15 per cent this month to Rs370.43 (\$4.83). Holcim declined to comment.

JSW's attempt to expand its cement business comes as the steel company, India's biggest by market cap with revenues last year of \$9.4bn (Rs707.3bn), is working to acquire coal mines abroad to offset supply disruption and high commodity costs.

Surging post-pandemic demand and the Ukraine war have pushed prices for the steelmaking-related commodity to record highs, with Australian coking coal hitting \$590 per metric tonne in March, according to data provider Coal-Mint.

“The conflict [in Ukraine] is affecting the commodity prices globally and that's giving a big concern,” Jindal said. “A lot of people are deferring their projects because they're all feeling the cost has gone up nearly 40, 50 per cent.”

Jindal said he was lobbying Indian premier Narendra Modi's government to develop more coking coal deposits, which were nationalised until 2020.

He said he talked to Modi about the issue, saying: “We have to import this coking coal from Australia and Canada and we are sitting on such a large deposit so why don't we have ‘mission coking coal’ started? And he [Modi] immediately accepted that.”

Jindal added that Modi was “close to”



Sajjan Jindal: described purchase of cement stake as a ‘game-changer’

every business house in India which is growth oriented, which is nationalistic, which is willing to take big bets in this country, build big industries”.

He said that JSW Steel had met with Russian coal traders but were not offered a serious discount. “It's not very attractive to buy from Russia, and then also that would upset our customers in the US and in Europe”, he said.

The tycoon outlined plans to start mining in the Jharia coalfields in the eastern state of Jharkhand.

Jharia is estimated to contain 19.4bn tonnes of coking coal, according to JSW, though the site has been controversial because of poverty and pollution in the communities that live and work there.

Jharia is “a densely populated area, and the government is also finding it very difficult to do resettlement of those people and open up those mines”, Jindal

said. JSW said that “the main operational challenge would be rehabilitation and resettlement of approximately 1mn residents”.

JSW's steel business in India has out-paced rival Tata Steel to become the biggest by market capitalisation at \$22bn, according to the companies' stock market listings.

But Jindal said JSW Steel's two foreign ventures had struggled, partially blaming business rivals for influencing governments against them.

“In any country, for a foreign company to come and do business, it's not very easy,” Jindal said, describing his ventures in the US and Italy as “not successful”.

He added that JSW Steel was selling its Italian business, which it acquired in 2018 for €55mn. He admitted there would be “some loss, but not a big deal”.



COMPANIES & MARKETS

# Energy majors give trading arms a low profile in spite of high returns

BP, Shell and Total cite the importance of the units but will not divulge their profitability

TOM WILSON AND NEIL HUME — LONDON

As Europe's biggest energy companies reported record profits for the first three months, each singled out different parts of their business for praise. But there was one constant: trading.

BP's highest quarterly earnings since 2008 were driven by "exceptional oil and gas trading". TotalEnergies noted the "outperformance" of its oil trading activities and the "very good performance" of its gas and electricity dealers. At Shell, "higher trading and optimisation margins for gas and power, due to exceptional market environment", resulted in the highest quarterly profit on record.

But beyond these qualitative statements none gave any further breakdown of the financial performance of their various trading units or their contribution to overall group profits.

The groups say the traders are integrated into different parts of the business, making it difficult to strip out their performance. BP's oil trading profits, for example, are attributed to the customers and products division, where the unit that refines and trades oil reported earnings before interest, taxes, depreciation and amortisation of \$2.03bn.

The trading teams, however, are not only placing production with customers. They also buy and sell third-party volumes of oil, gas and other commodities for profit, making them significant revenue generators in their own right.

"BP, Shell and Total have an edge and it is unique to these three companies," said Oswald Clint at Bernstein, adding that the US oil majors and other international oil companies had struggled to replicate that kind of trading capability.

The last time BP published a breakdown of trading revenue in its annual results was in 2005, when profits from oil, gas and power dealing hit \$2.97bn.

By comparing the delta between the revenues BP would have generated from selling its own production with the reported earnings for its different divisions, Clint calculates BP could have made up to \$1.2bn from gas trading and \$400mn from oil trading in the quarter.

Such returns can make traders among an oil company's best-paid staff. BP's lead oil trader for West Africa was paid a \$3.75mn bonus after his team of four traders made a profit of \$72mn in 2016, according to court filings from a current employment tribunal.

Shell, the world's largest trader of liquefied natural gas, produced 8mn tonnes of the fuel in the first three months of this year but sold 18.3mn tonnes. Prices for LNG cargoes have soared as European efforts to reduce dependence on piped gas from Russia have increased competition.

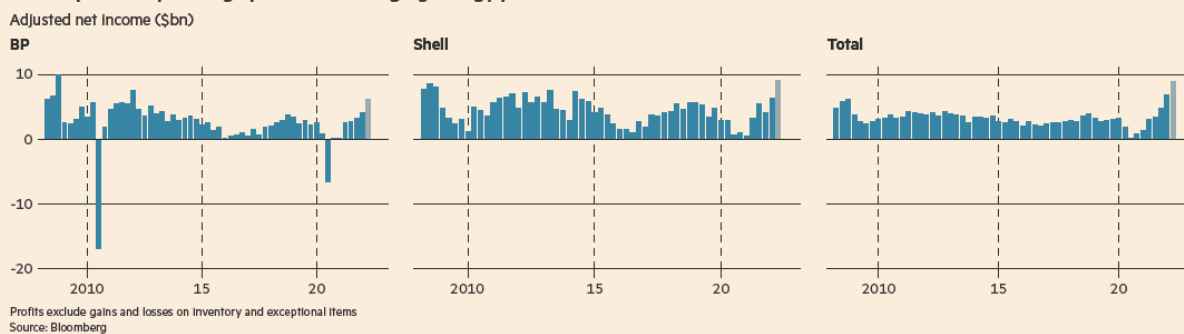
Sinead Gorman, chief financial officer, was reluctant to disclose exactly how much its LNG traders had made. "Our trading results were quite strong in liquefied natural gas, as one would expect with the market," she said after its earnings were published last week.

"We've also seen very strong trading results with respect to our refining and products," she said. The \$500mn in earnings generated by renewables and energy solutions was supported by "the strong ability of our trading portfolio being able to bring gas into Europe where it is needed most".

Despite the common perception that commodity traders profit by taking bets on price, the companies generally insist they do not take speculative positions.



Oil companies report huge profits from surging energy prices



Trade secret: BP last published a breakdown of trading revenue in its annual results in 2005. Below, Shell's Sinead Gorman



"It's certainly not luck, because if we rely on luck to run the business that means we can have bad luck as well," Bernard Looney, BP chief executive, told the Financial Times. "The trading business's first job is to make sure that molecules flow around the world and one of the things that's been hugely challenging for the energy system today is the redirection of energy flows."

Upheaval resulting from the war in Ukraine and the growing isolation of Russia, the world's biggest energy exporter, has stoked unprecedented volatility in commodity markets that has highlighted the need for the companies that keep commodities flowing, Looney said. "The role for a company like BP has never been clearer."

It is not just the oil majors that are making bumper profits from trading. Glencore said last month its trading business was set for another strong year as it cashes in on the wild price swings and supply disruptions caused by the invasion of Ukraine.

Based on its performance in the first three months of the year, the FTSE 100 company expects earnings from its marketing unit to be

"comfortably" above the top end of its guidance range of \$2.2bn-\$3.2bn. If achieved, that would make it the third straight year the unit, a big trader of industrial metals and coal as well as oil, has exceeded its forecast profits.

Glencore's performance suggests the big privately owned commodity traders — a group that includes Vitol, Trafigura, Mercuria and Gunvor — are also likely to score big profits this year. Jeremy Weir, Trafigura executive chair, told the FT Commodities Global Summit in March that 2022 had "the potential to be a significant year again".

Some of the privately owned traders provide greater transparency on their trading activities than either Shell or BP. These details come in the reports they publish for holders of their bonds, which are publicly listed. Gunvor's recently published annual update ran to 84 pages.

But trading is not without risk. As the middlemen of the global economy, linking the suppliers of raw materials — often in developing countries — with consumers, their activities have drawn scrutiny from international prosecutors. Vitol and Gunvor have both settled oil trading corruption cases in the past two years, while Trafigura is facing a probe in Brazil and Glencore is under investigation in the UK, US and Brazil.

'One of the things that's been hugely challenging for the energy system today is the redirection of energy flows'

In March, more than two weeks into the war in Ukraine, Ben van Beurden, Shell chief executive, had to apologise after Shell traders acquired a heavily discounted cargo of Russian crude to supply one of its refineries. Like most of its peers, the company has now said it will not trade any more Russian products and will not renew long-term supply contracts once they expire.

Commodity analysts predict continued volatility as changing geopolitics reshape trade flows, and the energy system shifts to include more renewables. In that new world, getting trading right and learning how to communicate that success to investors will be increasingly important, particularly as BP, Shell and Total build out their renewables businesses, said Bernstein's Clint.

"It's unique, it's an edge and it deserves to be better valued," he said. "The big question I have is, can they translate those skills, built up over the last two decades trading molecules, into trading electrons?"

Mining

## First Quantum to invest \$1.25bn in Zambia copper project

NEIL HUME — LONDON  
JOSEPH COTTERILL — CAPE TOWN

First Quantum Minerals has announced the largest foreign investment in Zambia in more than a decade, providing a much-needed boost for the cash-strapped government of President Hakainde Hichilema as he attempts to complete a debt restructuring.

The Toronto-listed company said it would invest \$1.25bn to extend the life of its Kansanshi Copper Mine until 2044 and a further \$100mn to finish development of its Enterprise nickel project.

"There is an improving investment climate in Zambia whereas in other jurisdictions [such as Chile and Peru] it is looking a little a bit harder at the moment," said chief executive Tristan Pascall. "Certainly there is a window for Zambia to shine."

The investment comes as Zambia races to complete a debt restructuring after a multibillion-dollar default by

Hichilema's predecessor, Edgar Lungu. Zambia boasts some of Africa's largest copper deposits but its production of the metal has flatlined over the past decade, partly because of hostility towards foreign miners including First Quantum, which was slapped with a \$7.9bn bill for unpaid tax four years ago.

Hichilema, a businessman who won the presidency in August on his sixth attempt, has promised a very different approach and set an ambitious goal of increasing annual copper output from 800,000 tonnes to more than 5mn in 10 years.

One of his first moves, announced in October's budget, was to make mineral royalties tax-deductible again. The

government has also promised to resolve issues around repayment of value added tax, a flashpoint with First Quantum.

"The 3mn tonnes is not plucked from anywhere, anyhow," President Hichilema told the Financial Times at the annual Mining Indaba event in Cape Town yesterday.

Hichilema's government is also trying to bring back private investment in the country's two other main copper mines that were taken over by Lungu.

Vedanta lost control of Konkola Copper Mines, a big producer, after Lungu's government pushed the mine into provisional liquidation in 2019. The state also took on \$1.5bn of debt to buy the Mopani mine from Glencore last year before Lungu lost the election. Both projects are regarded as underperforming.

Vedanta has promised investments to get the KCM mine back, but the fallout from the liquidation remains mired in international arbitration. "Mopani is easier for us... KCM is a little bit complicated," Hichilema said. "One of our issues of interest is to take out litigation — there is so much litigation burden around mining."

"We're talking about unlocking KCM, and unlocking KCM means talking to all partners at the table," he added, insisting that "there will be a resolution at KCM". New investors would have to respect the "social contract" around mines, Hichilema said.

"The people of Zambia have to be involved in mining. It's not healthy for anyone, even an investor, to be alone in a country doing extraction."

Asked about the debt restructuring, Hichilema confirmed China and France had agreed to co-chair negotiations between official creditors. The expansion project at Kansanshi will allow the mine to keep operating until 2044 at an average annual rate of 250,000 tonnes, while Enterprise will become a top 10 global nickel mine when it hits full capacity.

Pharmaceuticals

## Covid vaccine demand helps BioNTech beat forecasts

HANNAH KUCHLER — LONDON

BioNTech beat earnings and revenue expectations as the Omicron variant coronavirus spurred strong demand for its Covid-19 vaccine developed with Pfizer.

The German biotech company, which launched the first Covid-19 vaccine in partnership with the US pharmaceutical group, reported first-quarter revenue of €6.4bn, more than triple the figure from the same period the year before, and higher than the average analyst estimate of €4.6bn. Diluted earnings per share more than tripled to €14.24, higher than the consensus forecast for €9.71. Net profit was €3.7bn, compared with €1.1bn a year earlier.

Jens Holstein, chief financial officer, said the company was "well-positioned" to achieve its 2022 financial guidance after orders increased from late 2021 as countries used vaccines to tackle the emerging Omicron variant.

However, BioNTech still forecasts that sales will fall year on year, anticipating revenue between €13bn and €17bn, compared with almost €19bn last year.

There is now an oversupply in the coronavirus vaccine market, which has prompted Airfinity, the health analytics company, to slash its global sales forecast for the rest of the year by 20 per cent to \$64.1bn.

BioNTech sells vaccines directly in Germany and Turkey, and has a partnership with Fosun Pharma in Hong Kong, Taiwan and China, and with Pfizer in the rest of the world.

Pfizer and BioNTech have signed orders for about 2.4bn doses in 2022, as of the end of April. They are on track to deliver more than 2bn doses to low- and middle-income countries by the end of the year.

It is not yet clear how large the booster campaigns will be later in 2022. BioNTech is working with Pfizer on a vaccine adapted to better protect against disease caused by the Omicron variant. They started a trial for this tweaked vaccine in January and expect to share data from it in the coming weeks.

BioNTech is investing heavily in its broader mission, which includes creating breakthrough cancer drugs, and plans to spend €1.4bn to €1.5bn on research and development this year. The company said the forecast did not include potential mergers and acquisitions or additional collaborations it may enter into this year.

Ugur Sahin, chief executive, said the company had reported "encouraging data" on its first-in-human trial of a CAR-T therapy, which engineers T-cells to tackle solid tumours.

"Driven by our execution in innovation, we believe we are well positioned to achieve multiple product launches in the coming years, which would facilitate significant long-term growth," he said.

BioNTech also started a share buy-back programme this month, which will repurchase up to \$1.5bn of stock in the next two years.

The group also proposed a dividend of €2 per ordinary share, pending approval at the annual general meeting in June.

Contracts & Tenders

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**EXTENSION**  
Reference to our Press Tender Notice published in national and international newspapers on 20.03.2022 & 26.03.2022 respectively, it is notified that the bids submission/opening date is extended as follows:

SR #	TENDER #	DESCRIPTION	FROM	TO
1	PROC-FC/PROJ/KPD-TAY/COMP-5313/2022	Hiring of EPCC Contractor for Engineering, Procurement, Construction / Installation, Pre-Commissioning, Commissioning, Performance Testing and Reliability Guarantee Testing (RGT) of KPD-TAY Compression Project, District Hyderabad, Sindh Province, Pakistan.	Date: 11.05.2022 Submission: 1100 hrs Opening: 1130 hrs	Date: 25.05.2022 Submission: 1100 hrs Opening: 1130 hrs

2. Bid submission/opening time and all other terms & conditions shall remain unchanged.  
3. Bidders are requested to contact Manager Supply Chain Management (SCM) Foreign at Phone # +92-51-92002-3652 for further queries / information.  
4. This advertisement is also available on PPRA website at www.ppra.org.pk and OGDCL website at www.ogdcl.com.

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In accordance with the obligations under the European Transparency Directive 2004/109/EC Boats Investments (Netherlands) B.V. hereby announces that the annual accounts for the financial year ending 31/12/2021 have been adopted by the General Meeting and are publicly available on www.boatsinvestmentsnetherlands.nl  
Amsterdam, 29 April 2022  
Boats Investments (Netherlands) B.V.  
Board of Directors

## COMPANIES &amp; MARKETS

Asset management. Investment mandates

# Outsourcing swells to \$2.5tn as big clients choose external money managers

Demand for expertise drives growth of industry but worries over conflict of interest linger

ADRIENNE KLASA, BROOKE MASTERS AND HARRIET AGNEW

The industry for outsourcing investment mandates is booming, offering large prizes for asset managers as challenging markets, a deluge of compliance and governance requirements and rising costs push big asset owners to seek their help.

The industry has more than doubled in size since 2016, growing to \$2.46tn in assets under management worldwide.

The pace looks unlikely to let up with a flurry of recent chunky deals.

In March, BlackRock was appointed by insurer AIG to manage up to \$150bn in fixed income and private assets.

Last year, British Airways transferred £21.5bn in its two main pension schemes to the US manager.

In April, UK fund house Schroders announced a new £10bn mandate managing energy provider Centrica's pension schemes.

New research from Chestnut Advisory Group estimates that the industry will grow to more than \$4tn in assets by 2026 as more flexible mandates open the industry to a wider range of clients than the smaller pension schemes who initially sought out external help managing their investments.

While the US has led the way in what are dubbed outsourced chief investment officer (OCIO) deals – accounting for more than two-thirds of assets – growth in Europe has also been notable.

“More than half of our growth over the past three years in Europe has been in the non-pension segments – so insurance, endowments, family offices, foundations,” said Jo Holden, global head of investment research at Mercer, one of the largest OCIO providers globally with \$388bn in assets under delegated management.

“We’ve had a phenomenally busy time in terms of tenders and new mandates coming in,” she added.

Outsourcing agreements vary in the level of control that is delegated and the amount of flexibility has increased significantly over time.

Some clients want the external investment manager to handle everything: asset allocation, selection of individual funds and managers and finally all risk management and back-office functions.

Others want to maintain a veto over key decisions, or only outsource funds earmarked for a particular type of asset, as with the AIG-BlackRock deal, which involves fixed income and private placement assets.

In order to secure the Centrica mandate, as well as a partnership to manage funds on a new platform with insurance marketplace Lloyd’s of London, Schroders “worked with both of those organisations for a long time, establishing that we have a common culture, a common set of beliefs,” said James Barham, executive chair at



Boom time: by the end of last year, BlackRock had outsourced deals with more than 120 institutional clients to oversee more than \$200bn. In March it was appointed by insurer AIG to manage up to \$150bn

Jeerah Moon/Boomborg

Schroders Solutions, which has £234.5bn in assets managed under OCIO deals.

“The trustees are not just passing over a very well recognised and regarded team of individuals but also the assets of three schemes, and all of their employees,” he said. “It’s not a decision which is taken lightly.”

BlackRock had struck outsourcing deals with more than 120 institutional clients to manage more than \$200bn at the end of last year.

The world’s largest asset manager also provides similar “whole portfolio” services to wealth management clients covering another \$230bn in assets.

Last year, this whole portfolio business grew 16 per cent compared with a 7 per cent average for the industry, BlackRock said.

For the full service, BlackRock provides a wider range of hand-holding options, including helping top executives report to their boards of trustees on key issues and respond to questions.

“You’ve got to imagine you are down the hallway from the CEO or the president of the university and what might send them down the hallway,” said Ryan Marshall, BlackRock’s co-head of multi-asset strategies and

solutions. “You have to serve that stakeholder.”

He added: “Every pension fund has to support not only the front office [investment choices] but also technology and back office. People want something that is bespoke to them with the advantages of scale that BlackRock can provide.”

OCIO deals initially took off among relatively small clients – usually pension schemes with \$100mn to \$1bn,

“We’ve had a phenomenally busy time in terms of tenders and new mandates coming in”

if not even less – who were looking to cut costs and benefit from economies of scale and technology investments.

But much larger plans have shown interest in the past couple of years. So have mature pension schemes that are closed to new money and do not wish to hire people in-house to run them.

Interest has also spread from European defined benefit plans, which were early adopters, to the US and more recently Asia.

Endowments, insurers and family

offices are also picking up on the services.

Increased regulatory and compliance scrutiny – and especially the explosion of environment, social and governance investing in the past few years – has also pushed up demand.

“Sustainable investing is a very important driver, especially in the UK and Europe, because of the reporting requirements,” said Greg Calton, global head of multi-asset solutions at Goldman Sachs, which has \$220bn under management in its OCIO business. “Non-profit and endowments are [also] especially focused on this in the US.”

But while their popularity has exploded, there is scant evidence to demonstrate how outsourced investment mandates perform compared with their in-house peers.

OCIO fees are highly bespoke and rarely made public and they come on top of fees paid to the managers of the actual investments.

That means potential conflicts of interest between the investor and the external manager can arise around investment allocation and need to be managed.

“You need to have a governance structure in place to make sure

that investments made in-house are being made for the right reasons,” said Rikhav Shah, director at consultancy EY.

Crucially, critics question the ability to make money from an outsourced CIO mandate unless the fund manager deliberately steers investment to its own funds.

“We looked at it and could not make it work,” said the chief executive of a very large asset manager. “My view is there is a direct conflict of interest. The firm will say ‘I’m going to charge you close to zero for OCIO service but by the way 50 per cent of the money is going to my funds.’”

Seth Bernstein, chief executive of \$779bn asset manager AllianceBernstein, said: “It’s hard to do outsourced CIO well if you’re a proprietary shop because your preference will always be for your own funds, and clients will have issues with that.”

“For the OCIO provider, it’s a concept looking for commercial validation as it is hard to scale and retain quality service and performance,” he added. “For the OCIO user, the returns are not compelling. The reason to do it is risk mitigation rather than return, because you don’t have the time or resources to do it yourself.”

## Asset management

### Danske, Nordea and Jupiter to shut Russia-exposed funds permanently

ADRIENNE KLASA

Fund managers including Danske, Nordea and Jupiter have taken steps to permanently shut down funds heavily exposed to Russia in the latest sign that investors do not expect the country to rejoin global markets for many years.

Most funds with big holdings in Russian securities have been frozen since early March, shortly after Russia invaded neighbouring Ukraine.

The suspensions trapped billions of dollars’ worth of investor capital after Moscow’s markets were shut and offshore asset prices plummeted.

A series of punitive western sanctions and Russian countermeasures – including a ban on foreigners trading on the Moscow Exchange – have made it all but impossible to value and trade positions.

The investment arm of Denmark’s Danske Bank said it had begun liquidating its three Russia and eastern Europe funds from the end of April.

“Given the escalation of the conflict and challenges with the liquidity and settlement of the funds’ investments, we do not consider reopening the funds

to be in the best interests of shareholders, so this is not being contemplated,” Danske said.

The value of the funds’ assets was low and not expected to grow in the near future while the cost of the liquidation will be borne by the company, Danske added.

Nordea Funds also said it would exit all investments connected to Russia and liquidate its Russia fund, with the first payout to unit holders planned for August 31.

“Depending on the market situation and restrictive measures imposed, such



Foreigners are banned from trading on the Moscow Exchange

as sanctions, it will take a long time before all holdings of the fund can be sold,” Nordea warned.

In the UK, fund manager Jupiter said it had applied to regulators to close its Emerging Europe fund and would proceed with liquidation once approved.

Swedish asset manager Carnegie Fonder will only allow sales of units in its Russia funds once trading resumes.

Swedbank said it would “not offer its Rysslandsfond [Russia fund] in the longer term” and would divest of its holdings when the market allowed.

Carnegie Fonder said: “As it is now impossible to see a promising future for Russia, and impossible to make an adequate analysis of the Russian financial market and Russian companies, we have decided to close the fund for new investments.”

Foreign investors – from hedge funds to pension plans – held about \$170bn in Russian assets at the end of 2021.

Asset managers including JPMorgan, BlackRock, Amundi, UBS, BNP Paribas, Abrdn, Schroders and Pictet have all frozen Russia-focused funds since the invasion but have not said whether they would be closed permanently.

## Equities

### Tiger Global suffers \$17bn losses after mauling in tech stock sell-off

LAURENCE FLETCHER

Tiger Global has been hit by losses of around \$17bn during this year’s technology stock sell-off, marking one of the biggest dollar declines for a hedge fund in history.

The run of poor performance means the firm – one of the world’s biggest hedge funds and a major investor in high-growth, speculative companies whose shares have tumbled since their pandemic peaks – has in four months erased around two-thirds of its gains since its launch in 2001, according to calculations by LCH Investments.

“The magnitude of the loss is breathtaking, especially for a fund with ‘hedge’ in its name,” said Andrew Beer, managing member at investment firm Dynamic Beta. “This shows how even the most talented and plugged-in tech investors failed to see the train coming down the tracks.”

The losses were estimated by LCH, a fund of hedge funds run by the Edmond de Rothschild Group, which is an authority on dollar gains and losses made by hedge funds for their clients and which compiles an annual list of the

world’s top money managers. Tiger declined to comment.

Investors who put money into the fund at launch have made more than 20 times their initial investment, said a person familiar with the fund.

Still, the losses eclipse some of the \$4tn hedge fund industry’s biggest drops of recent years.

These include the \$12.1bn lost by

“The magnitude of the loss is breathtaking, especially for a fund with hedge in its name”

Brigewater, the investment giant, in 2020 during the market tumult caused by the coronavirus pandemic, or Melvin Capital’s loss of approximately \$7bn during the GameStop retail trading frenzy at the start of last year.

New York-based Tiger, which recently managed around \$90bn in assets, was founded 21 years ago by Chase Coleman, a so-called “Tiger cub” who worked at legendary investor Julian Robertson’s hedge fund Tiger Management.

Coleman’s fund has in the past made huge gains for investors, helped by punchy bets on tech stocks.

By the start of 2021 he was ranked by LCH as the 14th best-performing hedge fund manager of all time, having made \$10.4bn of gains, or a return of 48 per cent, for investors the previous year and a total of \$26.5bn since launch.

But his fund has been badly knocked during the recent sell-off in speculative assets as the US Federal Reserve’s move to raise interest rates to curb inflation has damped the appeal of high-growth companies whose investment cases are often predicated on the promise of earnings far out into the future.

The fund lost 45.7 per cent in the first four months of this year, the Financial Times reported earlier this month, more than double the 21 per cent decline posted by Wall Street’s tech-heavy Nasdaq Composite share gauge.

Tiger’s dollar losses, which are for its hedge fund rather than its private equity business, do not include the impact of a tech sell-off late last year, which left Tiger down 7 per cent for the whole of 2021.

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COMPANIES & MARKETS

The day in the markets

What you need to know

- Nasdaq tumbles as rate rise concerns collide with growth worries
- Crude oil slides after disappointing report on Chinese exports
- Pullback for Europe equities and risks increase for region's corporate debt

Global stocks were hit with a fresh burst of selling as investors fretted about signs of slowdown in the world's large economies at a time when central banks are reining in crisis stimulus measures.

Wall Street's blue-chip S&P 500 Index slid 2.6 per cent and the tech-focused Nasdaq Composite dropped 3.4 per cent. Across the Atlantic, the pan-regional Stoxx Europe 600 Index fell 2.9 per cent. Yesterday's pullback came as investors grappled with interest rate rises from the US Federal Reserve, intense inflation and signs of strain in the global economy.

The FTSE All World barometer of global equities has fallen more than 16 per cent this year while the Bloomberg aggregate index tracking the world's fixed income markets has lost 12 per cent.

Worries over rising rates have been compounded by indications that growth in big global economies could be slowing.

Chinese export growth fell to its lowest level in two years last month, according to data released yesterday, which followed reports last week pointing to slowdowns in the German and French manufacturing sectors.

Signalling concerns over weaker demand, international oil benchmark Brent crude dropped more than 5 per cent to \$106.57 a barrel.

"It's difficult to say if everything is low enough and bearish enough," said Joost van Leenders, equity strategist at Kempen Capital Management, adding that investors no longer expected the Fed to prioritise stabilising financial markets as it did during the start of the coronavirus pandemic.

Investor concerns over European corporate bond market rise



The Fed last week lifted its main interest rate by 0.5 percentage points, signalling that more large increases were on the horizon. "No one knows with any certainty if that's enough to quell future inflation," said Nicholas Colas, co-founder of DataTrek Research. "Hence all the recent market volatility."

US government bonds initially came under selling pressure yesterday, pushing the yield on the 10-year US Treasury note above 3.20 per cent. However, the debt rallied later in the day with the yield settling back to 3.07 per cent.

A measure of the cost of protecting against defaults on European corporate bonds rose to its highest level since 2020. The ITraxx Europe Index, which tracks a basket of credit default swaps and is considered a gauge of investor sentiment towards risk in European markets, hit 100 basis points, up from 49bp at the start of the year.

Adam Samson, Naomi Rovnick and Joe Rennison

Investors are too downbeat about Wall Street stocks

Edward Yardeni

Markets Insight



In my opinion, investors have turned too pessimistic about the outlook for the US economy and stock market. I don't recall so much equity market bearishness in a very long time.

I think it's mostly because the "Fed put" is kaput. The US Federal Reserve has long been expected to step in to bail out markets whenever things get tricky.

But now it can no longer be counted on to do so. That's because inflation hasn't been as serious a problem as it is today since the 1970s.

The Fed finally acknowledged as much late last year and has increasingly pivoted away from its dovish stance during 2020 and 2021 and started to tighten monetary policy.

It is widely expected to have no choice but to raise the benchmark federal funds rate to higher than 2 per cent to subdue inflation. But the vigilantes in the bond market have already tightened credit conditions significantly.

The two-year US Treasury note yield, which tends to lead the federal funds rate, has soared from just 0.16 per cent a year ago to 2.68 per cent on Friday.

The 10-year US Treasury bond yield soared from a record low of 0.51 per cent on July 31 last year to 3.13 per cent on Friday. The 30-year mortgage rate jumped from 3.29 per cent at the start of this year to 5.45 per cent last week.

As a result, the Nasdaq Composite fell 24.4 per cent into a bear market from its record high on November 19 to Friday and the S&P 500 is down 14 per cent from its record high on January 3.

Over this same period, the ratio of the price to forecast earnings of the S&P 500 has fallen from 21.5 to 17.5. That reflects the drop in the S&P 500 as well as the rise in the expected earnings per share of its

constituents. That's right — while investors are reducing the valuation multiple they are willing to pay for consensus earnings, analysts have been raising those very same earnings projections!

To some extent, the downward re-rating of the forward PE ratio makes sense since it tends to be inversely correlated with inflation and bond yields, both of which are rising. But it also indicates that investors are much more concerned than industry analysts are that tighter conditions will cause a recession.

I am siding with the analysts even though they are not particularly good at anticipating recessions. On the other

exceeding its pre-pandemic trend by \$3tn currently. I expect inflation will peak this summer between 6-7 per cent and fall to 3-4 per cent next year without a recession.

Consumer durable goods inflation has been hot over the past year and is likely to cool over the year ahead as pent-up demand has largely been satiated. Supply chain disruptions should also abate.

Most of the drop in the S&P 500's valuation multiple so far this year has been attributable to eight mega-cap stocks — Alphabet, Amazon, Apple, Meta, Microsoft, Netflix, Nvidia and Tesla.

Currently, they account for 23 per cent of the market capitalisation of the index. Their collective forward PE ratio soared during the first year of the pandemic to about 35, and stayed around there last year. It is now down to 25.

The S&P 500 energy sector has been a significant outperformer this year. There have also been opportunities to make money in "economic reopening" trades as investors reduced bets on consumer goods and increased positions in consumer services.

Financials, especially insurance-related ones, have also done well. Other winning industries are ones related to food production and retailing. There are lots of good opportunities to buy stocks in the sectors that have underperformed so far this year.

The bottom line is that I am in the correction camp for now. I expect to see the S&P 500 in record high territory again next year. Contributing to that bullish outlook is the strong dollar, which suggests that global investors see the US as a haven in our turbulent world.

Edward Yardeni is president of Yardeni Research

It's mostly because the 'Fed put' is kaput. It has long been expected to step in to bail out markets

hand, investors have been prone to numerous panic attacks since the 2008 financial crisis about imminent recessions that haven't occurred.

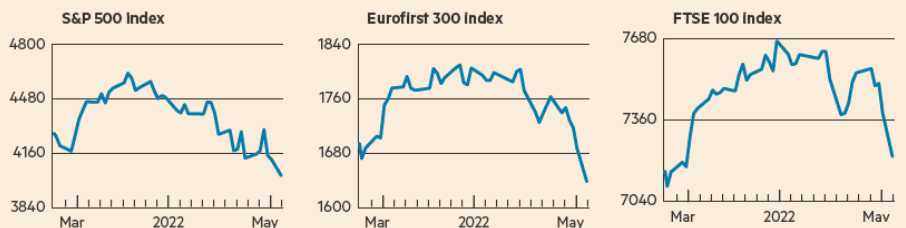
On the positive side for the outlook, US consumers are in good shape. They are upset about inflation but the labour market is tight and many employees are quitting jobs for better pay. And consumers have accumulated lots of savings since the start of the pandemic.

Meanwhile, non-financial corporations have refinanced debts and still have plenty of cash on their balance sheets after raising \$2.3tn in the bond market over the past 24 months to the end of March. Past recessions have usually been caused by credit crunches resulting from Fed tightening. I doubt that's likely now with M2 money supply

Markets update

	US	Eurozone	Japan	UK	China	Brazil
<b>Stocks</b>	S&P 500	Eurofirst 300	Nikkei 225	FTSE100	Shanghai Comp	Bovespa
Level	4028.32	1638.42	26319.34	7216.58	3004.14	104200.35
% change on day	-2.30	-2.88	-2.53	-2.32	0.09	-0.89
<b>Currency</b>	\$ index (DXY)	\$ per €	Yen per \$	\$ per £	Rmb per \$	Real per \$
Level	103.561	1.053	130.510	1.231	6.724	5.140
% change on day	-0.096	-0.473	0.081	-0.324	0.594	1.653
<b>Govt. bonds</b>	10-year Treasury	10-year Bund	10-year JGB	10-year Gilt	10-year bond	10-year bond
Yield	3.079	1.089	0.246	1.955	2.815	12.237
Basis point change on day	-0.070	-4.400	0.540	-4.000	-1.300	11.600
<b>World index, Commods</b>	FTSE All-World	Oil - Brent	Oil - WTI	Gold	Silver	Metals (LMEX)
Level	414.44	107.03	104.19	1882.35	22.49	4594.30
% change on day	-2.39	-5.41	-5.80	-0.53	-1.88	-1.60

Main equity markets



Biggest movers

	US			Eurozone			UK		
	Company	%	Company	%	Company	%			
Ups	Newell Brands	5.58	Alstom	2.51	Sainsbury (J)	2.24			
	Campbell Soup	3.65	Bollere	2.25	Kingfisher	2.11			
	Church & Dwight Co	3.21	Unilever	1.24	Tesco	1.51			
	Jm Smucker (the)	2.78	E.on	0.74	Coca-cola Hbc Ag	1.23			
	Stanley Black & Decker	2.74	Ing	0.61	Unilever	1.08			
Downs	Illumina	-9.52	Repsol	-8.53	Entain	-8.94			
	Marathon Oil	-9.47	Grifols	-6.85	Scottish Mortgage Investment Trust	-6.66			
	Apa	-9.27	Asmi Holding	-6.84	Antofagasta	-6.52			
	Mosaic (the)	-8.70	Salpem	-6.81	Glencore	-5.96			
	Occidental Petroleum	-8.07	Omv	-6.72	Flutter Entertainment	-5.93			

Wall Street

Electric truck and van maker Rivian dived following a report that a leading shareholder was offloading a chunk of its stake.

Ford planned to sell 8mn shares in the Californian group to coincide with the expiration of an insider lock-up period, said CNBC, quoting unnamed sources.

The carmaker is currently Rivian's fourth-largest shareholder with 102mn shares, according to Refinitiv data.

Criticism from a short seller helped to push Twitter lower.

Hindenburg Research released a report suggesting that Elon Musk was overpaying for the social media platform.

Its critique pointed to the speed with which the deal was accepted, which underscored "how Musk's offer was vastly superior to alternatives for Twitter, including remaining a publicly traded company".

Hindenburg concluded "that if Elon Musk's bid for Twitter disappeared tomorrow, Twitter's equity would fall by 50 per cent from current levels. Consequently, we see a significant risk that the deal gets repriced lower."

Energy companies tracked a slide in crude oil prices with Marathon, Devon, Diamondback, Hess, Occidental Petroleum, Baker Hughes and ExxonMobil among those losing ground. Ray Douglas

Europe

Dutch postal group PostNL tumbled almost 13 per cent after missing "consensus estimates on all fronts", said KBC Securities.

First-quarter revenue and normalised operating profit fell short of the broker's forecasts by 4.7 per cent and 19.5 per cent, respectively.

Herna Verhagen, chief executive, said the group was contending with "pressure on parcel volumes and higher than anticipated costs" since the start of the war in Ukraine.

"We now expect 2022 to be more challenging," added Verhagen, prompting PostNL to lower its full-year forecast for normalised operating profit.

Belgium pharmaceutical group Oxurion plummeted on news that a phase 2 study for THR-687, its experimental treatment for a type of diabetic eye disease, had produced "insufficient evidence of efficacy" on its main goals.

As a result, Oxurion would end development of THR-687 and instead concentrate on THR-149, another drug for retinal diseases.

A ratings downgrade weighed on Germany's SMA Solar Technology.

Jefferies lowered its rating for the solar energy group to "underperform" from "hold" on the grounds that "supply constraints and intense competition" could eat into its market. Ray Douglas

London

A takeover announcement pushed Ideagen up 46 per cent.

The company, which provides management software, agreed to be bought by investment group Hg Pooled Management for £3.50 per share, a 44 per cent premium on Friday's closing price.

Ideagen's share price rose above Hg's bid in anticipation that another offer might be made. Private equity firm Astorg has also expressed interest in the group.

Russ Mould, investment director at AJ Bell, said it was not surprising Ideagen had attracted suitors, having been caught up in a broader tech sell-off that began last year. Before yesterday's rally, the stock had been down about 15 per cent since November.

Property portal Rightmove fell sharply on news that Peter Brooks-Johnson, its chief executive, would be stepping down. The move comes as interest rates have started to rise in the UK, which could damp down the housing market.

Since May 2017, when Brooks-Johnson was appointed, Rightmove has risen about 25 per cent. He will continue as CEO through to the announcement of full-year results in February next year.

NCC Group, which provides escrow and assurance services, rallied after announcing that its second-half revenue would be "substantially higher than... the prior-year period". Ray Douglas

Out Now: The fDi Report 2022  
Global greenfield investment trends

The fDi Report 2022 is the annual assessment of crossborder investment, based on data from fDi Markets — a service from the Financial Times.

Key foreign direct investment trends spotted include:

- For the second year in a row, renewable energy is the top sector by capital investment, accounting for \$85.2bn
- The US is the top destination country, attracting \$81.7bn of FDI and accounting for 22% of global FDI projects
- The semiconductor sector sees the largest growth in capital investment, rising to \$59.1bn
- India remains the top destination for FDI in Asia-Pacific by project numbers, ahead of China
- Germany, the UK and Spain account for 42% of FDI projects into Europe

Download your free copy of the report:  
fdiinsights.com/fdi/report22

MARKET DATA

WORLD MARKETS AT A GLANCE

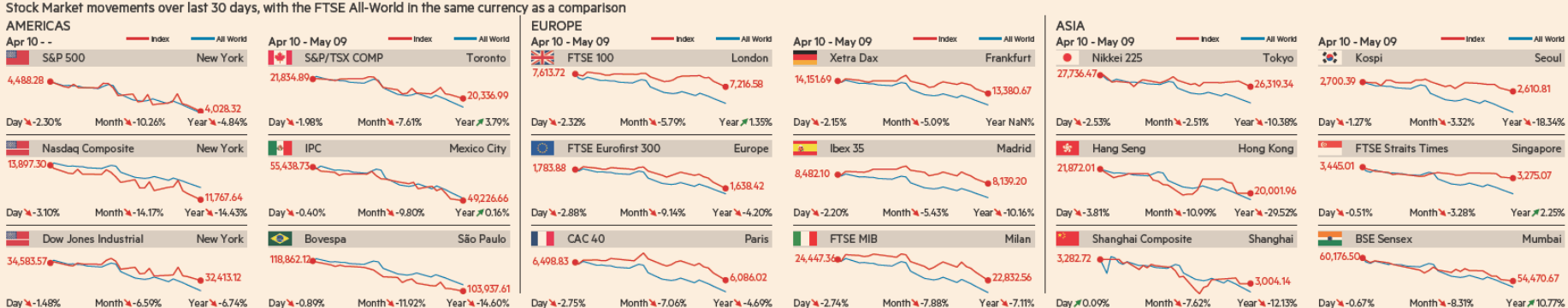


Table with columns: Country, Index, Latest, Previous. Lists market indices for various countries including Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, China, Colombia, Croatia, Denmark, France, Germany, Greece, Hong Kong, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Korea, Kuwait, Latvia, Lithuania, Luxembourg, Malaysia, Mexico, Monaco, Netherlands, New Zealand, Nigeria, Norway, Pakistan, Philippines, Poland, Portugal, Romania, Russia, Saudi Arabia, Singapore, Slovakia, Slovenia, South Africa, South Korea, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Thailand, Turkey, UAE, UK, USA, Vietnam, and others.

STOCK MARKET: BIGGEST MOVERS

Table showing stock market biggest movers. Columns: AMERICA, LONDON, EURO MARKETS, TOKYO. Lists stock symbols, prices, and percentage changes.

UK MARKET WINNERS AND LOSERS

Table showing UK market winners and losers. Columns: FTSE 100, FTSE 250. Lists company names, prices, and percentage changes.

CURRENCIES

Table showing currency exchange rates. Columns: DOLLAR, EURO, POUND. Lists currency pairs and their values.

FT 30 INDEX

Table showing FT 30 index components. Columns: Index, Price, Change, % Change. Lists various FTSE 30 stocks.

FTSE ACTUARIES SHARE INDICES

Table showing FTSE Actuaries Share Indices. Columns: Index, Price, Change, % Change. Lists various FTSE share indices.

FTSE SETS: LEADERS & LAGGARDS

Table showing FTSE sets: leaders and laggards. Columns: Sector, Index, Price, Change, % Change. Lists various FTSE sets.

UK STOCK MARKET TRADING DATA

Table showing UK stock market trading data. Columns: Index, Price, Change, % Change. Lists various UK stock market indices.

FTSE GLOBAL EQUITY INDEX SERIES

Table showing FTSE Global Equity Index Series. Columns: Index, Price, Change, % Change. Lists various FTSE global equity indices.

UK RIGHTS OFFERS

Table showing UK rights offers. Columns: Company, Issue, Price, Date. Lists various UK rights offers.

UK COMPANY RESULTS

Table showing UK company results. Columns: Company, Revenue, Profit, EPS. Lists various UK company results.

Figures in £m. Earnings shown gross. All figures are for corresponding period year-end. For more information on dividend payments visit www.ft.com/marketsdata. FT.com is a registered trademark of the Financial Times Group. All rights reserved. FT.com is a registered trademark of the Financial Times Group. All rights reserved.

MARKET DATA

FT500: THE WORLD'S LARGEST COMPANIES

Table with 12 columns: Stock, Price, Day, Chg, 52 Week High, Low, Yld, P/E, MCap. Lists major global companies like Amazon, Microsoft, Apple, Google, etc.

FT 500: TOP 20

Table with 5 columns: Stock, Price, Day, Chg, 52 Week High, Low, Yld, P/E, MCap. Lists top 20 UK companies.

FT 500: BOTTOM 20

Table with 5 columns: Stock, Price, Day, Chg, 52 Week High, Low, Yld, P/E, MCap. Lists bottom 20 UK companies.

BONDS: HIGH YIELD & EMERGING MARKET

Table with 10 columns: Issuer, Coupon, Maturity, Bid, Bid yield, Mtn's spread, Day's yield, Mtn's spread, US. Lists high yield and emerging market bonds.

BONDS: GLOBAL INVESTMENT GRADE

Table with 10 columns: Issuer, Coupon, Maturity, Bid, Bid yield, Mtn's spread, Day's yield, Mtn's spread, US. Lists global investment grade bonds.

INTEREST RATES: OFFICIAL

Table with 5 columns: May 09, Rate, Fed Funds, Current, 2022, 2023, Last. Shows interest rate trends.

INTEREST RATES: MARKET

Table with 5 columns: May 09, Over, Change, One month, Three month, Six month, One year. Shows market interest rate trends.

BOND INDICES

Table with 5 columns: Index, Day's change, Month's change, Year's change, Return 1 month, Return 1 year. Lists various bond indices.

BONDS: BENCHMARK GOVERNMENT

Table with 5 columns: Issuer, Coupon, Maturity, Bid, Bid yield, Mtn's spread, Day's yield, Mtn's spread, US. Lists benchmark government bonds.

GLTTS: UK CASH MARKET

Table with 5 columns: May 09, Price, Red, Yield, Change in Yield, 52 Week High, Low, Amnt. Lists UK cash market data.

COMMODITIES

Table with 5 columns: Energy, Price, Change, Agricultural & Cattle Futures, Price, Change. Lists commodity prices.

BONDS: INDEX-LINKED

Table with 5 columns: Price, Yield, Month, Return, No of stocks. Lists index-linked bonds.

BONDS: TEN YEAR GOVT SPREADS

Table with 5 columns: Bid, Spread vs, Bid, Spread vs, Bid, Spread vs. Lists ten-year government spreads.

GLTTS: UK FTSE ACTUARIES INDICES

Table with 5 columns: Price Index, May 09, Day's, Month's, Year's, Return, Return, Return. Lists UK FTSE actuaries indices.

ENERGY

Table with 5 columns: Energy, Price, Change, Agricultural & Cattle Futures, Price, Change. Lists energy prices.

BONDS: INDEX-LINKED

Table with 5 columns: Price, Yield, Month, Return, No of stocks. Lists index-linked bonds.

BONDS: TEN YEAR GOVT SPREADS

Table with 5 columns: Bid, Spread vs, Bid, Spread vs, Bid, Spread vs. Lists ten-year government spreads.

GLTTS: UK FTSE ACTUARIES INDICES

Table with 5 columns: Price Index, May 09, Day's, Month's, Year's, Return, Return, Return. Lists UK FTSE actuaries indices.

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## ARTS

# 'Good storytelling transcends race'

Action film star Michelle Yeoh talks to Sam Moore about changes in Hollywood and turning to surreal comedy in surprise indie hit 'Everything Everywhere All At Once'

Michelle Yeoh is 59 and still breaking new ground. The Malaysian star has been at the vanguard of female action heroes for nearly 40 years, from gravity-defying elegance in *Crouching Tiger, Hidden Dragon* to violent daredevilry in martial arts classics such as *Yes, Madam* and *Supercop*. Along the way, she has won admirers including Quentin Tarantino (who claims to know her early films frame by frame) and frequent collaborator Jackie Chan, who credits her with doing the most daring stunts.

Now, still doing her own stunts, she is playing the lead in a hit US movie — though not in the kind of role many would expect. In *Everything Everywhere All At Once*, a maximalist hurricane of a film, she is called on to duel with adversaries using sex toys, navigate heartfelt family drama and deliver wacky, surrealist humour.

Wearing electric blue glasses on a Zoom call from Los Angeles, Yeoh talks about this \$25m indie film that is quickly becoming a phenomenon (it has already taken more \$40m at the US box office alone) and how it pushed her as an actor. "I was terrified," she says of approaching a role a world away from her usual stoic screen persona. "But I loved it because it was challenging. I'd walk on the set and not know what I was doing that day and I think that is good because it keeps you on your toes."

Yeoh plays Evelyn, a laundrette-owner facing both tax problems and unexpected family issues — her daughter has come out and her husband wants a divorce. Then another version of her spouse appears from a parallel universe



Clockwise from above: Malaysian actress Michelle Yeoh; with Pierce Brosnan in 'Tomorrow Never Dies', 1997; with Harry Shum Jr in new film 'Everything Everywhere All At Once' — New York Times/Redux/Eyevine

'If Crazy Rich Asians hadn't done so well, could that have been the end of US-made Asian movies?'

and things get weird. The anarchy that follows almost defies description but despite hands that turn into hot-dogs and a nihilistic, world-destroying bagel, Yeoh says the film is ultimately about "love and family and how we don't give up looking for each other". There is also a subtext of the generational divide between immigrants to the US and their children. "It shines a light on the miscommunication we have with our parents and how we feel when we're unable to please them," she says.

Co-directors Dan Kwan and Daniel Scheinert (collectively known as "Daniels" and affectionately referred to by Yeoh as "my evil geniuses") wrote the

role of Evelyn for her and did the old-fashioned thing of simply sending her the screenplay and hoping for the best. She read it and thought it "crazy" but exciting. Not knowing anything about the duo, she looked up their only prior feature, the scatological 2016 comedy *Swiss Army Man*, which starred Daniel Radcliffe as a flatulent cadaver used as a makeshift jet ski.

After watching it, she knew she had to meet them, figuring: "If you can capture my attention for so long with a farting corpse across the ocean, there must be something uniquely insane about you." She also admired the duo for writing their second script "about such an ordinary ageing Asian immigrant woman. She's a mother who you'd pass by going to the supermarket and would never give a second glance, but they give her such a powerful voice." The fact that this is a demographic seldom seen in US movies is not lost on Yeoh. "When was the last time you saw a middle-aged Asian woman in a leading role in a Hollywood film?" she asks.

The representation of Asian and Asian-American people on screen has been slowly evolving. In 2018 came the hit comedy *Crazy Rich Asians* and last year Marvel's first Asian superhero in *Shang-Chi and the Legend of the Ten Rings* (both of which featured Yeoh). But Yeoh, who made her Hollywood debut in 1997 and has appeared intermittently in English language films since, knows this is no time to sit back and celebrate small steps. "Representation is a non-stop battle," she says. "In the past, [Hollywood producers] were very

blinkered. It was like: we have this formula and it has always worked. I'm like: OK, but that's the past, our society has evolved and we have to see that reflected on our screens. Good storytelling transcends race."

Yeoh wonders how things might have turned out had *Crazy Rich Asians* bombed and points out the double standards at play: "If that movie hadn't done so well, could that have been the end of [US-made] Asian movies? Other movies with megastars [from non-minority backgrounds] flop much more dramatically and they continue to make movies."

It is well known that people of colour have to fight twice as hard in Hollywood, but what Yeoh has always done better



than anyone is fight. She broke the glass ceiling of Hong Kong action cinema to become one of its biggest stars, enamouring audiences with her willingness to push her body to extremes. Recalling her first big stunt — flinging herself and a cadre of bad guys through a pane of glass in *Yes, Madam* — she gleefully reenacts it from her chair, bending her body back to demonstrate the skill needed to pull off the move in one take.

Yeoh also helped to redefine the Bond girl in 1997's *Tomorrow Never Dies*. Her skilled Chinese spy Wai Lin was more than just another beauty for the British agent to ogle — she changed how audiences perceived women in the series. "Bond was ready for a girl to kick ass," she says. "He was evolving and the times had changed. The girls were no longer satisfied to be just eye candy. They wanted to be reckoned with."

With Bond entering a new era following the departure of Daniel Craig, there have been calls for Ian Fleming's spy to be played by a woman, especially after Lashana Lynch took on the 007 moniker in *No Time to Die*, but Yeoh is not one of those people: "There can only be one James Bond. That's why his name is James." It's a definitive answer — and a fitting one too. Who wants to be James Bond when you are Michelle Yeoh?

'Everything Everywhere All at Once' is in UK cinemas from May 13 and in US cinemas now

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William Scott, Blue and Black Still Life, 1962. Courtesy of Alan Wheatley Art | Caleb Zipperer, Altar of Reason, 2021. Courtesy of Charles Burnand Gallery  
A large Greek black-glazed nestor, South Italy, mid-4th century BC. Courtesy of Kairos Gallery

## Enchantment conjured out of thin air

CLASSICAL MUSIC

**Holst's Sāvītri**  
Barbican, London

**Claude Vivier**  
Queen Elizabeth Hall, London

**Richard Fairman**

Being adventurous at a time when audiences seem reluctant to return to live music can do no harm. The Britten Sinfonia's most recent concert was a three-part extravaganza involving opera, dance and choral music, ending in an explosion of styles, embracing folk, jazz and world music.

At its heart was Holst's one-act opera *Sāvītri*. Mystical, sublime, it tells a short Indian story from the *Mahabharata* about a woman who tricks Death into re-prieving her husband. Only three singers, a dozen instrumentalists and an invisible female chorus are required.

**Kathryn Rudge**  
as Sāvītri at  
the Barbican  
Milly March



The opera conjures enchantment out of thin air. It is too small in scale for the average opera house and also, to judge from this performance, for the Barbican, where the words were often lost and the small band of performers looked marooned on the platform despite the presence of three Indian dancers.

For all that, *Sāvītri* is a minor masterpiece. Holst's ability to create a transcendental aura, and to enter the inner feelings of the soon-to-be-bereaved wife, is exceptional, given the limited resources that he allowed himself. Kathryn Rudge sang *Sāvītri* with warmth and beauty, and Anthony Gregory and Ross Ramgobin gave her strong support as the husband and Death.

The first part of the concert featured two works for string orchestra, Grace Williams's *Sea Sketches* and Britten's *Variations on a Theme of Frank Bridge*, both given vital performances under conductor Mark Elder. In the third part a trio of musicians led by violinist Jacqueline Shave offered a half-hour jam session,

rolling the evening's Indian classical theme into a flavourful, jazz-folk fusion dish. The target audience was difficult to deduce, but there was undeniably something for everybody. ★★★☆

At the Queen Elizabeth Hall, the London Sinfonietta offered a weekend devoted to Canadian composer Claude Vivier. While indulging an increasingly risky lifestyle, Vivier was murdered in Paris in 1983 at the age of 34 by a man he met in a gay bar.

Unfairly, his name tends to be known today more for his life story than his music. The London Sinfonietta's three-day programme sought to change that, and the first concert went straight to Vivier's best-known work, *Lonely Child*, a setting of a French text for soprano and instrumental ensemble shimmering with percussion.

The piece is at once a lullaby, a dream with images reminiscent of Rimbaud, and autobiographical on the part of Vivier, who never knew his parents. It culminates in an apotrophe to Tadzio, the enigmatic symbol of young male perfection in Thomas Mann's *Death in Venice*, and its music is sensual, yearning, with exotic echoes of Bali, which Vivier had recently visited. Claire Booth was the radiant soprano, Ilan Volkov the conductor.

Some claims for Vivier seem excessive, but his music demands respect for always being about exploration: of musical technique, of expression, and above all, of self.

In that respect, he may be best viewed as a link in the ever ongoing advance of music, not just a gay flame that flickered brightly for a while and was then extinguished. ★★★☆

[barbican.org.uk](http://barbican.org.uk); [southbankcentre.co.uk](http://southbankcentre.co.uk)

FT BIG READ. AUSTRALIA

A group of business-minded independent candidates, frustrated at inaction on climate change, is hoping to play kingmaker in the May 21 election and usher in a 'teal' government.

By James Fernyhough and Nic Fildes

# A new shade of climate champions



When record-breaking bushfires tore through much of eastern Australia in late 2019, Melbourne resident Carolyn Glascodine suffered a severe bout of depression. “I was in despair,” the 58-year-old editor says. “I literally couldn’t get out of bed.”

For years she says she watched Australia’s conservative Liberal-National government brush aside warnings of climate scientists and continue to back fossil fuel extraction and carbon-intensive industry.

The bushfires, which destroyed towns and cloaked Sydney and Melbourne in smoke for weeks, showed her what was at stake in a country that is both rich in fossil fuels and unusually exposed to the worst effects of global warming.

“Nothing was changing,” she says. “I’d never been involved in politics before, but I had to do something.”

Glascodine, who lives in the wealthy electoral district of Goldstein on the edge of Melbourne’s Port Phillip Bay, joined a local group of like-minded people and began searching for an independent candidate to run at the next election.

They found Zoe Daniel, a former television journalist, who was persuaded to run on a platform of strong climate action, anti-corruption and gender equality. Now, with a general election set for May 21, polls suggest Daniel is a serious contender in this once safe Liberal seat.

Daniel is one of more than 20 climate-focused “teal independents”, so-called for the colour of their branding, a shade between conservative blue and environmentalist green. These mostly female independents hope to win in wealthy, traditionally conservative seats and end a decade of what they see as inaction on climate change in Australia.

For many critics, Australia has been a laggard on climate issues. The country’s per capita greenhouse gas emissions are among the highest in the world, on a par with those of Saudi Arabia. It has no national carbon price, electric vehicle incentives or fuel standards. It has continued to expand its huge fossil fuel extraction sectors, and promoted coal and gas power over renewables.

Australia’s 2030 emissions reduction targets, at 26 to 28 per cent below 2005 levels, are among the least ambitious of any developed nation. The UK’s 2030 target, by comparison, is 68 per cent, and the US’s is 50 to 52 per cent.

This perceived negligence comes not only from the ruling Liberal-National coalition, whose ranks of lawmakers and supporters are riddled with climate change deniers, but also from an opposition Labor party whose current environmental platform has been criticised by activists and business leaders as unambitious.

Yet after years of record heatwaves, extreme droughts and wildfires, Australian voters of every stripe increasingly see climate change as a priority. A recent poll by the Lowy Institute found

overwhelming support for strong climate action, even in the coal-rich regions of New South Wales and Queensland. Three-quarters of Australians agreed the benefits of taking action on climate change outweighed the costs.

“It’s a majority view in rural Australia in every state that [the country] needs to take urgent and pressing action on climate change,” says Natasha Kassam, director of the Public Opinion and Foreign Policy Program at the Lowy Institute. “This is one of the examples where political rhetoric is out of step with the public.”

With polls suggesting a hung parliament is likely, the teal independents could become “kingmakers” for the next Australian government if they take enough seats. They see this election as an opportunity to alert the major parties that the political winds have changed on this crucial issue.

“The current government’s emissions targets are woeful, but I think it’s more than that,” says Daniel. “Climate change has been weaponised as a political issue in this country for so long. I think the government has lost the capacity to see that it is a huge issue for our future prosperity and safety.”

### The right’s offensive

The sustained offensive waged by Australia’s conservative parties on climate action has come to be known as the “climate wars”.

A key warrior has been the Liberal politician Tony Abbott, who as opposition leader about a decade ago relentlessly attacked Julia Gillard’s Labor government for introducing a “carbon pricing mechanism” – a complicated policy that was designed eventually to become an emissions trading scheme similar to the EU’s ETS.

Abbott, an open climate sceptic, branded this policy a “carbon tax” that would push power prices up. Rightwing media promulgated Abbott’s view, and it was widely seen to have won Abbott the 2013 election. His government, a coalition between the centre-right Liberal party and its smaller, agrarian partner the National party, quickly repealed Gillard’s carbon pricing mechanism.

The climate wars continued with the

Climate change protesters in Australia. Teal independents, so-called for the colour of their branding, want to bring climate issues to the forefront of Australian politics. Right: Zoe Daniel, the teal candidate for Melbourne. Below: in 2017, Scott Morrison, then Liberal treasurer, brought a lump of coal into parliament

FT montage/Diego Fedele/ Mick Tilkas/AP/Reuters

“The government has lost the capacity to see that [climate change] is a huge issue for our future prosperity and safety”



Liberal-National coalition in government. In 2017, Scott Morrison, then Liberal treasurer, brought a lump of coal into parliament and taunted the opposition with it, saying: “This is coal, don’t be afraid, don’t be scared, it won’t hurt you. It was dug up by men and women who live and work in the electorates of the members that sit opposite.” The coalition has now won three elections in a row and Morrison rose to become prime minister.

Under pressure from business, voters and the international community, Morrison committed Australia to net zero by 2050 last October, following an intense battle within the Liberal-National coalition. However, since announcing that target, Morrison has proposed no new policies to achieve it.

“At the federal level in Australia there is no meaningful climate policy,” says Frank Jotzo, a professor of environmental economics at the Australian National University and a lead author of the latest Intergovernmental Panel on Climate Change report.

Indeed, some members of the Liberal-National coalition have continued to use it as a wedge issue, often employing the language of the US culture wars. Matt Canavan, a prominent pro-coal National from Queensland, refers to decarbonisation as the “radical green agenda” of the “western woke elite”.

This level of inaction, says Jotzo, is a growing concern for big business and its industry body, the Business Council of Australia. “There’s pent-up demand from investors to invest, and we’re seeing clear signals from business associations that they want stable, predictable climate policy because that is a necessary underpinning for the investments they want to make,” Jotzo says.

Many in the business community say the government has failed to exploit Australia’s potential as a clean energy producer and exporter, given its significant solar and wind resources. Andrew Parker, chief sustainability officer at airline Qantas, says Australia could be a leading producer of greener, synthetic alternatives to traditional aviation fuel.

“Australia could be a leader, and could export these [fuels] into Asia, as an example,” he says. But we need to mirror what other countries are doing, particularly in the US and particularly the UK and Europe.”

Jotzo says a national carbon price must be a central part of a serious climate policy, but says explicit proposals for carbon pricing have all but disappeared from the debate in Australia – even from the pro-climate independents – because Abbott turned it into such an effective political weapon.

### Labour’s limits

In the 2019 election, the leftwing Labor party lost crucial seats in coal regions of Queensland and New South Wales as the Liberal-National coalition hammered its relatively progressive environmental agenda on the way to victory.

Since then, Labor has become more cautious on the issue. Ahead of the May

election, the party announced emissions reduction targets of 43 per cent by 2030 – more ambitious than the government’s but lower than the target they announced in 2019. At the same time, leader Anthony Albanese said a government under him would not phase out coal earlier than planned, or even oppose the construction of new mines.

However, Labor has also thrown its support behind an emissions trading scheme originally proposed by the Australian Business Council that would set a cap on emissions and force companies that breach it to buy carbon credits.

Those that emit less than their limit would be granted credits that they could trade. Every year, the emissions limit – called a “baseline” – would be reduced, reaching zero in 2050.

It’s a much less comprehensive plan than the EU or UK emissions trading schemes, under which emitters must buy permits for all their emissions, not just those over a certain level. Labor insists it does not represent a carbon tax, branding it a “safeguard mechanism”. But it would nevertheless reintroduce the concept of carbon pricing to Australia.

In April, miner Whitehaven Coal – one of a diminishing number of anti-climate voices in corporate Australia – branded this policy a “carbon levy by stealth”, while Morrison called it a “sneaky carbon tax”.

But in a sign of how the political conversation over the environment is shifting, Labor’s adoption of this policy has not drawn sustained attacks from political opponents.

Kevin Rudd, the former Labor prime minister who attempted to legislate an emissions trading scheme in 2009, argues this shows a decade of climate wars may be coming to an end.

Rudd says that when he was prime minister between 2007 and 2010, the anti-climate lobby was formidable. A coalition of fossil fuel producers, manufacturers, conservative politicians and rightwing media convinced voters, he says, that “to act substantially on carbon was to destroy the Australian economy”.

But now, Rudd says investors and the business community no longer accept this position, forcing the media and fossil fuel industry to stop campaigning against climate action and adopt a “neutral position” on climate change.

“The political environment and parameters are now different, having been now through 10 years of, frankly, soul-wrenching politics on the subject.”

The climate issue could cut both ways in Australian politics, with fringe parties on the right of the spectrum also expected to have a potentially significant influence in this year’s election.

Those include the United Australia party, which is funded by billionaire Clive Palmer and led by former Liberal MP Craig Kelly, a long standing critic of climate policies, and One Nation, whose leader, Pauline Hanson, a senator, openly questions climate science.

“A solar panel in this country creates two to three times more electricity than it does in Europe. We have an enormous economic opportunity for renewable energy”



Australian conservatives who are concerned about the environment face a dilemma. Many view the Labor party as hostile to business and likely to raise taxes. But just as many are frustrated at the National-Liberal intransigence on climate change.

It’s this slice of the electorate that the teal independents are hoping to capture in May. One of the most competitive is Allegra Spender, a 44-year-old Sydney businesswoman running in the wealthy harbourside electorate of Wentworth, until recently a safe Liberal seat. Its mansions are home to billionaires, chief executives and former prime ministers.

“Wentworth is a very socially progressive electorate, it is a very business-focused electorate, and it’s an electorate that cares deeply about the environment and climate change,” Spender says. “But the problem is our electorate is not having an influence in Canberra because we have a [Liberal MP] here who is not able or not willing to stand up and make a difference.”

The rise of the teal independent candidates has caused panic at the very upper echelons of the Liberal party as more moderate candidates have been challenged on their voting record on climate issues.

This has included Josh Frydenberg, the treasurer and deputy leader of the party since 2018, who is under serious threat of losing his seat to an independent candidate in what was the ultra-safe inner Melbourne seat of Kooyong.

The teal independents are pushing the idea that Australia, with its vast tracts of land and endless supply of sunshine and wind, can transform itself from a fossil fuel economy into a clean energy superpower, using renewables to manufacture green hydrogen, ammonia and steel for export, creating new industries for the kind of business-minded people who live in Wentworth and Goldstein in investin.

“Australia is one of the sunniest, windiest places on earth,” says Spender. “A solar panel in this country creates two to three times more electricity than it does in Europe. We have an enormous economic opportunity in a decarbonised world, both for renewable energy and clean hydrogen, but also in terms of lithium and rare earth metals.”

Spender and Daniel, the Melbourne candidate, have managed to convince many in these blue-ribbon electorates that they are both pro-business and pro-environment, and some polls now have them as favourites.

In the case of a hung parliament, neither has said which party they would be inclined to support. Other teal independents are also keeping their options open. But strong climate action would be near the top of their list of demands – and quickly, Daniels says. “There has been so much dithering for so long – largely to do with powerful influencers in the fossil [fuel] industry – we have to speed up to catch up.”

# The FT View



**FINANCIAL TIMES**

*'Without fear and without favour'*

ft.com/opinion

## War can be a catalyst for courageous reform in the EU

*Any expanded spending programmes must come with greater accountability*

From the eurozone's sovereign debt and banking emergencies to the Covid pandemic, the EU has responded with innovative resolve when confronted with financial stress and existential crisis. Russia's invasion of Ukraine is a geopolitical threat of a different order. Peace, democracy and freedom on the European continent are under attack. The EU is capable of rising to this challenge, but its leaders and peoples need to grasp quickly that far-reaching financial and institutional change will be necessary.

So far, the EU has displayed admirable unity and determination in its response to Russian aggression. Acting with the US, the UK and other democracies, it is supplying Ukraine with military aid, absorbing millions of war refugees and initiating plans to reduce

Europe's reliance on Russian energy. Yet these are only the first steps in what must be a more ambitious collective endeavour to strengthen the EU and enhance the "strategic autonomy" of which its representatives have spoken.

The starting point is to recognise the huge financial costs required to boost the EU's military defences, increase its energy security, contribute to Ukraine's postwar reconstruction and pay for other necessary projects from climate change and border security to technological innovation. These will surely far exceed even the combined spending of about €1.8tn contained in the EU's 2021-2027 budget and post-pandemic recovery fund. Yet the larger the sums spent at EU level, the more vital it will be to improve transparency and accountability to European taxpayers.

Already the risk exists that the worthy objective of closer EU fiscal integration will fall into discredit, should some governments misuse the grants and cheap loans available from the recovery

fund. As EU spending programmes expand, it will not be enough to rely on the European Commission and other unelected agencies in Brussels to monitor good behaviour. Substantial powers of oversight must pass to the European parliament, and national legislatures too, for otherwise the EU will continue to be vulnerable to accusations from its ill-wishers of inefficiency, remoteness and lack of democracy.

Such a change might strengthen the case for other reforms such as giving the European parliament, at long last, the power to initiate legislation on its own, and encouraging transnational electoral lists for voting to the EU assembly. These were among more than 300 recommendations that were submitted to EU leaders on Monday in the final report of the Conference on the Future of Europe, which billed itself as a citizen-led initiative to set the EU's priorities. They are not necessarily to the taste of many member states, for in every crisis of the past two decades national govern-

ments have had a much bigger say than the EU legislature or commission in crafting the bloc's responses.

Like another proposal, aired by Italian premier Mario Draghi, to eliminate the national veto over EU foreign policy, any significant extension of the European parliament's powers would require changes to the EU's basic treaty.

Arguably, the need for unanimity has not seriously hampered the conduct of EU foreign policy since Russia launched its war. Nonetheless, treaty change may be necessary in the future. EU leaders should not shy away from it just because achieving approval for the 2009 Lisbon treaty, the last big overhaul, proved an exhausting and divisive process.

Similar political courage will be needed for EU leaders to open the bloc's doors to western Balkan countries — and potentially Ukraine. But they must do so. All the fine talk of European integration and a lasting peace will ring hollow unless these countries become full, equal members without needless delays.

### Opinion Politics

## Why democracies struggle to innovate

Ewan White



**Stephen Bush**



**G**ive the boy a marshmallow, and I will show you the man. It is a psychology experiment as famous as it is adorable: take a group of four-year-olds, present them with a marshmallow and tell them that if they don't eat that one right away, they will get two marshmallows. According to a 1990 study, four-year-olds who held out for a second marshmallow did better academically and socially later in life.

There is just one problem: the "marshmallow test" is one of a number of studies that has fallen prey to science's "replication crisis": studies in fields as wide-ranging as psychology, sociology and economics that fail to replicate when other researchers conduct them. A 2018 study found that the 1990 version had written a cheque its findings couldn't cash, once you controlled for various factors.

Successful replication is at the heart

*When a policy doesn't work, it is often politically painful for a government to abandon it*

of successful science: to use a crude example, it's not good enough to produce a vaccine that protects me from severe symptoms of coronavirus. The job has to provide similar levels of protection across the population.

The replication crisis is particularly acute for politicians because many of the fields most directly hit are the essence of public policy. But the bigger challenge for democracies isn't policy based on studies that don't replicate: it is policy whose grounding in academic research and study is limited at best, and whose implementation is immune to evidence that it isn't working.

In the UK, the "troubled families programme", a flagship initiative of David Cameron's administration, spent millions of pounds trying to turn around the prospects of families facing acute social problems. But academic studies found that the programme's impact was negligible. The problem was the then government's line, which was that the scheme was tackling a hard problem and that even small results — which may or may not have been the impact of other policies — were the result of the programme.

And they may be right. One problem that government policy faces is that because societies are complex

things, it's hard to tell exactly what is and isn't working. To precisely separate out whether a policy is effective or not, we would have to deliberately exclude some people from its scope: to do something that takes place in laboratories and businesses all the time, namely engage in a good old-fashioned A-B test.

A-B testing is the heart of any successful research project, whether it is something as trivial as how to get people to open a newsletter, or as important as a vaccine. One group experiences a new intervention or policy change: the other is left with the old system. But, of course, it is easier to get people's permission (or their forgiveness) for changing the subject on an email than it is to inject them with a placebo and then expose them to a potentially deadly disease in order to find out if your vaccine works.

In the early years of New Labour, the government did a lot of A-B testing: the literacy and numeracy hours — changes to the curriculum that became compulsory across England — were initially trialled only in a handful of areas, while the "London challenge", a bid to improve the capital's state schools, provided a test bed for a number of policies since rolled out nationwide. But this can create problems of its own: when a policy programme doesn't work, it is often politically painful for a government to abandon it, so all that a "pilot scheme" really does is expose one part of the country to a bad policy slightly earlier than the rest. When, as with the London challenge, the policy works, other parts of the country can quickly come to resent not feeling the benefit earlier.

A-B testing is difficult in a democracy because it leaves governments either facing the embarrassment of abandoning an expensive, high-profile scheme, or resentment from voters at not rolling out an effective one earlier. That incentivises governments to do things all at once — which is one reason why although we can say with a high degree of certainty that schools in the UK capital have improved, we still can't say for sure exactly why.

One way democracies can get around their own difficulties with A-B testing is to learn from other democracies: this is one reason why Conservative school reformers have sought to learn from Finland. But being in a less centralised state helps too: much of the impetus for New Labour's school reforms came not from the UK but from schools in New York, which had the freedom to do things differently than other US states. Democracies will never be able to move fast and break things in the way businesses can — but giving different players freedom to experiment can help share out the benefits.

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## Letters

### Nato enlargement would ensure safety of Finns and Swedes

Contrary to Anne-Marie Slaughter's advice (Opinion, May 6) that we should slow down the admittance of Finland and Sweden into Nato, the opposite is actually warranted — to speed up the process, not out of fear of a Russian invasion, but of a sudden Russian push for political if not physical domination.

Now, in fact, is an exceptional window of opportunity to secure our safety, before Vladimir Putin turns his attentions to the Baltic states or even

on to us. Just days before invading Ukraine, Putin publicly laid out as non-negotiable his ambitions to reinstate a Greater Russia along former Soviet lines. Only a cordon sanitaire of Belarus-like governments around Russia would suffice, it seems. No one in Finland or Sweden would want that, of course.

Putin has a penchant for securing footholds behind "enemy lines" as in Transnistria, Syria and Kaliningrad. Dominance of the Swedish island of

Gotland (pop. 58,000) at the heart of the Baltic, might suddenly seem a necessity to an unstable mind losing its last inhibitions. Add to that Putin's stated threats of using nuclear weapons in order to reach his objectives.

Against such threats neither Finland nor Sweden has any deterrence other than seeking the protection of a joint defence with those who actually share our basic values. The sooner we take that step the better.

In times like these, it seems odd that

Slaughter still has not understood that the visual extension of Europe to the Urals on the map is not in the least matched by shared common values when it comes to decency, democracy, respect for basic human rights, independent information about reality and an independent legal system.

In Finland as well as Sweden we can no longer afford to take these values for granted.

**Gustaf Almenberg**  
*Dalby, Sweden*

### Conservatives misread Smith's free market ideas

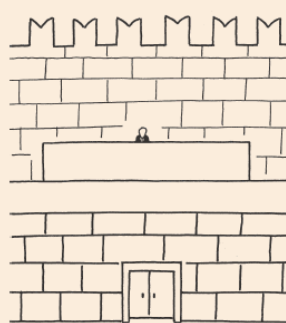
David Parker's account of laissez-faire capitalism (Letters, April 25) misrepresents Adam Smith. For Smith, the Scottish enlightenment economist, the invisible hand is a market mechanism. The market is a system, which Smith was excited to help reveal, but does comprise the entire governance. It was in his first book that he addressed these ethical relations.

Conservatives also misrepresent Smith. He uses "free" to define a market free from manipulation by participants, not a market or a society operating without government.

He stated that regulation is needed to preserve this free market. He warned that merchants would collude to manipulate the market. He also cautioned against allowing companies or banks to become too large or powerful.

Given that, the participants are free. And as in sports, we appreciate the free competition, but the referee is also blowing the whistle every few minutes.

Our niche in evolution is that we were the species that managed our territory. We are the political species.



We discovered, invented, invested and built. Citizens have the ability, the right and the responsibility to govern themselves. Laissez faire denies that right. The hidden agenda in laissez faire is to allow the concentrators of wealth and power to govern.

**Harry Thorn**  
*Philadelphia, PA, US*

### Shipping is happy to back a levy on carbon emissions

Your article (Report, May 3) said the International Chamber of Shipping "is pushing for a levy of 63 cents per CO<sub>2</sub> tonne to set up a research fund" in contrast to Japan and others' proposed carbon levy of around \$100. This risks conflating two very different measures intended to help decarbonise shipping, and could wrongly imply that the industry does not want a global levy on carbon emissions from ships.

In fact, the proposed R&D fund, which will hopefully be approved by the UN in June, is quite separate to carbon pricing for shipping, and is aimed specifically at accelerating the development of zero-carbon fuels — something vital to the industry's green transition.

We have never proposed 63 cents per CO<sub>2</sub> tonne as a carbon price. Indeed, ICS recently submitted research to the UN showing that a price between \$50 and \$100 per CO<sub>2</sub> tonne could well be viable for the industry.

**Guy Platten**  
*Secretary-general*  
*International Chamber of Shipping*  
*London EC3, UK*

### Two reasons women have no time to write FT letters

In response to Mary Shipley's question "Why is it there are so few FT letters by women?" (Letters, May 4), perhaps women are too busy "learning how to say 'no' to office housework" as Emma Jacobs puts it (Work & Careers, May 2). Or they prefer to avoid the "babble hypothesis" of leadership as Pilita Clark says (Business Life, May 2).  
**Grazyna Söderbom**  
*Sävedalen, Sweden*

### Will Putin now kowtow to Xi, as Mao did to Stalin?

One wonders if Vladimir Putin will need to genuflect in future in front of the great Xi Jinping ("War makes Russia a vassal state to China and India", Letters, May 9)? One of the most surprising facts in Jung Chang's vast biography of Mao was the frequency with which the "great helmsman" had to travel to Moscow to beg for survival money from Stalin, and how humiliated he was every time he did.

**David Landau**  
*Celerina, Switzerland*

## OUTLOOK

### SOUTH AMERICA

## Election puts Colombia on the cusp of change



*by Michael Stott*

**T**he day the M-19 guerrillas descended on the University of South Colombia felt like a carnival. Students ran from classrooms to greet the khaki-clad visitors and teachers lined the corridors cheering them on.

The mood darkened when the army arrived later. Troops were hunting "subversives" who had shown the audacity to parade around the campus in Neiva, a city six hours south of Bogotá, in broad daylight indoctrinating students.

Sent to Colombia to teach English as part of my degree, I was among the faculty staff put up against the wall by the soldiers that day, searched and questioned. This was the 1980s, when Colombia was riven by conflicts between the state, drug traffickers and Marxist rebels. Stained by bloodletting, the nation's future looked hopelessly bleak.

More than three decades later, I returned to a peaceful and prosperous Neiva to watch a former M-19 guerrilla make his pitch to voters to be elected as Colombia's president.

Gustavo Petro's election rally in a neighbourhood basketball court also had a carnival feel. Performers on stilts, dressed in the red, yellow and blue of the national flag, twirled to folk music. Dancers in traditional costumes traced the courtly steps of the *bambuco*. The only men in uniform were police guarding the candidate.

Petro's tortuous path from clandestine rebel to leftwing politician

leading the presidential polls forms part of Latin America's unlikely success of recent times. For Colombia is a nation that found a path to relative peace and prosperity against the odds.

There were false dawns: a botched government attempt in the early 1990s to negotiate the surrender of cocaine king Pablo Escobar, a presidential election in 1994 tainted by drug money, and advances by the Farc, Colombia's biggest rebel group.

But in 2002-10 Alvaro Uribe, a conservative president, waged a war on the guerrillas, forcing them to the negotiating table. There was a terrible cost in human rights abuses but Juan Manuel Santos, Uribe's successor, signed a deal with the Farc in 2016.

The accord has held and the security of the past two decades has given the economy fresh life. As Colombia became more prosperous, it developed politically and socially. Previously marginalised groups found a voice and started to win representation. A new generation benefited from access to higher education.

The students in Neiva had changed, too. The Che Guevara mural which used to dominate a university entrance was gone when I returned last month. Most recent graffiti targeted femicides or sexism, rather than inciting Marxist revolution.

One elderly man at Petro's rally spoke eloquently of peace and social justice. "Yes, I was M-19," he said, when I sought him out afterwards. His

name was William Calderón Vargas and he remembered the guerrillas' visit to the university because he was one of them.

Calderón demobilised along with the rest of the M-19 in 1990 in the first of Colombia's peace agreements. Naturally, he was a Petro supporter. "Petro is an old comrade from the fight but I support him because of what he represents. Petro became an emblem of the battle against corruption and the vexations of war."

Not all the past's wounds have healed. The Petro rally in Neiva was only communicated to the press a few hours in advance for security reasons, and the venue subsequently changed without notice. Bodyguards surrounded the candidate.

Colombian society remains one of the most unequal in the world and the newly empowered indigenous, Afro-Colombian and sexual minority communities want to be heard.

Many Colombians are hungry for change and this election feels like a turning point. A Petro win would mean Colombia's first leftwing government. His supporters believe it would seal Colombia's transformation from a narrow, elite-run fiefdom to a modern social democratic state. His opponents fear Petro's radical policies would destroy the peace and progress of recent years, trigger fresh conflict and risk an economic and political calamity akin to neighbouring Venezuela. They cannot both be right.

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## Opinion

## New Zealand's jobs law would cause ripples beyond its shores

EMPLOYMENT  
Sarah O'Connor



The pandemic made one truth hard to ignore: the people we need the most are often the ones we value the least. While many people were furloughed or laid off during lockdowns, “essential workers” like drivers, carers and warehouse employees had to keep working because the economy couldn't cope without them. Yet in many countries, these jobs are characterised by long or unpredictable hours, low pay and insecurity.

In New Zealand, a new law currently going through parliament aims to make bad jobs better. It represents a huge shift in the trajectory of the country's labour market — one whose success or failure will have ripple effects on policy well beyond its shores.

New Zealand has long been a poster child for labour market deregulation. Sweeping reforms in 1991 dismantled the old system of national pay awards and led to a flexible economy with high employment rates by international standards. In 2020, the World Bank named New Zealand the easiest country out of 190 in which to do business. But productivity and wage growth have been weak. New Zealanders work longer hours than average in OECD countries but produce less per hour.

New Zealand's Labour government believes part of the problem is that employers in some sectors have ended up in a “race to the bottom”. They are competing by cutting labour costs rather than improving quality or technology. Craig Renney, director of policy at the New Zealand Council of Trade Unions, says bus drivers are a good example. “It got to the point where we couldn't get bus drivers. We were importing them from overseas, but no one was getting a better service,” he told me. This dynamic isn't unique to New Zealand: the UK's HGV driver shortage last year, which prompted the govern-

ment to announce emergency visas for migrant workers, was caused at least in part by an erosion in drivers' pay and working hours.

In March, the New Zealand government introduced the “fair pay agreements” bill. It aims to get employers and unions to negotiate agreements which would set a minimum floor for pay and conditions across whole sectors or occu-

Fair pay agreements aim to set a minimum floor for wages and conditions across whole sectors

pations. If a tenth of workers who would be covered or 1,000 of them (whichever is fewer) say they want an FPA, union and employer representatives will negotiate one and put it to a vote. If there is ultimate stalemate, the Employment Relations Authority will decide terms.

Unions argue the system will stop good employers from being undercut by bad ones and help workers in sectors

which are hard to organise. They plan to focus first on bus drivers, security guards, childcare workers and “bottle shops”. As well as pay, they will focus on minimum standards for training, working hours and safety measures.

But employers' groups are fiercely opposed. They say fair pay agreements will reduce flexibility and drag New Zealand back to the 1970s at a time when they are already grappling with inflation. Kirk Hope, chief executive of BusinessNZ, the main business lobby group, has argued FPAs will “take away control from Kiwi workers and give it to faceless officials in [the capital] Wellington”.

Who is right? A detailed OECD study in 2019 concluded that sectoral collective bargaining systems can lead to better employment, productivity and wages than systems where agreements are only made at the individual company level. But the devil is in the detail: inflexible sectoral agreements can harm productivity while the best ones (more common in Scandinavian countries) provide broad frameworks which also leave “considerable scope for bargaining at the firm level”. A decent level of

trust between the negotiating parties also makes a difference.

New Zealand's attempt to perform a handbrake turn in its labour market will be closely watched by other countries with similar problems. If it leads to better quality jobs and more constructive labour relations, expect to see calls for the model to be replicated. The UK's Labour party has already promised to implement a similar policy if it is elected. If, on the other hand, the new law results in sclerosis and rows, the disappointment will be felt by beleaguered unions well beyond New Zealand.

Whether or not fair pay agreements are the right answer, New Zealand is at least asking the right question: how do we make sure the changing world of work does not leave some people behind in gruelling jobs? This type of work is not going away. Indeed, some occupations, like social care, are set to be among the fastest-growing in the economy. Any attempt to shape the future of work must focus on carers just as much as coders.

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## The enduring fascination of the ‘power spouse’

SOCIETY  
Emma Jacobs



You're afraid that he outshines you because he does.” It's a brutal assessment delivered to Rebekah Neumann, the wife of Adam, co-founder of WeWork in *WeCrashed*, the TV drama. Billed as a love story, starring Jared Leto and Anne Hathaway as the couple, it is utterly unromantic.

Instead the Apple TV series tells the story of their marriage alongside the growth of the co-working company, pumped by hubris to become a bloated unicorn taken to the brink of popping.

As Adam's business empire and fame swells, he becomes stoned on his own success, eclipsing his wife. Hathaway's character quivers with pride, envy and insecurity. Through marriage she finds a professional identity of sorts. As her husband's “strategic thought partner”, she tried to make its mission “to elevate the world's consciousness”, becoming chief brand officer and impact officer, later starting WeGrow, more Marie Antoinette's folly than a kindergarten.

Films and books are often devoted to telling the stories of the rich and powerful. But their spouses can be equally fascinating. How else to explain newspapers' soap opera recounting of gossip about Meghan Markle and Carrie Johnson? In the US, the drama series *The First Lady* is currently examining the lives of Betty Ford, Michelle Obama and Eleanor Roosevelt while *Gaslit* has Julia Roberts playing Martha Mitchell,

Films and books tell the stories of the rich and powerful, but their partners can be equally alluring

the wife of Richard Nixon's general attorney at the heart of the Watergate scandal. (On Sunday, the current US first lady, Jill Biden, made an eye-catching unannounced trip to Ukraine to meet her counterpart, Olena Zelenska.)

If *WeCrashed* had been braver it would have centred the story on Rebekah. Historically, it is women who have given up their jobs or stepped back from their careers. Research in the US found that “marrying a man with good income prospects is a woman's main route to the one per cent”.

In a working world where dual incomes are the norm, such spouses spark curiosity, inviting us to ask questions of our own ambition. Could you devote yourself to your partner in the hope that they will get the big prize? Or would you seethe with resentment?

Speculation about power spouses can be breathlessly sexist. Although some newspaper reports suggest that Johnson's husband is unable to say no to her demands, they rarely draw the conclusion that a man incapable of delivering on his convictions should probably not be governing the country.

There are justified worries about spouses using public or corporate funds for private ends, or influencing appointments and strategy. In WeWork's case, the Neumanns tried to change the governance to allow his wife to choose Adam's successor upon his death. This is cronyism, but it also highlights the peculiar support role Rebekah occupied.

This is a complicated issue. Partners can shape their spouse's working life. Who doesn't vent about their daily frustrations, or sound out a work idea at home? Big jobs demand big egos and big support.

Such spouses can crave affirmation. I once spoke to a former wife of an entrepreneur trying to carve out a post-divorce role. Marriage to a CEO, she insisted, was a full-time job. She craved appreciation that her role was important to the business, arguing she had enhanced his performance. This view was backed by research published last year that found that companies managed by married business leaders were likely to have lower risk of a “stock price crash risk”.

But there were limits to my sympathy as with all those in a gilded cage. Because I knew it was just as likely she pitied me. To her, my annual salary was chump change.

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## Ukraine and the shadow of the Nazis

GLOBAL AFFAIRS  
Gideon Rachman



There was no victory for Vladimir Putin to celebrate on Victory Day. Instead, the Russian leader is mired in a grinding, inconclusive and increasingly humiliating war.

Ahead of his big speech at the Red Square commemoration of victory in the second world war, the Russian president had three options — none of them good. He could start winding the war in Ukraine down, which would involve accepting that Russia had failed to achieve most of its objectives. He could attempt to rally the troops and the nation, but announce no major change of policy. Or he could escalate, in word or deed — perhaps by announcing a military mobilisation or hinting at the use of nuclear weapons.

In the event, Putin chose option two — which illustrates just how stuck he is. He has no quick path to victory. But defeat is unacceptable.

By once again labelling the Ukrainian government “neo-Nazis”, Putin backed himself into a rhetorical corner. After all, how can you compromise with fascism? But Putin is not the only leader who insists that he is refighting the second world war. In his own May 9 speech,

Volodymyr Zelensky, Ukraine's president, accused Russia of repeating “the horrific crimes of Hitler's regime”.

The second world war also looms large in the way the US and its Nato allies are thinking about the conflict in Ukraine. Ben Wallace, Britain's defence secretary, has just accused Russia of “mirroring the fascism” of the 1930s.

A massive package of billions of dollars in aid to Ukraine, which was recently passed by the US Congress, was called the “Ukraine Democracy Defense Lend-Lease Act”. This was a deliberate evocation of America's Lend-Lease Act of 1941 — in which the US delivered arms to Britain to fight the Nazis.

There is an obvious danger to a situation in which both sides have convinced themselves — to some degree — that they are fighting the Nazis. It makes compromise or a peace settlement much more difficult. Hitler was not given an “off-ramp”.

The second world war ended with Russian tanks in Berlin and Hitler dead in his bunker. But Nazi Germany did not have nuclear weapons. A fight to the finish is hard to imagine in a nuclear age — when “the finish” could be Armageddon.

The reality is that beneath the rhetoric about Nazis, there is some sign that all sides have accepted that “total victory” is not possible. The Kremlin has already adjusted its war aims. The early goal of taking Kyiv and decapitating the Ukrainian government has had to be abandoned — or, at the least, put on indefinite hold. Russia is even struggling



to achieve its revised war aims of the occupation of Donetsk and Luhansk.

Faced with this situation Putin could eventually decide to end the conflict — after extracting some commitment to notional “denazification” in Ukraine and guarantees of Ukrainian neutrality. Zelensky has already signalled that he will accept neutrality, in return for some sort of western security guarantees.

But, as senior officials in Washington see it, the central problem is now territory. Putin cannot yet accept a peace deal in which Russian gains absolutely nothing — in return for thousands of dead and wounded soldiers. But Zelensky cannot accept a peace settlement that involves ceding further Ukrainian territory, beyond Crimea.

As Russia struggles, there is a growing

Escalation in rhetoric does not just risk escalation in battle. It also makes a peace settlement even harder

temptation in the western alliance to adopt more expansive war aims. The official US line is that America's goals remain the same as they were on February 24, when Russia launched its invasion. The central aim is to help Ukraine resist Russian aggression and to survive as an independent state.

But there are also influential voices in Washington, London and other capitals, such as Warsaw, who now see an opportunity to “push Russia off the world stage”, as one former US official puts it. That kind of thinking was reflected in the remarks last month by Lloyd Austin, the US defence secretary, that America was now seeking to “weaken” Russia permanently.

Achieving a permanent weakening of Russia would clearly be a big geopolitical win for the west. It would reduce the security threat to Europe, diminish China's most important ally and give new credibility to president Joe Biden's insistence that “America is back”.

But openly adopting a “weak Russia” policy also contains substantial risks. It increases the dangers of escalation —

including nuclear escalation. And it also risks validating the Kremlin's narrative that the war is driven by Nato's animus against Russia, rather than Russia's aggression towards Ukraine. That, in turn, may weaken international support for US efforts to isolate Russia.

Knowing all this, the White House is struggling to maintain message discipline in the western alliance. Escalation in rhetoric does not just risk escalation on the battlefield. It also makes an eventual peace settlement even harder to achieve.

The reality is that for all the talk of Nazis and lend-lease, the closest analogy is the Afghan war, where, over the course of a decade, the US and its allies pumped in support to the Afghans fighting the occupying Russian army. Some western officials even evoke the trench war of 1914-18, where two sides battled over an extended frontline for years.

The bleak conclusion is that the end of this war is a long way off.

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## Conflict over dismantling US abortion rights poses a political challenge

Mary Ziegler

The leak of a draft opinion reversing *Roe vs Wade*, the landmark United States Supreme Court ruling recognising a right to choose abortion, produced shockwaves last week. A final decision in the case, *Dobbs vs Jackson Women's Health Organization*, is not expected until the end of June, and key details might still change — Supreme Court opinions often go through dozens of rounds of editing before publication. All the same, there is every reason to believe that the court will dismantle abortion rights in short order — and for reasons similar to those laid out in the draft.

The leaked document takes the approach long promoted by the conservative legal movement, which insists that judges interpret the Constitution by looking at its original public meaning. In

Justice Samuel Alito stresses that abortion rights appear nowhere in the text of the Constitution — and that at the time the 14th Amendment was being drafted, abortion was being criminalised. The authors of the Constitution, he reasons, could hardly have believed that abortion was a fundamental right.

This draft opinion attracted criticism both because of contested historical narrative — and because of its far-reaching implications. This method of identifying constitutional rights — based only on history and tradition — has sometimes given way to other interpretive approaches by the court. And despite Alito's halfhearted attempt to say otherwise, a court that looks only at what rights meant in the mid-19th century would have no reason to stop with abortion. At the time, lawmakers were criminalising contraception, same-sex intimacy and much more.

Even if the court does stress that abortion is different because of its effect on foetal life, its approach could mean that the issue doesn't stay with the states for long. Anti-abortion groups are ready to ask the court's conservative majority to

declare that abortion is unconstitutional everywhere because of its effects on life in the womb.

Perhaps most strikingly, the draft echoes arguments long made by the US pro-life movement. Alito attacks *Roe vs Wade* for deepening the national divide on abortion and distorting much of US abortion jurisprudence. He dismisses the argument, favoured by the late Ruth

A clear majority in polls favour keeping Roe. Progressives have to turn this into a voting majority

Bader Ginsburg and others, that abortion bans constitute discrimination on the basis of sex on the grounds that the court, in past precedent, has already rejected that claim. That the court has rejected the very arguments against *Roe* more than once does not matter to Alito, nor does the likely public outcry that a decision like this would produce. This is the work of a judge who does not care

about the consequences of his decision, for the country or the institution he serves — a decision tailor-made for talking points in conservative media.

Supporters of abortion rights may feel helpless given the now near certainty that the court will reverse *Roe* in less than two months' time. And yet such a decision will hardly end conflict over abortion in the United States. After years of being outcompeted, abortion-rights groups have changed focus. State constitutional litigation in places like Michigan may prevent some criminal abortion laws from going into effect. And shutting down access to abortion in the post-*Roe* United States will not be easy. People will order pills on the internet or simply drive out of state. Some progressive states such as Oregon, Connecticut and California have begun to take steps to make these journeys easier — creating funding for those without resources to pay for travel or shielding medical professionals from civil and criminal liability in conservative states. More blue states will probably adopt this model in the months to come.

Progressives have a political opportu-

nity to use the undoing of *Roe* to galvanise Americans who do not want to see abortion criminalised. Public opinion on abortion in the United States is messy, with many endorsing some restrictions, but a clear majority favour keeping *Roe* and swearing off criminalisation. The task for progressives is to turn this polling majority into a voting majority — and to convince people that abortion should be one of the key issues to consider when they go to the polls in the upcoming midterms and beyond.

This means stressing to voters that the conflict could go in unexpected directions — by opening the door to national legislation banning abortion, reopening debate about whether common contraceptives are abortifacients and sparking a costly interstate battle about when one jurisdiction can tell another what to do. The question remains whether Democrats are up to the job.

The writer is a professor at UC Davis School of Law and author of the forthcoming *Dollars for Life: the anti-abortion movement and the fall of the Republican establishment*

# Lex.

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## Ukraine/EU oil ban: fist pumping

Victory Day was touted as a turning point in Russia's war against Ukraine. But President Vladimir Putin revealed no new steps yesterday.

Nor did Brussels announce new sanctions, despite pushing for a deal before Moscow's military parade. Even so, the EU is getting close to joining the G7 in enacting a ban on Russian oil. Its effects will be felt across the world.

Holdouts are demanding delays. Budapest-based energy group MOL says it does not have the technology to refine crude from elsewhere. Retooling its refineries could take years and cost about \$500mn.

But Hungary, Slovakia and the Czech Republic account for less than a tenth of the EU's Russian imports total. Even if they secured exemptions, an EU ban would have clout. It imported 4mn b/d of crude oil and products, making it Russia's main market, according to UBS. Last year Russia exported two-thirds of its 10.8mn b/d production.

The ban's effectiveness will depend on whether Russia can shift to other customers. Transport is a constraint. There is just 300,000 b/d of spare capacity on the ESPO pipeline to Asia, and just 200,000 b/d by rail, says Rystad Energy. A proposed EU ban on insuring tankers carrying Russian oil would make it difficult to move enough oil by ship.

True, higher oil prices could ease some of Russia's pain. Energy Aspects expects Brent crude to average about \$120 a barrel in the second half of the year. But even if it can find buyers elsewhere, they want a discount. Since the invasion, Russia's Urals crude has traded on average \$21 below Brent, against perhaps a dollar over the five previous years.

The impact of reduced Russian supplies on western governments would be blunted if other supplies increased or demand fell sharply. Currently the former is unlikely: Opec and US shale producers have shown few signs of stepping up.

Yet, crude demand will not hold steady when world economies begin creaking with fatigue, even with some oil inventory rebuilding. High US pump prices and a rapid export slowdown in China hint at penny-pinching by consumers to come. Together the two

countries account for 35 per cent of world demand. A tepid reaction in oil markets in recent days says something. World oil consumers will suffer if an oil embargo goes through. But later this year Russia will surely share that pain.

## Infineon: chipping away

Tech stocks may be falling, but chipmakers continue to roll out strong results. Germany's Infineon yesterday was bang on trend, reporting a (modest) profit beat in the second quarter and raising full-year sales guidance from €13bn to €13bn-€14bn.

Integrated device manufacturers such as Infineon and Samsung are riding a demand boost exacerbated by snagged supply chains. Infineon's auto industry specialisation – more than two-fifths of sales – means that it benefits from healthy trading in electric and assisted-driving vehicles.

Experts suggest more to come. Gartner last month upped its predictions, expecting a 13.6 per cent increase in global semiconductor revenues to \$676bn this year.

Yet this is a sector defined by peaks of capital expenditure and troughs driven by overcapacity. Hefty capex commitments by chipmaking giants – \$40bn-\$44bn alone at TSMC – suggests this time will be no different. Already inventories are rising. Infineon's second-quarter inventories of 121 days are up by a fifth on the year-ago period and up eight days on the quarter.

Cost of living crises should damp demand for upgraded phones and TVs. TSMC last month warned of slowing demand for consumer electronics, especially in China. Geopolitics further skew the picture, by expanding supply. US-China tensions and the latter's own "Made in China 2025" policy is encouraging chip users to segue into producing their own semiconductors.

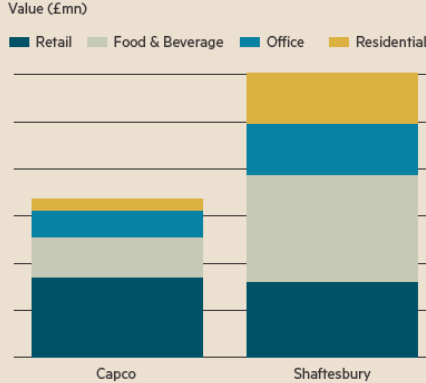
Other governments are following suit. Washington, smarting at a plunge in its share of global output from 37 per cent to 12 per cent in the past three decades, is pushing onshoring. The EU's Chip Act envisages mobilising €43bn to double the bloc's share of manufacturing to 20 per cent by 2030. The UK is reviewing its own plans. Industrial policy has a patchy record

## Shaftesbury/Capco: West End flop

Combining Capco and Shaftesbury brings together two formidable London real estate portfolios. The former's chief executive will control the new company. Yet it is Shaftesbury that has the better long-term record for its shareholders, in terms of net asset value returns.

### Portfolio breakdown

Value (£mn)



Sources: company; Panmure Gordon

So much for location, location, location.

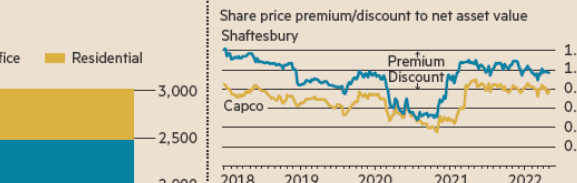
Plans to combine prime London landlords Shaftesbury and Capital & Counties got poor feedback on first viewing yesterday. After proposals leaked at the weekend, the companies confirmed that they planned to go ahead with an all-share combination.

Declines in both companies' shares wiped out more than £100mn of market value on the day, leaving the deal valued at £3.5bn.

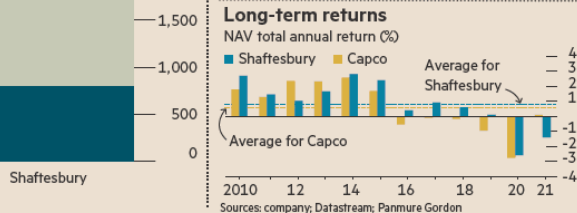
Although Shaftesbury shareholders will receive 53 per cent of the new company, Capco chief executive Ian Hawksworth will continue to be in charge.

All but one of Shaftesbury's team

### West End landlords



### Long-term returns



plan to leave including CEO Brian Bickell who will retire. What is effectively a nil-premium takeover by Capco would be unlikely to proceed without the backing of a large shareholder and a cross-shareholding.

One reason for the lack of premium is Capco's previous history with Shaftesbury. It owns a quarter of the property group, in effect blocking approaches from other interested parties.

Also, Norway's sovereign wealth fund, Norges Bank, holds large stakes in each. It has 15 per cent of Capco and more than 25 per cent of Shaftesbury, and backs a deal.

Both landlords own some of London's most esteemed shopping destinations: Shaftesbury's Carnaby Street and

Capco's Covent Garden. A combination make some sense.

Even so, Capco shares have traded at a steeper discount to net asset value over time: about 20 per cent compared with 8 per cent at Shaftesbury on average over the past five years. That is justified given Shaftesbury's better record of growing its net asset value over the past decade, thinks Miranda Cockburn at Panmure Gordon.

Given that most of the top team at Shaftesbury will go, minority shareholders will need to examine whether the new team can add value.

Norges Bank thinks so. But a 17 per cent discount to net asset value for the combined companies on the day suggests the market has its doubts.

and ambitions may not come to pass. But the stage looks set for another round of overcapacity.

## Toyota/India: plugging the market

India's economy has long been touted as the next China. Toyota thinks so for electric vehicles. It plans to invest heavily in making EV parts in India.

For the Japanese carmaker, which counts the US and China as core overseas markets, this move makes sense.

Toyota's Rs48bn (\$624mn) investment will focus on producing EV parts. Toyota has trailed peers in the move to battery electric vehicles.

Yet on 11 times forward earnings, the carmaker has double the multiple of German peers such as Volkswagen, well ahead in battery EVs.

India, too, wants to make up for lost time, with plans for 30 per cent of all new cars sold to be electric by 2030. Toyota has its sights set on selling 3.5mn EVs globally by 2030.

Electric-car adoption has been slow in India. Blame high EV prices and a lack of charging infrastructure. India's GDP per capita of below \$2,000 is less than a fifth that of China, making price a big obstacle in future EV uptake.

Toyota's relatively late start to the electric market means there is scope to build low-end cars from scratch for the India market. Mitsubishi Motors' sub-\$18,000 electric car for the Japanese market shows it can be done.

As for charging stations, India and Japan have partnered to develop a common standard for emerging markets. A plan for a simplified construction standard, with installation costs below \$10,000, could halve current costs.

India's electric-car sales have been weak, at just about 300,000 in total last year. Yet the country shows no reluctance to the shift to electric when it comes to low-cost scooters, with sales here increasing 370 per cent in March.

Having more of the electric-car supply-chain production in India would further lower costs.

Shares of Toyota are up more than a third in the past year, beating the MSCI World Auto index. Capturing India's EV market early should help maintain its momentum and valuation premium.

## Tyson Foods: overcooked

Tyson Foods has given its shareholders plenty to cluck about. The US meat producer has managed to stave off inflationary pressures and labour woes. In its latest quarter, the company behind Jimmy Dean sausages and Ball Park hot dogs delivered sales and profits that topped analysts' expectations. Better, it raised its full-year sales range outlook by a few billion to between \$52bn and \$54bn.

Tyson can thank America's legions of meat lovers. Demand has been resilient despite higher checkout bills. Average prices in the quarter for chicken and beef rose 14 per cent and 24 per cent, respectively, year-on-year. Volumes for both held up, increasing 0.6 per cent.

Tyson thus easily offset soaring costs for everything from animal feed to wages and transport. Underpinning its pricing power, gross profit margin for the period rose 210 basis points to 13.2 per cent. Net income jumped three-quarters to \$829mn. To say things are going well is an understatement.

The meatpacker's return on equity is more than 25 per cent for the past 12 months through April, a near record. Analysts estimate the company will generate a hefty \$2bn of free cash flow annually through 2024, not bad for a \$33bn company. No wonder Tyson shares have managed to climb 5 per cent this year, trading on a multiple of about 12 times forward earnings. That is in line with its three-year average.

Yet flexing its pricing muscle may well provide added ammunition for regulators. The meat sector has faced heat as consumer price inflation soars. The White House blames excessive market concentration among the Big Four meatpackers. In January, the Biden administration outlined plans to support smaller ranchers and meat processors in an attempt to inject more competition into the sector.

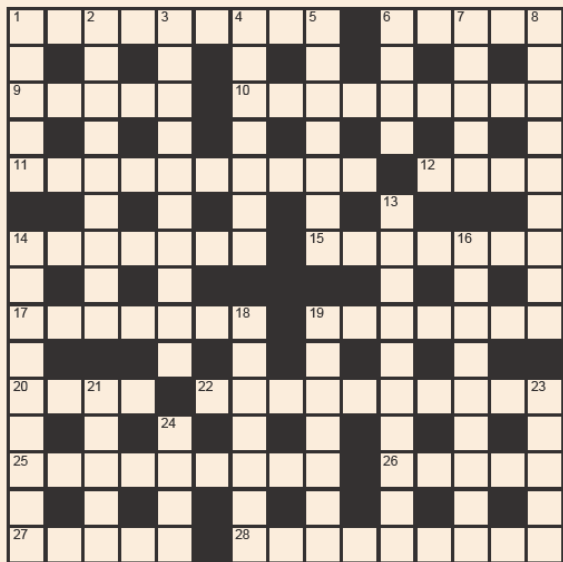
Investors like companies that can pass through rising costs to customers. They do not like regulatory threats. To keep its stock sizzling, Tyson will need to manage inflation without further provoking White House watchdogs.

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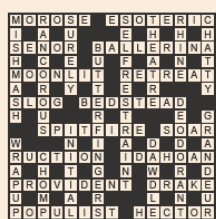
No 17,090 Set by LEONIDAS



- ACROSS**
- Frank with one extremely third-rate applicant (9)
  - Patron essentially avoided duck relish (5)
  - Southern river reflected bright stars (5)
  - Nuts a German added to the Spanish cake (9)
  - Seating over-excited children in front of broadcasts (10)
  - Stable half of those in university (4)
  - Aged couple crossing ancient city with daughter (7)
  - Tense in midst of symphony's rousing passages (7)
  - Wire newspaper about occupier of bank briefly (7)
  - Part company with fashionable currency (7)
  - Aroma on unwrapping cake (4)
  - Hebridean hottie maybe starts to ravish young preacher (10)
  - Beat whoever spoiled edges of linoleum (9)
  - Joke with head of ticketing prior to Hay? (5)
  - Pain being trapped in an alien country (5)
  - Rules protecting fellows in accommodation (9)
- DOWN**
- Gull scooped out crayfish shell (5)
  - Sailor perhaps recalled terrible person atop reptile (9)
  - Lack of confidence in cuisine? Try cocktail (10)
  - Item for pool room covered by amateur group (7)
  - Back last runner in the Derby as 'arry says (7)
  - Wolf and seal heading northwards (4)
  - 8 presumably from family in centre of bust-up (5)
  - Sketched too much without any green (9)
  - Pale Monsieur on subway returning for final examination? (4,6)
  - It might hail intermittently in March (9)
  - One organising Nato's oil withdrawal (9)
  - Clear identification to enter competition (7)
  - Tracker possibly in base of coach hidden by driver (7)
  - Very poor bridging Clyde engineers erected (5)
  - Sure to lock up fine harnesses (5)
  - Academic pairs swapping sides (4)

### JOTTER PAD

Solution 17,089



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