

FINANCIAL TIMES

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INTERNATIONAL NEWSPAPER OF THE YEAR

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Broken breadbasket

The strain on Brazil's savannah from intensive farming — BIG READ, PAGE 13

Crisis of liberalism

It's time to overcome the aversion to conflict — JANAN GANESH, PAGE 15



Speak easy

Attack on Rushdie is an attack on the free world — FT VIEW, PAGE 14

Kenya clash Rival disputes Ruto victory

Raila Odinga, centre, who narrowly lost Kenya's presidential race, in the capital Nairobi yesterday before a speech in which he rejected the vote's outcome.

Odinga's team said the electoral commission's system had been hacked and polling results manipulated in favour of self-styled hustler and former chicken seller William Ruto.

Ruto's backers say his plans to boost agricultural and manufacturing output are just what Kenya needs. "Ruto... has bred a revolution that has taken the country by storm. To his followers, he is a political chess master who plots... many moves in advance," Kenya's Nation newspaper said. Kenya's political hustler page 3 Zelnab Badawi page 15



Michele Spataro/Bloomberg

Retailers ease US recession fears as resilient shoppers defy gloom

Strong sales at Walmart and Home Depot • Consumers shrug off fuel and food price rises

ANDREW EDGECLIFFE-JOHNSON AND ALEXANDRA WHITE — NEW YORK

Two of the biggest US retailers have eased concerns of a recession, reporting resilient consumer spending despite sharp food and fuel inflation weighing heavily on their customers. Walmart, the world's largest retailer, said it had seen glimmers of improvement in recent weeks even as its most price-sensitive shoppers traded down to cheaper groceries. Home Depot, the DIY chain, said spending on home improvement had been "incredibly high", with business accelerating in recent weeks.

Two profit warnings from Walmart since May had rattled investors looking for clues to how consumers were adapting to historically high inflation and rising interest rates. But Walmart yesterday announced stronger sales and profits than expected in the three months to July and forecast a smaller decline in full-year earnings than it had warned investors of just three weeks ago.

"We finished the quarter on a strong note," said John David Rainey, new chief financial officer. Traffic to stores had picked up in July and August, he added, and the back-to-school season was "off to a solid start". Home Depot reported record quarterly sales and earnings, saying that consumers continued spending on home renovations despite high inflation and mortgage rates.

Ted Decker, Home Depot's chief executive, told analysts there were still many "cross-currents" in the US economy but savings rates, the labour market

and wage growth remained strong. Walmart's earnings of \$1.88 a share for its fiscal second quarter were up 24 per cent year on year and exceeded analysts' \$1.62-a-share consensus estimate.

Coming on the back of an 8.4 per cent increase in revenues to \$15.5bn, however, the figures showed the impact of inflationary pressures on Walmart consumers, many of whom have cut spending on clothes and general merchandise as their petrol and food bills have risen.

Lower-income consumers were trading down, from deli meats to hot dogs and canned tuna, Rainey said.

Doug McMillon, Walmart's chief executive, added that it was gaining market share as higher-income shoppers turned to its stores to save money. As it had warned in July, inflation-

driven shifts in spending left Walmart with excess inventory, particularly in clothing. Markdowns to clear stock contributed to a 132 basis point decline in its gross profit margin in the quarter.

Rainey said Walmart had cleared most of its summer seasonal inventory but was still working to clear excess stock in electronics, home and sporting goods.

Investors welcomed the improved outlook from two of the largest US retailers, pushing up Walmart shares 5.8 per cent and Home Depot 5.1 per cent in midday trading yesterday.

The upbeat mood also boosted peers. Retailer Target and DIY chain Lowe's, which report earnings today, were up 5.9 per cent and 3.9 per cent respectively.

Drivers cut mileage page 2 Lex page 16



The DIY chain says spending on home improvement is 'incredibly high', with business accelerating in recent weeks despite high inflation and mortgage rates

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Drivers cut mileage page 2 Lex page 16

Briefing

Gas prices surge both sides of Atlantic Prices in Europe have jumped as high as €251 per megawatt hour, one of the highest levels ever and equivalent in oil terms to \$400 a barrel. Benchmark US gas rose at one stage almost 7 per cent. — PAGE 5

German economic pessimism deepens Investors have turned more downbeat than at any time since the eurozone debt crisis more than a decade ago, fearing a big fall in Russian gas supplies will plunge the country into recession. — PAGE 2

Russia blames Crimea blast on sabotage Moscow has said saboteurs blew up an ammunition depot on the peninsula and claimed Ukraine was behind covert attacks in Russia, a potential sign of Kyiv's ability to strike behind enemy lines. — PAGE 4

Amazon accuses FTC of harassment The ecommerce group has said the US competition watchdog has harassed senior executives, including founder Jeff Bezos, in its probe into the Prime membership scheme. — PAGE 6



EU weighs Iran's answer on nuclear talks The bloc has said it is studying Tehran's response to a draft agreement intended to save the 2015 accord and consulting its other signatories as the EU seeks to prevent the deal's total collapse. — PAGE 2

Thoma Bravo eyes Darktrace move The US technology-focused private equity group has begun discussions on a cash offer for the UK-based cyber security group advised by former UK Autonomy head Mike Lynch. — PAGE 5; LEX, PAGE 16

Bid to recreate extinct Tasmanian tiger A Melbourne university scientist and a US biotech group backed by the Windevoos twins have vowed to recreate the doglike animal declared extinct in 1936 when the last one died in a zoo. — PAGE 4

Datawatch

Childcare costs

Net expenses for a single parent earning two-thirds of the average wage* (€)



Childcare expenses in the US, for single parents earning two-thirds of the average salary, are among the highest relative to other developed countries. Such costs absorb almost a fifth of their earnings

*Accounts for related benefits received Sources: OECD, (2021 or latest year)



Boss team before Celcius's fall

Analysts • PAGE 8

Table with 2 columns: Country and Currency/Code

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Hedge fund Elliott unloads SoftBank stake after losing faith in founder Son

ARASH MASSOUDI — LONDON

Hedge fund Elliott Management has dumped almost all of its position in Japan's SoftBank, in the latest sign of growing investor unease in the fortunes of the world's biggest technology investment group.

The US-based activist investor has decided in effect to end its multiyear bet on SoftBank by selling down the vast majority of its remaining shareholding, having previously bought as much as \$2.5bn in the group, according to people familiar with the trade.

One of the people said Elliott made its move after losing conviction in the Japanese group's billionaire founder Masayoshi Son and his ability to close the huge gap between the value of SoftBank's holdings and its market capitalisation. The exact size and timing of the sell-

down by Elliott, which manages about \$56bn in assets, was not revealed. But the person said it took place this year as technology stocks, including SoftBank, were being routed by a sharp sell-off.

Elliott declined to comment. It was first revealed in February 2020 that Elliott had built its stake in SoftBank. Last year, the hedge fund sold a significant chunk at a profit, according to people with knowledge of the matter.

The decision to exit the position almost completely is another blow to SoftBank, which has responded to growing pressure on its business by promising huge cost-cutting and a historic sell-down of the company's stake in Chinese ecommerce giant Alibaba.

SoftBank reported a record quarterly loss of \$2.3bn last week, with Son saying he was "ashamed" of past gloom over the group's performance. Shares in Soft-

Bank are down 10 per cent over the past year and 45 per cent below the record high reached in March 2021.

According to SoftBank's website, the group should be worth about double the ¥5,900 per share level it sits at if investors were valuing the company on the basis of its net asset value.

Elliott's investment had been based on a belief that SoftBank could narrow this gap through share buybacks, improved governance and asset sales.

The Financial Times reported in November that Elliott, before selling its stake, had grown frustrated that SoftBank had not embarked on a fresh round of share buybacks, other investors thought the same. Instead, Son had opted to keep ploughing billions of dollars into early-stage start-ups.

Elliott ditched Twitter page 6 Lex page 16

World Markets table with columns for Stock Markets, Currencies, and Government Bonds

Clinique La Prairie advertisement for Age-Defy supplement

AGE-DEFY is the ultimate supplement for longevity, offering a 2-step routine of immunity and regeneration. With CLP Holistic Complex, proven to combat cell aging. The Collection of Clinique La Prairie supplements is the result of a 90-year legacy of transformative wellness and science. Contact us for an exclusive complimentary consultation with our teams of nutrition experts to unlock the secret to your longevity.

Dubai			
Nikkei	28688.91	28671.78	-0.01
Hang Seng	19830.52	20040.88	-1.05
MSCI World \$	2842.48	2834.51	0.28
MSCI EM \$	1015.00	1016.83	-0.18
MSCI ACWI \$	659.09	657.57	0.23
FT Wilshire 2500	5608.20	5686.63	0.39
FT Wilshire 5000	43816.65	43648.29	0.39

Bitcoin	1882.08	1900.21	-0.96
Ethereum	1882.08	1900.21	-0.96
COMMODITIES			
Aug 16		Prev	%chg
Oil WTI \$	87.18	89.41	-2.49
Oil Brent \$	92.88	95.10	-2.33
Gold \$	1776.90	1792.10	-0.86

GER 2 yr	0.57	0.52	0.05
GER 10 yr	0.97	0.90	0.07
GER 30 yr	1.23	1.15	0.08



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INTERNATIONAL

Eurozone powerhouse

German investor pessimism at 11-year high

Recession fears grow after Russia cuts gas supplies and energy prices soar

MARTIN ARNOLD — FRANKFURT

Investors are more pessimistic about the German economy than they have been at any time since the eurozone debt crisis more than a decade ago, worrying that a sharp fall in Russian natural gas supplies and soaring energy prices will plunge the country into recession.

The ZEW Institute's gauge of investor expectations about Europe's largest economy has sunk to its lowest level since 2011, from minus 55.8 to minus

55.3, underlining deepening gloom after Russia's invasion of Ukraine.

The think-tank's survey of financial market participants provides an early indicator of economic sentiment after Russia reopened the Nord Stream 1 pipeline following a maintenance break last month, but kept the main conduit for delivery of gas to Europe operating at only a fifth of capacity.

Economists have slashed estimates for growth in Germany and the eurozone this year, while raising inflation forecasts and warning that an end to Russian energy supplies would force Berlin to ration gas supplies for heavy industrial users. Yesterday, German baseload power for delivery next year,

the benchmark European price, rose over 5 per cent to a record €502 per megawatt hour, said the European Energy Exchange. This is six times higher than the price a year ago, driven by the sharply higher cost of gas to generate electricity and the European heatwave that has disrupted generating capacity.

The surging price of energy has driven up the cost of imports for Germany and the eurozone, sending the bloc's trade deficit to €24.6bn in June, compared with a surplus of €17.2bn for the same month a year earlier, said Eurostat, the European Commission's statistics bureau. The value of exports from the bloc rose 20.1 per cent in June on a year ago, but imports were up 43.5 per cent.

"The still high increase in consumer prices and the expected additional costs for heating and electricity are currently having a particularly negative impact on the prospects for the consumer-related sectors of the economy," said Michael Schröder, a researcher at the ZEW.

He said sentiment also worsened because of an expected tightening of financing conditions after the European Central Bank raised its deposit rate by 0.5 percentage points to zero.

Carsten Brzeski at Dutch bank ING said the economy was "quickly approaching a perfect storm" caused by "high inflation, possible energy supply disruptions, and ongoing supply frictions".

A dry spell has reduced water levels

on the Rhine below that which barges can be fully loaded, restricting supplies for factories, which Brzeski said was likely to knock as much as 0.5 percentage points off growth this year. Further, households will have to pay more in bills this winter after the government unveiled an extra gas levy of 2,419 cents per kilowatt hour from October. This is set to push up the cost for a family of four by €240 in the final quarter.

The top network regulator said this month that the country must cut its gas use by a fifth to avoid winter shortages. The economy ministry has also ordered companies and local authorities to cut room temperatures to 19C over winter.

Additional reporting by Harry Dempsey

Draft accord

Brussels weighs Iran response to 'final text' on nuclear deal

ANDREW ENGLAND — LONDON
NAJMEH BOZORGMehr — TEHRAN
ALICE HANCOCK — BRUSSELS

The EU has said it is studying Iran's response to a draft agreement intended to save the 2015 nuclear accord as the bloc seeks to prevent the deal's total collapse and to avert a new crisis.

Brussels received Tehran's response to the draft late on Monday. "We are studying it and are consulting with the other JCPOA [nuclear accord] participants and the US on the way ahead," an EU intermediary said.

EU officials have described the draft, which was discussed by Iran and the US at indirect talks in Vienna this month, as the "final text".

Analysts and diplomats said there were signs of some progress at the talks that are aimed at striking a deal under which the US agrees to rejoin the accord and lift many sanctions on Iran in return for Tehran drastically reducing its nuclear activity. But there were still outstanding issues after 16 months of EU-mediated talks that have often floundered as the main protagonists have blamed each other for deadlocks.

A diplomat briefed on the talks said the main obstacle to an agreement was Iran's insistence that US president Joe Biden provide guarantees relating to the economic benefits Tehran expected to receive from sanctions relief and its concerns that a future US administration could abandon the accord.

The nuclear crisis was triggered after former US president Donald Trump withdrew from the accord in 2018 and imposed hundreds of crippling sanctions on the republic.

Iran, which was in effect cut off from the global financial system, responded by increasing its nuclear activity and is now enriching uranium to levels close to weapons grade.

Experts have said it is virtually impossible for the Biden administration to provide the guarantees Tehran wants.

But the diplomat said the US had agreed to extend significantly the amount of time given to foreign companies operating in Iran to exit if nuclear-related sanctions were reimposed. At the moment, the time given to companies to leave ranges from 90 to 180 days. The diplomat said the exact timeframe had not been agreed, but "it's the best guarantee the US can give", the diplomat said.

There had also been talks on the details of the International Atomic Energy Agency's monitoring regime, with Tehran saying it was too harsh, the diplomat said.

One of the hurdles to an agreement has been Iran's demand that the IAEA drop a historical probe into traces of nuclear material found at three undeclared sites. "They spoke through some of the issues and there's more willingness to [agree], it's now more about the length and timeframes of certain things," the diplomat said. "It's more details than principles."

Iran foreign minister Hossein Amirabdollahian said on Monday there were three remaining "logical" concerns that Tehran wanted to be addressed before signing an agreement. "In order to take the final step, the US must show flexibility," he told Iranian journalists.

Energy market. Petrol consumption

US drivers reduce mileage despite fall in fuel price

Trend may be reaction to high pump costs in June and also reported economic slowdown

MYLES MCCORMICK — NEW YORK

The retail price of US petrol has declined every day for the past nine weeks, a fact visible to motorists on signs at petrol stations. Less apparent is another trend: they appear to be driving less.

Weakening fuel consumption by the world's largest consumer may be a reaction to record prices set in June above \$5 a gallon. It would also be consistent with the reported slowdown in the US economy. If confirmed, it would help to loosen the global crude oil market, which has retreated close to where it traded before Russia invaded Ukraine.

Measuring US fuel consumption in real time is tricky, but several information sources point to it levelling off or declining in comparison with previous summer "driving seasons".

The US Energy Information Administration, a government statistics agency, has estimated petrol demand averaged 8.9mn barrels a day over the four weeks to August 5, marginally less than a month earlier and 6 per cent below the same period last year, when prices were \$3 a gallon. Last week, the EIA trimmed its full-year forecast for consumption.

A survey by the Oil Price Information Service of petrol stations nationwide suggested the volume pumped last week was down about 2 per cent on a week earlier, 5 per cent on a year earlier and 19 per cent on the same period in 2019, before the pandemic took hold.

Data from the US Federal Highway Administration showed that traffic volumes hit a wall in June after consistently outstripping 2021 levels in the first five months of the year. Traffic in June, the latest month for which data were available, was 1.7 per cent, or 4.8bn vehicle miles, lower than in June 2021. In California, where prices had reached above \$6 a gallon, the decline was 3.5 per cent.

AAA, the motorists' group, said a survey found that about two-thirds of drivers had changed their habits since March because of high prices, largely by cutting back the amount they drive and combining errands. At \$5.96 a gallon on Monday, petrol prices were down by more than a fifth from their mid-June peak and below \$4 for the first time in nearly six months, according to AAA.



Pumped up: a petrol station display in Brooklyn, New York, last week shows the cost of fuel has dropped from a June high of \$5 a gallon

"It has not catalysed gasoline demand," said Tom Kloza, head of oil analysis at Opus. "Even though we've been dealing with lower prices... demand hasn't been juiced up."

Petrol prices may not be the most significant factor determining whether Americans return to the roads, said Giovanni Cirrella, a travel behaviour expert at the University of California, Davis. Employees tightening up return-to-

work rules or another pandemic wave could supersede any price moves.

A jump in joblessness, as rising interest rates cool the economy, could also cut demand from car-bound commuters. The US unemployment rate was at a historically low 3.5 per cent last month. A combination of the largest expansion of paved roadways in the industrialised world and poor public transport in many parts of the US means that many people have no option but to drive.

Mobility data from analytics firm Inrix suggests passenger traffic is running at about 93 per cent of pre-Covid levels this summer but is roughly on a par with last year.

"Driving is relatively inelastic, meaning that a large change in price only causes a small change in driving," said Bob Pishue, at Inrix. "In the vast majority of the country there aren't alternatives to driving."

Analysts said the latest price drop below a psychological threshold would have an effect. "Getting below the \$4 mark is going to be significant. I think we will see people react to it positively," said Prashant Malaviya, a marketing professor at Georgetown University.

'Even though we've been dealing with lower prices, demand hasn't been juiced up'

"It will have a disproportionate impact on the perception or the emotional response that things are getting better."

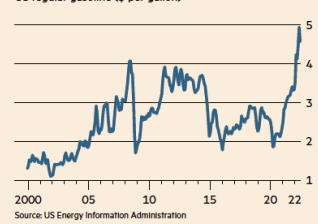
Oil refiners say the market remains tight after a large amount of capacity was taken offline during the pandemic. Gary Simmons, chief commercial officer at Valero Energy, told analysts recently the company had seen a "bit of a lull" in early July but that demand had since recovered to June levels.

Over the long term, high fuel prices could accelerate the adoption of electric vehicles in the US, just as they drove sales of hybrid vehicles in the early 2000s. Such a change would support efforts to shift from combustion engines through tax incentives that were included in the climate bill that passed Congress last week.

"One potential impact [of higher prices] is that we are going to see more fuel efficiency gains; a new wave of increasing fuel efficiency, but the other big thing is that we are going to see more and more electric vehicles on the road," said Cirrella.

"With the government push supporting that, high gas prices might actually help quite a bit."

Petrol prices remain well above historical levels
US regular gasoline (\$ per gallon)



Strategic projects

EU eyes domestic output boost for green energy raw materials

SAM FLEMING AND ALICE HANCOCK
BRUSSELS
PETER WISE — LISBON

As Europe seeks ways to end its need for Russian oil and gas, officials in Brussels hope some of the answers lie on home soil — or rather, under it.

The European Commission wants to boost output of homegrown raw materials needed for many energy-related

consumption by 2050, according to the EU's Joint Research Centre. The need for cobalt and graphite could be nearly 15 times higher.

"Demand is increasing dramatically due to the digital and green transition of our society [but] we are too often almost entirely dependent on imports, while the geopolitics of supply chains are increasingly unstable," said EU internal market commissioner Thierry Breton

owner, has been forced to push the start date back several times as it awaits environmental approval. In July, Portugal's regulator added a phase to the process, causing Savannah to reset its production launch again, this time to 2026.

Dale Ferguson, Savannah's interim chief executive, said it was hardly surprising environmental scrutiny in the EU was lengthier than in his native Australia or the US.

tugal, which has not licensed a large wind project for 30 years, the commission is working on a proposed Raw Materials Act aimed at stimulating EU production.

Among the ideas are provisions to designate key strategic projects for accelerated permissions, creating a one-stop shop for project authorisations, or measures to speed up national legal processes when there are challenges

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...which are still in their infancy, would lower regulatory barriers to mining and production of critical materials such as lithium, cobalt and graphite, needed for wind farms, solar panels and electric vehicles.

Even before Russia's war on Ukraine created the risk of a total shutdown of Russian gas exports to the EU, the commission, which wants to sharply increase renewables use, was sounding the alarm about the risks of being too reliant on imported raw materials.

By 2030, EU demand for rare earth materials for wind turbines will increase fivefold, according to the commission, but global supply is projected to only double. Demand for lithium is likely to be almost 60 times as high as current

This would require an "open debate" about more mining, processing, refining and recycling in Europe, Breton said. "We prefer to import from third countries and close our eyes on the environmental and social impact there, let alone the carbon footprint of importing. But mining in Europe does not have to be a dirty business."

Efforts to unearth big reserves of lithium in Portugal suggest how difficult it will be for the EU to attain its goal, however.

A potential cornerstone of Europe's green energy transition, the Barroso mine in north-eastern Portugal was expected to begin producing lithium for electric vehicle batteries in 2020. But Savannah Resources, the London-listed

"You can't compare a mine on the edge of a remote desert in Australia with a project in Europe," he said. Faced with hurdles like those in Por-



Thierry Breton: 'We are often almost entirely dependent on imports'

...They draw on EU regulations that have expedited permissions for electricity infrastructure.

A 2021 JRC report said Europe's potential resources were under-explored, with the lowest investment in mining activities of any big region. Data on the EU's reserves are hazy.

Meanwhile, demand is growing. The EU target is for renewables to produce 32 per cent of the bloc's energy by 2030, but that could increase to 40 per cent or even 45 per cent if the European Parliament gets its way in negotiations. In 2020, about 22 per cent of the EU's power generation came from renewable sources, according to the commission. Additional reporting by Andy Bounds in Brussels

INTERNATIONAL

Kenya's political hustler faces tough in-tray as new president

Challenges for Ruto include Covid-hit economy, rising prices, drought and debt

ANDRES SCHIPANI — NAIROBI

Just after protesters stormed the stage disputing his narrow victory, Kenya's presidential elect, self-styled hustler and former street chicken seller William Ruto, sought to be statesmanlike.

The deputy president, previously charged by the International Criminal Court for inciting ethnic violence after the disputed 2007 poll, congratulated his "worthy competitor", veteran opposition politician Raila Odinga, and called for peace.

"The people of Kenya have raised the bar on us who are seeking leadership of our country. Not to sell our ethnicities, but to sell our programmes, our manifestos, our agenda and our plan," he said on Monday, to cheers. "There is no room for vengeance and looking back; we are looking into the future."

Odinga has challenged the results. His team said the electoral commission's system had been hacked and polling results manipulated in favour of Ruto. Some commissioners also disowned the result. It is unclear when Ruto will take office, but his supporters are clear that the man once associated with some of the worst electoral violence seen in the east African country has changed.

"William Ruto has, like all of us, grown. He is a different person from the person who became deputy president. These 10 years have been a character-building exercise. He's emerged a better person prepared for this job," said David Ndihi, his top economic adviser.

One of Kenya's richest businessmen,

Ruto campaigned on his rags-to-riches story. His yellow Hummer-like campaign vehicle bore the slogan "every hustler matters".

The God-fearing teetotaler and botanist contrasted his humble pedigree with that of President Uhuru Kenyatta and Odinga, both sons of independence heroes. "Since people decided to call me a chicken seller, I decided to continue being one," the 55-year-old said. "Now I have 200,000 chickens."

The electoral race, cast by observers as "dynasties versus hustlers", was made unpredictable by the fact that Ruto fell out with Kenyatta, whose victory in 2017 was made possible by Ruto's supporters in the Rift Valley. In return, Ruto had hoped for Kenyatta's support for the presidency this year, but his boss changed to back Odinga four years ago. On polling day, Kenyatta's traditional Kikuyu supporters, from Mount Kenya, backed the deputy president, who is a Kalenjin. Turnout at almost 65 per cent was down from some 80 per cent in previous elections. The result can be interpreted as a sign that the ethnic allegiances that shape electoral politics in Kenya have weakened, analysts say.

"I said we're going to have a different conversation, we're not going to have the usual conversation about big boys and sharing power and positions," Ruto said in an interview before the vote. "This conversation is less and less about ethnicities, it is less and less about what has always brought friction between Kenyans. It's more and more about issues that have no ethnic baggage. It's



Legal bid Contender Odinga rejects election victory

Kenya presidential contender Raila Odinga is to take legal steps to challenge William Ruto's election victory, adding to uncertainty in the aftermath of a poll to decide the successor to Uhuru Kenyatta.

On Monday, Wafu Chebukati, chair of Kenya's electoral commission, said Ruto, the deputy president and self-made businessman, won 50.5 per cent of the vote, while veteran opposition leader Odinga won 48.8 per cent.

"The figures announced by Mr Chebukati are null and void and must be quashed by a court of law. In our view, there is neither a legally and validly declared winner nor a president-elect. Mr Chebukati's statement purporting to announce a winner is a nullity," said Odinga, who was backed by President Uhuru Kenyatta. This was his fifth attempt to win the presidency. *Andres Schipani*

about creating jobs, cost of living, dealing with debt, making sure that we have sufficient revenues.

If Ruto takes office, he will have to steer a pandemic-battered economy, rising food and fuel prices spurred by the war in Ukraine, the worst drought in four decades and soaring public debt.

"He faces some significant economic challenges, including the need to put Kenya's public debt on a sustainable footing. On this front, investors may welcome a Ruto presidency not least because he had discussed his preference for fiscal consolidation, whereas his opponent had openly talked about the need for a debt restructuring," said Viraj Pirias at Capital Economics.

Ruto's backers say his plans to boost agricultural and manufacturing output are just what Kenya needs. "Ruto... has bred a revolution that has taken the country by storm. To his followers, he is a political chess master who plots... moves in advance," Kenya's National newspaper said yesterday. Ruto said: "Where Kenya is at the

Rags-to-riches story: William Ruto, at a rally this month in Nairobi, is one of Kenya's richest businessmen who once sold chickens in the street *Daniel Hungu/EPA-EFE*

"We must sort out the cost of living, we must deal with our debt situation"

moment, there are some imperatives that are necessary. We must sort out the cost of living, we must deal with our debt situation."

Ruto started his political career in 1992 campaigning for the late president Daniel arap Moi. "He... was mooted by former president Moi, entering as a youth leader and is someone who has risen up the ranks quite quickly," said Nerima Wako, a political analyst.

Ruto's critics accuse him of corruption, land grabbing and ruthlessness, allegations he denies. "Ruto is a political plunderer, an economic saboteur," said Luke Odongo, a primary school teacher who helped Odinga's campaign.

Ruto supported Odinga in the 2007 polls, during which 1,200 died in post-election violence. The ICC investigated him for crimes against humanity yet the charges were later dropped.

For his followers, this win is for all hustlers. As one boda-boda, or motorbike taxi driver, said: "I am a hustler like him, and this is a hustler nation now." *See Opinion*

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INTERNATIONAL

Crimea

Moscow blames 'sabotage' for explosions

Attacks highlight Kyiv's ability to target military infrastructure of enemy

MAX SEDDON — RIGA

Moscow has blamed "sabotage" for explosions at an ammunition depot in Crimea and claimed Ukraine was behind covert attacks in mainland Russia, providing possible evidence of Kyiv's increased ability to strike deep behind enemy lines.

Russia's admission that forces loyal to Ukraine struck more than 100km behind the front lines was a rare acknowledgment of Kyiv's recent suc-

cess in targeting its military infrastructure, including on the Black Sea peninsula annexed by Moscow in 2014.

Videos posted on social media showed huge plumes of smoke rising from the base after a series of explosions yesterday. The ministry claimed there were "no serious casualties" at the base in the village of Maiske in northern Crimea, which it said also damaged power and railway lines, an electricity substation and several residential buildings.

Sergei Aksyonov, the top Russian official in Crimea, said two people were hospitalised after sustaining minor injuries from the blast. He declared a state of emergency and said authorities had evacuated 3,000 people from the area.

Black smoke was also seen at an air base near provincial capital Simferopol, Russian newspaper Kommersant reported, citing eyewitnesses. It referred to a local official who suggested Ukraine had used a drone to attack the base.

Ukraine did not confirm it carried out the attacks on Crimea but warned the annexed region would not be exempt from the effort to repel Russian forces. "Crimea is Ukraine," tweeted Andriy Yermak, head of President Volodymyr Zelenskyy's administration, yesterday.

The FSB, Russia's main security agency, also said "Ukrainian saboteurs" had blown up six towers carrying high-voltage power lines in Kursk, near Russia's western border with Ukraine. It

said the attacks "led to a disruption in the technological process" at a nearby nuclear power plant.

Ukraine has apparently begun to target Crimea in an effort to reclaim territory in the country's south held by Moscow since President Vladimir Putin launched the invasion six months ago.

Officials in Kyiv claimed nine fighter jets were destroyed after explosions last week at Saki air base, which is 200km behind the front line. Russia has used the heavily fortified peninsula as a base for launching attacks on Ukraine from the south, where Kyiv is trying to retake Moscow-held territory.

Crimea had been seen as a beachfront idyll untroubled by the war mainly

unfolding in Ukraine's east and south before the recent spate of attacks on the Black Sea region. Traffic on a bridge linking the peninsula with mainland Russia hit a new daily record, with more than 38,000 cars leaving on Monday, according to the news agency Interfax.

Russia has previously played down reports of apparent strikes by Ukraine, which have included strikes on railway supply lines and a "kamikaze" drone strike on a refinery in the southern region of Rostov in June. State media has reported on "bangs" instead of "explosions", while officials have passed off incidents such as the strikes on Saki air base as accidents. Kyiv has not claimed responsibility for the attacks.

Global food crisis

First grain ship to leave Ukraine since war arrives in Syrian port

EMIKO TERAZONO — LONDON

The first grain-carrying ship to depart from Ukraine since the Russian invasion appears to have docked in the Syrian port of Tartus after it stopped transmitting its location signal early on Friday, according to satellite photographs.

"It seems in the end the first corn from Ukraine went to Syria, a strong ally of Russia," said Yürük İsk, a geopolitical and maritime analyst based in Istanbul.

The ship, the Razoni, has become one of the world's most closely monitored vessels owing to its status as the inaugural ship to leave the port of Odesa under a UN-brokered deal. The agreement opened a humanitarian corridor allowing the passage of cargo ships carrying Ukrainian grain — stranded in the country's ports since the start of the war — through the Black Sea to Istanbul.

Since setting sail at the start of this month, the ship's destination has been the subject of much speculation. The 26,500-tonne cargo failed to reach its originally stated destination of Lebanon after the buyer rejected it on quality grounds.

The shipment was resold and, after unloading 1,500 tonnes of its cargo in Turkey, the vessel appeared to be heading to its next stated destination of Egypt. Then, on Friday, it stopped transmitting from its transponder, which broadcasts position and route information. The last signal was sent from the north-west coast of Cyprus.

According to images from Planet Labs, a satellite photography group, seen by the Financial Times, the Sierra Leone-flagged vessel appeared to dock at the port of Tartus in Syria on Monday. Tartus is the site of a Russian naval base. Satellite photos from the European Space Agency appeared to show the vessel anchored just outside Tartus on Saturday.

"The vessel stopped transmitting its signal on August 12 just east of Cyprus and was sighted heading towards the port that morning. She then spent a couple of days in anchorage before docking," said Samir Madani, co-founder of TankerTrackers, a research company tracking maritime shipments.

Trading grain and food with Syria does not contravene western sanctions imposed on the Damascus regime over the country's long-running civil war. But some vessels avoid sailing to the country openly because of the stipulations of financial institutions, according to grain traders.

The docking of the Razoni comes as the first maritime shipment of Ukrainian wheat for an operation run by the UN World Food Programme left Pivdennyi yesterday. The shipment of 23,000 tonnes of wheat will form part of the WFP's humanitarian response to the drought in the Horn of Africa. WFP executive director David Beasley said: "It will take more than grain ships out of Ukraine to stop world hunger, but with Ukrainian grain back on global markets we have a chance to stop this global food crisis from spiralling even further." Seventeen vessels have set sail from

Trade. Conflict fallout

Surge in Turkey exports to Russia riles west

Greater collaboration triggers fears Ankara may become conduit for sanctions evasion

FT REPORTERS

Turkey's exports to Russia grew 46 per cent by value over the past three months compared with the same period last year as Ankara allowed its companies to step into the gap created by an exodus of western businesses.

From May to July, Turkish exports to Russia were worth \$2.04bn, \$642m higher than in those same months in 2021, according to export data compiled by the trade ministry and Turkish Statistical Institute. For last month alone, the value of exports to Russia increased 75 per cent year on year, from \$417m in July 2021 to \$730m.

The \$313m rise between July 2021 and July 2022 was the largest for any country that Turkey exports to. Russia's share of Turkey's total exports in July was 3.9 per cent, up from 2.6 per cent 12 months earlier.

The surge follows an initial decline after Russia invaded Ukraine in late February. While the overall sums involved remain relatively small — and are dwarfed by Turkey's large imports from Russia, dominated by energy — the evidence of growing trade between the two countries is likely to irk western officials dismayed by talk of deepening economic co-operation between Ankara and Moscow.

Figures from the Turkish Exporters Assembly, an industry body, suggest sales of chemicals, fresh fruit and vegetables and other food products, along with textiles, electricals and furniture drove the increase in exports to Russia. A four-hour meeting between presidents Recep Erdoğan and Vladimir Putin in the Russian resort of Sochi this month culminated in a joint promise of expanding collaboration on energy and trade, triggering warnings from western capitals that Turkey could face retaliatory steps if it acts as a conduit for sanctions evasion.

Turkey, a Nato member that has supplied armed drones to Ukraine while seeking to deepen ties with Russia, has not signed up to western sanctions, choosing instead to pursue what it calls a "balanced" approach to the conflict.



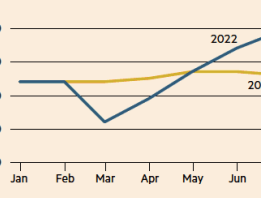
Turkish exports to Russia surged in June and July

Value of Turkish exports to Russia (\$m)



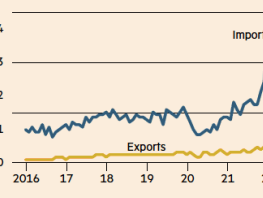
Russia is still a small market for Turkey but is becoming more important

Exports to Russia as share of all Turkish exports (%)



Imports from Russia still dwarf exports

Turkey's trade with Russia (\$bn)



Busly channel: a cargo ship sails down the Bosphorus Strait in Istanbul this month

the war against Ukraine. But two EU officials told the Financial Times EU members were growing uneasy about Turkey's booming trade with Russia and the potential for it to assist Moscow as a substitute for other European imports and exports. Some capitals requested information from Ankara regarding its relationship with the Kremlin.

"It's on our radar," said one of the officials. "It's not nice and is not being perceived well by the EU. It's an irritant."

Turkey's trade ministry said there was "not a remarkable change" in trade volumes with Russia and did not return phone calls seeking additional details.

The lira has lost a quarter of its value against the dollar this year as Turkey sticks with a loose monetary policy despite runaway inflation. Relatively

month than in July 2021, with sales to the US up 25 per cent to \$1.32bn, the trade ministry said.

Other Turkish officials are celebrating the growing commercial links with Russia. Adil Karaisalıoğlu, the transport minister, said in a tweet a 58 per cent jump in automotive trade by sea with Russia in the past three months, compared with the first four months of the year, showed the "leadership of Turkey" in opening sea corridors.

EU sanctions against Russia, imposed in seven packages since Putin's invasion of Ukraine in February, include bans on exports of cutting-edge technology.

Several western officials voiced alarm at the idea that Ankara sees the exodus of western companies from Russia as an opportunity for Turkish businesses to

'It's not nice and is not being perceived well by the EU. It's an irritant'

against Ukraine, it is not really appropriate to increase links or engagement with Moscow," said Peter Stano of the EU's foreign and diplomatic arm.

But potential action against Turkey is complicated by its role as a powerful Nato member and its role in hosting almost 4m Syrian refugees. Western officials acknowledge that Erdoğan's ability to negotiate with Putin is an asset, as demonstrated by the deal to allow Ukraine to restart seaborne grain exports, brokered by the Turkish president with the UN. "It's Turkey, everyone [in the EU] needs them, for one reason or another," said a European official, who spoke on condition of anonymity. "And the EU has to be aware of its abilities... we can't just tell [Erdoğan] he has to follow our rules."

Western officials have largely accepted Ankara will not adopt the measures aimed at punishing Putin for

cheap Turkish products have helped boost export sales. In value terms, exports were 13 per cent higher last

step in. "At the time when the European community is scaling down its ties with Russia in response to its aggression

Reporting by Eir Nolsae in London, Laura Pitol, Ayla Jean Yackley and Punja Güller in Ankara and Henry Foy in Brussels

the Ukrainian ports covered by the UN-brokered grain deal: Odesa, Chornomorsk and Pivdennyi.

Gene editing

Biotech experts vow to recreate extinct tiger

NIC FIELDS — SYDNEY

The Tasmanian tiger could be reintroduced into the wild within a decade after a US biotechnology company backed by the Winklevoss twins pledged to recreate the animal almost 90 years after it was declared extinct.

The last thylacine, the official name of the animal that was the Australian island's apex predator, died in a zoo in Hobart in 1936. The wild population of the large carnivorous marsupial was wiped out by farmers and the local government, which put a bounty on the animal in the 19th century to protect sheep.

Unconfirmed sightings of the striped, doglike creature wandering the Tasmanian wilderness have added to its mythical status and spawned hopes that the animal had somehow survived.

"It's like our Loch Ness monster," said Andrew Pask, a professor and evolutionary biologist at the University of Melbourne, who runs the Thylacine Integrated Genetic Restoration Research — or Tigr — Lab, which has recreated the thylacine genome.

Pask's lab will collaborate with Colossal Biosciences, which was spun out of the work of George Church, a Harvard professor, one of the creators of the Human Genome Project. The company is working to recreate a woolly mammoth as part of its "de-extinction" plan.

The Dallas-based company has raised \$75m and has been backed by investors including Silicon Valley venture capitalists Cameron and Tyler Winklevoss and Chris Hemsworth, the actor who stars in Marvel's Thor films.

Colossal hopes to export the gene-editing processes it will use for the thylacine and mammoth for commercial use in humans. Pask said the gene-editing techniques and resources that Colossal could bring to the thylacine project would accelerate the rebuilding of the animal, which was first mooted as a possibility in the 1990s. "It is not a matter of if but when it can happen," he said, predicting that live animals could be created within the decade.

Euan Ritchie, a professor of ecology at Deakin University in Melbourne, was said that recreating a thylacine would be a "massive scientific achievement".

But he remained sceptical about the challenge of not only recreating an extinct animal but re-establishing a functioning population that could sustain itself. "If we can't, then you have to ask why are we doing this. It becomes a bit like Jurassic Park," Ritchie said.

He added that the emphasis needed to be on conserving animals in danger of extinction. "It is far cheaper and more effective to keep them alive than resurrecting populations from the freezer."

According to Pask, some sheep farmers have already expressed concern. "They don't even eat sheep," he said.



Hobart Zoo: Tasmanian tigers in 1933, three years before extinction

Australia

Morrison 'shadow government' condemned

NIC FIELDS — SYDNEY

Australian prime minister Anthony Albanese has accused his predecessor of undermining democracy after it was revealed that Scott Morrison had secretly appointed himself to five separate ministerial positions during the coronavirus pandemic.

Morrison, who was prime minister from 2018 until losing May's election to Albanese, took on the health, home affairs, resources, finance and Treasury ministries between March 2020 and May 2021.

His decision to take joint control of the portfolios was made without the knowledge of parliament, civil servants or even some of the relevant ministers.

The news that Morrison was running a "shadow government", which was partly revealed by journalists who had written a book on his handling of the pandemic, was condemned across the political spectrum, including by his own Liberal party.

Malcolm Turnbull, the Liberal prime minister who preceded Morrison, described the appointments as "sinister" and said all involved had shown "a grave lack of respect for democratic governance".

Albanese has sought legal advice and said he was open to a royal commission inquiry over the handling of the pandemic, including the unprecedented appointments.

'It's an attack on the Westminster system of parliamentary democracy'

Anthony Albanese, prime minister

Australia's prime minister said yesterday that it was unclear why Morrison had given himself broad powers and not informed the public. Albanese added that the decision to keep the appointments secret, even from the cabinet, "trashed" political conventions and trust in the political process.

"It undermined our democracy. It's an attack on the Westminster system of parliamentary democracy as we know it," Albanese said.

Morrison, who is still a sitting MP,

issued a lengthy statement on his Facebook page defending his actions. He said that he considered it "prudent and responsible action" owing to the risk of ministers contracting Covid-19 during the pandemic.

He cited the example of Boris Johnson, the British prime minister who was taken to hospital after contracting the virus, to justify his actions.

Morrison apologised to his colleagues and former ministers, and said he had only used the expanded powers once when he overruled his resources minister to block a gas exploration project.

Karen Andrews, who was home affairs minister under Morrison, said she had "no knowledge" that he had appointed himself to her ministry and called on the former prime minister to resign from parliament.

Peter Dutton, who took over as leader of the Liberal party after the election, said he was also unaware of the appointments. But yesterday, he accused Albanese of taking "political advantage" of the revelations and said governments across the world had needed to adopt "warlike" responses to the pandemic.

Wednesday 17 August 2022



FINANCIAL TIMES

5

Green shoots New net lending visible in Ireland as high street bank trio eye 'once in a generation' chance to expand COMPANIES

Companies & Markets

Jump in gas price as traders rush to secure winter supplies

- Surge exacerbates global energy crisis
Recession fears rise for top economies

DAVID SHEPPARD — LONDON
DEREK BROWER — NEW YORK

The global energy crisis deepened yesterday as a fresh surge in natural gas prices in Europe and the US threatened to push some of the world's largest economies into recession.

Gas prices in Europe jumped as much as 10 per cent to as high as €251 a megawatt hour, one of the highest prices on record and equivalent in energy terms to more than \$400 for a barrel of oil, as traders scrambled to secure supplies ahead of the winter.

Prices eased marginally later in the day but have more than doubled from already extremely elevated levels in

'With customers facing a complete Russian shut-off before winter starts, there is little to stop this rally'

June. The latest surge comes after Russia restricted supplies in retaliation for western powers backing Ukraine, with traders fearful of growing competition from Asian utilities for seaborne liquefied natural gas cargoes. European politicians have accused Moscow of weaponising supplies.

As gas prices have surged to more than 10 times normal levels the possibility of a deep recession has grown, with investors now more downbeat on the German economy than at any time since the eurozone debt crisis a decade ago.

European natural gas prices are expected to remain near record levels or head even higher as the winter-heating season approaches, with Berlin already discussing the possibility of rationing gas use and governments from London to Madrid preparing to subsidise punishing utility bills.

Further price gains would increase the cost of supporting households,

including in the UK where pressure has built for the next prime minister to potentially cap bills.

"European gas prices are still scaling new peaks," said Bill Parren-Price, a director at energy consultancy Enverus. "With customers facing a potential complete Russian shut-off before winter even starts, there is little to stop this rally until we see significant demand destruction, probably meaning a deep recession. We're not there yet."

US gas prices remain much lower than in Europe thanks to the shale-drilling boom over the past 15 years, but rising energy costs have helped trigger decades-high inflation, causing alarm in the White House. Benchmark US gas rose at one stage almost 7 per cent yesterday to more than \$9.30 a million British thermal units, its highest price since the global financial crisis and the onset of the shale revolution.

In the UK the benchmark contract for delivery in September at one stage gained more than 18 per cent yesterday, reaching €4.80 a therm, the equivalent of almost \$58 a million Btu, before easing slightly. In mainland Europe the benchmark gas price is the equivalent of \$75 a million Btu, with record prices feeding through into electricity markets where prices have soared to six times the level of a year ago.

Surgency energy costs are increasingly being felt in industry. Metals company Nyrstar, which is controlled by commodities trading house Trafigura, said yesterday that it would halt production indefinitely at one of Europe's largest zinc smelters.

The price surge in the US followed new data pointing to a slowdown in output from new shale oil and gas wells. "It's a fundamental shift," said Stephen Schork, editor of the energy market newsletter the Schork Report.

Additional reporting by Harry Dempsey in London and Martin Arnold in Frankfurt

Tables turned UK hospitality loses 200,000 overseas workers as Brexit and pandemic bite



Foreign staff have historically made up over 40 per cent of the UK's hospitality workforce — Andy Rahn/EPA-EFE/Shutterstock

OLIVER BARNES — LONDON

UK hospitality businesses have lost nearly 200,000 international workers since the end of 2019, according to an industry survey, as the after effects of Brexit and the pandemic continue to squeeze the jobs market.

The pool of labour from the EU shrank at the fastest rate, according to data collected by recruiter Caterer.com. At the latest count, there were about 172,000 EU citizens working in the hospitality sector, down roughly 41 per cent compared with a pre-pandemic total of nearly 295,000.

The number of international workers from all continents fell over the past two years, with roughly 76,000 workers from foreign countries outside the EU also leaving the workforce. In total, around 197,000 foreign staff have left the sector since 2019, according to the research based on a survey of 250 senior hospitality

recruitment managers conducted in July.

The hospitality sector employs about 7 per cent of the UK workforce, according to the Office for National Statistics. Foreign staff have historically made up more than 40 per cent of the hospitality workforce.

No sectors have been hit harder by the tight labour market resulting from the fallout of Brexit and the pandemic, with businesses facing a 75 per cent vacancy rate, the highest of any industry, according to the ONS.

Kathy Dyball, director at Caterer.com, said that the sector was in the midst of a "sustained and severe labour crisis", giving chefs access to skilled worker status, which allows British companies to sponsor them for a work visa, was "a good start" in addressing the problem, she said, but employers still faced barriers to hiring overseas workers.

"Vacancies are forcing some busi-

nesses into curtailing trading hours or closing for whole days," said Kate Nicholls, chief executive of UK Hospitality. The industry body estimates that vacancies are costing businesses £21bn in unmet demand and lost revenue, and the Treasury about £5bn in lost tax. "It is vital to the UK economy that we successfully tackle this crisis," added Nicholls.

A West End restaurant who operates a dozen sites across London said that his wage bill had increased almost 20 per cent in the past year as he scrambled to attract staff.

"The growth in hospitality in the last 30 years has been fuelled almost entirely by a non-British workforce," he said.

"The effect of Brexit, combined with the pandemic, has been to remove that component of the workforce... the only option is to increase prices or for some businesses to shut down," he added.

Thoma Bravo eyes UK cyber security group Darktrace

ANNA GROSS — LONDON
ANTHONY GARA — NEW YORK
RICHARD WATERS — SAN FRANCISCO

Thoma Bravo is considering a bid to privatise Darktrace, a cyber security technology company advised by former Autonomy head Mike Lynch.

The US private equity group has begun discussions on a cash offer for Darktrace, the latter, UK-listed company said in a regulatory disclosure. It has a market capitalisation of £2.67bn.

The buyout group will have until September 12 to make a formal offer or abandon the takeover effort.

Darktrace is being advised by investment banks Jefferies and Lazard, the company said. Darktrace shares rose more than 24 per cent yesterday.

The share price of Darktrace, which provides AI-based cyber security that it says can protect against threats such as ransomware and cloud attacks, rose more than 40 per cent after Russia invaded Ukraine and fears of global cyberwarfare proliferated.

Lynch, the British software entrepreneur, has been charged with 14 counts of conspiracy and fraud linked to the \$11.6bn sale of Autonomy to Hewlett-Packard in 2011. In January, Priti Patel, the UK home secretary, approved the extradition of Lynch to the US after months of legal wrangling that ended with the High Court in London rejecting an attempt by his lawyers to win more time to consider Patel's order.

Lynch, who denies any wrongdoing over the Autonomy deal, helped to create Darktrace in 2013. Fillings show that Inveco, which has funded several UK tech start-ups since it was founded in 2012, then financed Darktrace's first two years of operations. Lynch stepped down as a director of Darktrace in 2018 but continued to serve on the company's advisory council until 2021. In the year ending June 2020, Darktrace paid Inveco more than \$3m on top of \$2m paid in the two previous years.

The cyber security company floated on the London Stock Exchange in April last year. In the following six months its share price more than tripled, from 250p at IPO to 945p in October.

The stock plummeted, however, after a "self" note by the broker Peel Hunt claimed the company was worth only half its value as there was a gulf between Darktrace's marketing and what it could offer.

See Lex

China chips breakthrough presents a strategic dilemma

INSIDE BUSINESS
TECHNOLOGY

Kathrin Hillé



A breakthrough by China's largest chipmaker, revealed last month, triggered a gasp of surprise among observers outside the industry. But the move by Semiconductor Manufacturing International Corporation to start shipping advanced "7 nanometre" semiconductors had been only a matter of time.

The more interesting question is how much time and money it is willing to sink into producing them at scale using a method their international rivals have abandoned for a more efficient one. That development, expected to unfold over the coming year, will show whether Chinese chipmakers are really ready to prioritise the political cause of making their country self-sufficient over the business case of making money.

For starters, 7nm, the marketing name for a technology process for making chips, is one generation behind the most advanced in mass production. It trails the 5nm chips offered by sector leaders Taiwan Semiconductor Manufacturing Company and South Korea's Samsung. And 7nm is just the minimum required for the high-performance computing chips that rapidly process large amounts of data in everything from servers to smartphones.

Since hiring former TSMC veteran Liang Mong-song as its co-chief executive

in 2017, SMIC has made advances in mastering manufacturing technology generations such as 16nm and 10nm.

But the company's problem is that the US is blocking exports of extreme ultraviolet (EUV) machines to China. Such lithography equipment, which can put integrated circuit patterns on a wafer surface by exposing it to light only once, has become the mainstay for making chips with the 7nm process and more advanced technology since 2019.

"The furor over SMIC's progress is quite overblown — they are using extra exposure to make up for the lack of EUV," says Douglas Fuller, an expert on the Chinese semiconductor industry. "But it is understood that the yield is terrible."

SMIC has been open about its quest for 7nm technology. In early 2020, the company said it

was developing an "n+1" process "comparable to 7nm". In October that year, China's Innosilicon group announced that it had completed final design and testing for a product that would use this process. SMIC has also said it aims to bring the technology to mass production next year.

However, as SMIC cannot secure EUV equipment, it relies on using deep ultraviolet, DUV, machines. This equipment is a generation behind EUV, and can finish 7nm chips only through three or even four rounds of patterning.

Driven by concerns that Chinese chipmakers could get around the US's EUV ban this way, Washington has in recent months discussed with equipment makers such as ASML of the Netherlands and Japan's Nikon the option of stopping delivery of DUV machines to China as

well. But analysts believe China has bought enough of the equipment to protect it against such a risk.

However, the technical challenges of transitioning to 7nm have plagued many other chipmakers. Intel struggled for years to move below 10nm technology. And even if SMIC succeeds, competing with global rivals will be an uphill battle given the extra costs and time required using DUV machines.

Whether that is a fight SMIC wants is an open question. Liang and his co-CEO Zhao Haijun have been in disagreement over what price SMIC should pay to continue its push to catch up with international peers. While Liang wants to continue pushing forward with the development of cutting-edge technology, Zhao has advocated focusing on expanding less advanced capacity to gain market share. Last Friday, he told investors that SMIC would flexibly allocate capacity to less advanced technology generations to respond to strong demand in areas like industrial-use chips.

Beijing's past attempts to push breakthrough innovation in chipmaking have been hampered by groups' reluctance to risk using little-tested, homemade solutions. SMIC is now at a crossroads over this priority. Constrained by the US restrictions on chip technology exports to China, the company's reliance on its home market has risen by more than 10 percentage points over the past four years to almost 70 per cent of revenue.

But industry experts say that does not equal consent to prioritising national industry goals. A semiconductor executive says: "Their true ambition is to be a technologically strong and profitable company. The moment they are forced to give that up, that is the moment China is truly decoupling from the world."

kathrin.hille@ft.com

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15 Aug 2022 118726A8B7E72326B7A8B9E80C7D10 18D80893E2642C391E46C38D0E5
14 Aug 2022 8BFC0FF8A0A3C719C26A71912CF4C84 27A5C0A28731F1E7A03CEAD87BD0

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15 August 2022 00:00:00 UTC
AAAAAA-DC7GG1-AAPRJG-VVXL3I
G7N4EX-EYVNU6-VQYCWV-TBR1R
F8X3XW-QPT74R-PG7EXJ-TY2DPA

Legal Notices

Notice to creditors of insolvent to declare a first and final dividend
NORTHERN AND WESTERN INSURANCE COMPANY LIMITED
(In Liquidation) ("The Company")
The Eastern Caribbean Supreme Court
By the High Court of Justice
Federation of Saint Christopher and Nevis
Nevis Court Code
Case No. NEVHCY 2019/001

Notice is hereby given that the liquidator of the Company intend to declare a first and final dividend to creditors in relation to the above matter. Accordingly all creditors are required to file claims on or before 15 September 2022. Claims to be submitted to the liquidator in writing and accompanied by the prescribed proof of debt form. The liquidator will not be bound to accept any claim unless the prescribed proof of debt form is submitted to the liquidator in writing and accompanied by the prescribed proof of debt form. The liquidator will not be bound to accept any claim unless the prescribed proof of debt form is submitted to the liquidator in writing and accompanied by the prescribed proof of debt form.

Proof of debt forms are available on request from net.creation@ng.com. Creditors may subsequently be required to provide additional documents in support of their claim by written notice from the liquidator or in default thereof, they will be excluded from the benefit of any distribution made before the due date. Date of this notice: 15 August 2022. Karim Hattiss, Joint Liquidator. 27 Grenada Rd, Grenada. PO Box 463. Humber TPLEX, Bermuda.

NOTICE UNDER SECTION 131A OF THE LABUAN COMPANIES ACT, 1990

Notice is hereby given that GRAND FORREST LIMITED (Company No. LLFP726) intends to apply to the Labuan Financial Services Authority (Labuan FSA) for a declaration of dissolution of the Company and that the Labuan FSA may dissolve the Labuan Company unless written objection is made to the Labuan FSA as below within 30 days from the date of this Notice:

Labuan Financial Services Authority
Level 17, Main Office Tower,
Financial Park Labuan,
Jalan Merdeka,
97000 Labuan T.T., Malaysia.
Date: 17 August 2022

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COMPANIES & MARKETS

Technology

Amazon hits at regulator in Prime probe

FTC accused of harassing top figures at the business and disrupting operations

DAVE LEE — SAN FRANCISCO

Amazon has accused the US Federal Trade Commission of harassing its top executives, including founder Jeff Bezos and chief executive Andy Jassy, as part of a probe into the e-commerce group's Prime membership scheme.

Since March 2021, the regulator has been investigating whether Amazon uses deceptive techniques to lure customers into signing up for Prime, the subscription service that offers free delivery and other benefits at a cost of \$139 a year.

The FTC is also examining whether Amazon unfairly complicates the process

for customers who want to cancel their membership.

In a filing from August 5 made public by the regulator on Monday, Amazon said that the probe had become "unduly burdensome" to employees and executives after at least 19 were served individual subpoenas, or Civil Investigative Demands, to give evidence.

The company called for the FTC to "quash or limit" the demands, which it alleged served no other purpose other than to "harass Amazon's highest-ranking executives and disrupt its business operations".

Amazon said briefing Bezos and Jassy to testify on "granular" details would be a "tremendous burden on them". At a minimum, the company said the deadline to provide the information should be extended.

The FTC did not respond to a request

for comment. Amazon did not respond to requests for further comment.

Amazon said that the sudden demands followed months of inactivity from the FTC and alleged that the company and its executives were given only a few weeks to comply. It added that the

Briefing Bezos and Jassy to testify on 'granular' details would be a tremendous burden on them'

FTC had circumvented Amazon's legal team to serve the subpoenas directly to the individuals, creating "confusion" and "delay".

Executives in addition to Bezos and Jassy who were served with subpoenas included Doug Herrington, head of

retail, and Russell Grandinetti, head of international consumer.

Former executives Dave Clark, who had been head of worldwide consumer, and Greg Greeley, ex-head of Prime, were also served.

The filing accused the FTC of improperly denying at least one subpoenaed employee full access to Amazon's legal team.

It described one acrimonious investigative hearing that ended after just a "few minutes" after Amazon's lawyer was asked to leave by FTC staff, prompting the testifying employee to follow.

The Prime programme has been heralded by Amazon as a linchpin of its success, with members of the scheme typically spending more money than non-members.

Revenue generated by subscription fees was \$8.7bn in the second quarter,

about 7 per cent of Amazon's total revenue for the period.

The FTC under the leadership of chair Lina Khan has pledged to crack down on the power of big tech groups.

The regulator has in particular identified dealing with deceptive tactics online, so-called dark patterns, as a priority, and went on to release a new set of guidelines in October.

The FTC's investigation has been extended to include four other Amazon subscription services including its ebook service Kindle Unlimited and music-streaming platform Amazon Music.

Amazon's requests will be subject to a vote by the FTC's commissioners, which include three Democratic and two Republican appointees.

Details of the filing were first reported by Business Insider.

Pharmaceuticals

AstraZeneca sues former executive over move to rival GSK

HANNAH KUCHLER AND JANE CROFT LONDON

AstraZeneca has sued a former senior business development executive to delay him taking a job at rival GSK, claiming he received awards adding up to over £600,000 to sign a non-compete agreement.

Chris Sheldon, who led investor relations and, before that, oncology deal-making at AstraZeneca, resigned at the end of August and intended to start work at GSK on or after the start of September, in a role responsible for business development across all therapy areas.

But AstraZeneca alleges that this breaches a non-compete agreement that Sheldon signed, promising not to facilitate competition for a period of six months after leaving the company.

The drugmaker said that in return, he received performance share plan awards of £644,555.

The Anglo-Swiss drugmaker contends that there is a "real and substantial risk" that Sheldon will break this agreement if the court does not stop him and insists that he wait until February to start work at GSK.

It added that he was "privy to highly confidential information", about existing medicines, drugs in the pipeline,

Sheldon announced his intention to move in April this year and was placed on gardening leave in May

business development and commercial strategy.

Sheldon has not filed a response to the lawsuit. He denies the allegations or any wrongdoing.

According to the court filing, Sheldon had already promised to not work for GSK on oncology in the short-term, but had not made a similar commitment in other areas. Sheldon informed AstraZeneca of his intention to move in April this year and was placed on gardening leave in May.

"He threatens and intends to start work for GSK in a role in which he will be directly and/or indirectly facilitating competition with aspects of the respiratory, oncology, immuno-oncology, cardiovascular, renal, diabetes and

Energy. Power plants

Berlin forces Uniper to abandon coal lawsuit

Germany's action over 1990s treaty that pushes cross-border energy links highlights friction

CAMILLA HODGSON AND JOE MILLER FRANKFURT

Uniper has been forced by the German government to drop a lawsuit against the Netherlands over the proposed closure of coal power plants, highlighting the tensions over a treaty protecting fossil-fuel projects.

The German group was among five that launched cases against four European governments for almost €4bn over the stymying of coal, oil and gas projects under the Energy Charter Treaty, which covers more than 50 countries.

The company experienced financial difficulties as a result of the energy crisis, however, and had to abandon its claim over the early closure of its plants in the Netherlands by 2050 as part of the terms of its bailout by the German government last month.

Uniper chief executive Klaus-Dieter Maubach said the company had resisted dropping the case "because we felt that we should not give up", adding: "This was clearly a condition that the German government has imposed on



... they were missing. German utility RWE said last week that it would not echo Uniper in dropping the case it launched under the ECT against the Netherlands. "We are striving for amicable talks with the Dutch government on the topic of phasing out coal but above all also the use of the remaining capacity," said chief executive Markus Krebber. "The goal is a mutually agreeable solution."

The energy crisis has highlighted Europe's precarious dependence on fossil fuels and the need to shift to renewable energy. But many coal, oil and gas projects are protected by the ECT, which was conceived in the 1990s to encourage cross-border co-operation in the energy sector.

Critics, including some leading EU government officials, have said the treaty deters countries from tackling climate change by introducing fossil-fuel phase-out policies, given the risk of litigation. Signatories have been in talks to overhaul it since 2018 but the process has been rife with disagreement.

In June, an agreement in principle was reached on the treaty's "modernisa-

Uniper's Staudinger plant in Hesse. Boss Klaus-Dieter Maubach, below, resisted dropping a lawsuit against the Netherlands (see full-page photo on p. 10)



tion". But the updated text, yet to be ratified, would continue to protect fossil investments in the EU and UK for 10 years from when it comes into force, and would protect new investments made before August 2023.

This has provoked concerns about a surge in further legal claims before the protections for coal, oil or gas investments in the EU and UK are phased out. Case numbers could be expected to

rise, "possibly sharply", in the coming years, said Lukas Schaugg, a legal analyst at the International Institute for Sustainable Development.

The biggest risk was that the revised treaty "might relate to the prolonged protection of existing, rather than future, investments".

Rachel Thrasher, a researcher at the Boston University Global Development Policy Center, said that investors might see the new August 2023 deadline as "an opportunity to push through fossil-fuel projects more rapidly to get in under the 10-year protection window".

The wind-down of fossil-fuel protections is optional, and countries beyond the UK and EU are not expected to opt in.

The treaty revisions also introduce protections for other types of environmentally doubtful investments, such as hydrogen and biomass fuel projects.

Some law firms have been promoting the prospect of legal claims to their energy clients.

Climate change litigation was "an

Critics say the treaty deters countries from tackling climate change

opportunity ... for companies exposed to certain climate-related government measures to vindicate their rights", law firm Jones Day said in a note this year.

Companies "should audit their corporate structure and change it, if needed, to ensure they are protected by an investment treaty".

Concerns have been raised about the secrecy of the treaty, since the existence and funders of cases can be difficult to establish.

The ECT agreement in principle includes a requirement for the disclosure of third-party information, though it is not specific about how detailed it would need to be.

The proposal must be ratified by three-quarters of the parties in order to come into force – a high bar that analysts said could take years to reach.

Yamina Saheb, formerly at the ECT secretariat and now at Sciences Po, said that the treaty revisions were "not compatible with the Paris Agreement or EU climate neutrality targets. The EU must start phasing out fossil fuels today."

ovascular, renal, anaemias, and/or Covid-19 related therapies pharmaceutical business carried on by AZ," AstraZeneca's lawyers wrote in the filing.

AstraZeneca sued Luke Miels, its former executive, in 2017 after he announced he was going to join GSK as its chief commercial officer, which delayed his arrival.

The UK's Supreme Court ruled in 2019 that companies could enforce restrictive covenants in employment contracts, which are commonly used for staff who work in knowledge-based professions, such as financial services.

Pascal Soriot, chief executive of AstraZeneca, has strengthened the business during his 10-year tenure, investing heavily in research and development and overseeing successful drug launches, particularly in cancer.

GSK has been trying to catch up, including re-entering oncology, after leaving the disease area in 2015. After spinning-off its consumer health division this month, it will have more money to invest in drugs.

AstraZeneca and GSK declined to comment.

Financials

Buffett bets on Ally Financial and US economy

ERIC PLATT AND IMANI MOISE NEW YORK

Warren Buffett's Berkshire Hathaway made a big bet on motor and home lender Ally Financial in the second quarter while increasing its wager on iPhone maker Apple despite signs that an economic slowdown is beginning to weigh on consumers.

The investments, along with purchases of shares in video streaming service Paramount Global and oil groups Occidental Petroleum and Chevron, showed that Buffett and his investment team continue to bet on the US economy even as the Federal Reserve embarks on a string of sharp interest rate rises.

Berkshire more than tripled its position in Ally to 30m shares valued at \$1bn at the end of June, according to a securities filing. That makes Buffett's group one of the lender's largest shareholders, with a 9.7 per cent stake, according to data provider Refinitiv.

Berkshire built the first part of its stake in Ally in the first quarter, when it bought just under 9m shares.

Buffett has long been a significant investor in the US financial sector. His company's holdings in Bank of America and American Express rank among its five largest. In the first quarter, Berkshire bet on Citigroup with an investment of \$2.9bn.

The shifts in Berkshire's portfolio are closely followed by investors as a gauge of where the "Sage of Omaha" sees value, as well as his view on the health of the US economy.

He eschewed the financial sector during the depths of the coronavirus pandemic, dumping shares of JPMorgan Chase and Goldman Sachs as lenders started setting aside tens of billions of dollars for potential credit losses.

The filing also showed Berkshire had lifted its stake in Apple, the single largest investment in the company's

\$528bn stock portfolio, by 3.9m shares in the second quarter. Berkshire owns roughly 5.6 per cent of the iPhone maker.

Berkshire also purchased 2.3m shares in Chevron, lifting the value of its stake in the oil group to more than \$25bn; 9.5m shares in Paramount; and 22.2m shares in Occidental. Berkshire has disclosed further buying in Occidental since the quarter ended, lifting its stake in the energy company to more than 20 per cent.

The second quarter marked a significant slowdown for Buffett, who moved aggressively at the start of the year as stock values slid. Berkshire bought \$6.2bn of stocks in the quarter, down from \$51.1bn between January and March.

It also sold \$2.5bn of shares in the second quarter, cutting its stakes in General Motors, US Bancorp and grocer Kroger, and exited its positions in Verizon and Royalty Pharma.

Technology

Elliott ditched Twitter before Musk U-turn

ANTOINE GARA — NEW YORK

Elliott Management sold its entire equity stake in Twitter in the second quarter, a period during which the social media company's shares rallied after a \$44bn takeover by Elon Musk was agreed in April.

A filing on Monday showed that the activist had no common stock in Twitter as of June 30, down from 10m shares valued at \$387m on March 31.

Tesla chief executive Musk offered to buy Twitter at \$54.20 a share in cash on April 14, a deal agreed by the company less than two weeks later.

Elliott declined to comment on when it sold the stock. Twitter's stock rose as high as \$51.70 in late April before falling to \$37.59 in June 30, after Musk had tried to walk away from the deal. Twitter shares closed on Monday at \$44.50.

The \$56bn hedge fund founded by Paul Singer, which had been silent about Musk's takeover bid, played a role in

steering Twitter's direction and leadership before exiting its position. In early 2020, Elliott built a large stake in Twitter and participated alongside private equity firm Silver Lake in a \$1bn convertible debt offering that the social media group used to repurchase shares.

Jesse Cohn, a partner at Elliott who oversees tech investments, joined Twitter's board alongside Egon Durban, Silver Lake co-chief executive. As part of their investment, Elliott and Silver Lake

helped set up succession plans for Jack Dorsey, Twitter co-founder and chief executive. In June 2021, Cohn stepped down from Twitter's board, while Silver Lake's Durban maintained his seat. Elliott remained a large shareholder, supporting the choice of Parag Agrawal to replace Dorsey last November.

In July, Musk said he was ending his bid for Twitter and accused it of disclosing "false and misleading" information about fake and spam accounts on the social network. Twitter sued Musk to enforce the deal. A trial is set to open in a Delaware court in October.

Filings indicated that Elliott also cut its other exposure to Twitter.

Elliott held call options on 2m Twitter shares and 50m in shares underlying its convertible bond position as of the end of the first quarter. The filings showed Elliott continued to hold 40mm in shares of its convertible bond position, but no call options, as of June 30.

Elliott vs Murakami See Lex



The activist fund played a role in steering the social network service

COMPANIES & MARKETS

Irish lenders target rare growth opportunity

Consolidation presents the three remaining banks with a 'once in a generation' chance but political risk looms large

JUDE WEBBER — DUBLIN

Ireland's three remaining high street banks have a "once in a generation" chance to expand as two rivals prepare to quit the market, leaving €30bn in loan books and 1m customers behind.

Rising interest rates and the opportunity to grow rapidly are buoying a banking system rehabilitated after a crisis more than a decade ago that crashed the Irish economy.

"For the first time in a number of years we're seeing the green shoots of new net lending in Ireland, something that has threatened to arrive and never has quite arrived," said Mark Spain, chief financial officer at Bank of Ireland, the country's biggest lender.

But while bankers celebrate, others are concerned the exit of Ulster Bank and KBC could create an unhealthy reduction in options for customers.

In response to a government review of the industry, the Central Bank of Ireland warned that "consolidation has led to growing concerns regarding market concentration and competition".

Brian Lucey, professor of international finance at Trinity College Dublin business school, said Ireland was in effect "moving into an almost oligopolistic market" in retail banking. This would boost profits to the benefit of shareholders but was "probably not" positive for consumers or the broader economy.

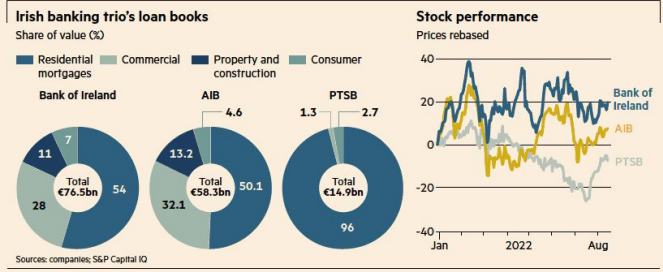
Like many banks in Europe, the three remaining lenders have benefited from rising rates and sounded optimistic in their half-year results in recent weeks.

State-backed AIB reported a 74 per cent jump in profits on the back of higher income. BoI said it expected the state to withdraw as a shareholder this summer. Permanent TSB, which is also government-backed, reported an increase in lending and expects to return to profit this year.

But Irish banks could have an edge over European rivals. Brian Hayes, chief executive of the Banking and Payments Federation of Ireland, the main voice of the industry, said 80 per cent of their



Bank of Ireland is bullish, with its finance boss pointing to 'green shoots' of new net lending — Anur Wicak/NurPhoto/Getty Images



income was generated from rate moves and 20 per cent fees. This compares with a 60-40 split in the EU, he said.

"As inflation soars, more rate rises are on the cards. The European Central Bank raised rates in July by half a percentage point to zero, the first increase in 11 years, following the US Federal Reserve and Bank of England.

The BoI said it expected €435m in additional net interest income if rates rise by 1 percentage point, while AIB has pointed to a €369m uplift, based on their forecasting models.

"As you look into 2025, there is a very matter of significant upside to interest income," said Diarmaid Sheridan, banking analyst at stockbrokers Davy.

"There are some inflationary impacts on costs but much less than you're seeing on the revenue side," he said. "It's a hugely positive story. We have some greater upside [than EU banks] and we're probably better insulated from some of the downside."

Retail banks' balance sheets have also been cleaned up since the crisis. A mortgage lending spree during the "Celtic Tiger" boom, what Hayes calls the "madness years", brought the banks to the brink of insolvency and forced Dublin to accept a €67.5bn bailout from the EU and IMF.

Irish banks now have to apply stringent checks to mortgage lending. The average loan-to-deposit ratio is down to 78 per cent in 2020 from 102 per cent in 2016, according to the central bank, far below the EU average of 107 per cent.

As the market contracts, PTSB in particular is poised to benefit from the industry's dramatic restructuring.

PTSB is buying €7bn of mortgages from Ulster Bank, 25 of its branches and about €600,000 in assets from its small business and asset finance divisions. The deal will boost PTSB's mortgage business by 40 per cent, its small business book by 200 per cent and its branch network by nearly a third.

"The transformation of the Ulster Bank deal for us is much more substantial than, say, AIB or Bank [of Ireland],"

said Eamonn Crowley, PTSB's chief executive. "It's much incremental for them. For us, it's a substantial change in our balance sheet and in our profitability and indeed our ability to compete."

BoI is buying €9bn of residential mortgages from KBC and more than €4bn of deposits, which it said would also boost its mortgage lending by 40 per cent. AIB is purchasing €5.7bn of Ulster Bank mortgages and €3.7bn of commercial loans.

Despite the growth opportunities, political risk remains. Sinn Féin, the nationalist party in pole position to win the next elections due in 2025, has suggested it does not want the state to exit banking entirely. This has fuelled nervousness in parts of the financial sector about public policy if it takes power.

Pearse Doherty, Sinn Féin's finance spokesperson, criticised an aborted AIB decision to withdraw cash services at 70 branches. If the state allowed a full privatisation "there will be no influence that we can have ... over other decisions that they may have in the future", he said.

As the banks emerge from state ownership they are seeking to remove cunts on pay, a legacy of the financial crisis. BoI is preparing to resist executive pay caps and a ban on bonuses as the state sells down its remaining holding, which has fallen to less than 5 per cent.

Critics of the pay policy argue that it has led to churn at senior executive levels of Irish banks, while lenders in other countries, such as the US, are able to offer more competitive packages. Francesca McDonagh, BoI's chief executive, will be the latest in a string of senior banker departures from Ireland when she stands down next month.

After more than a decade of Irish banks paying their dues and as prospects for higher profits improve, the BoI's Spain said now was the time to drop limits on pay, at least when his bank returns fully to private hands.

"The restrictions should be removed for BoI," he added. "I think we should be rewarded."


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COMPANIES & MARKETS

Crypto. Lender's woes

Celsius boss Mashinsky took over trading strategy before bankruptcy

Founder's fear of bitcoin crash was overdone at the time and led to losses, say critics

KADHIM SHUBBER — LONDON

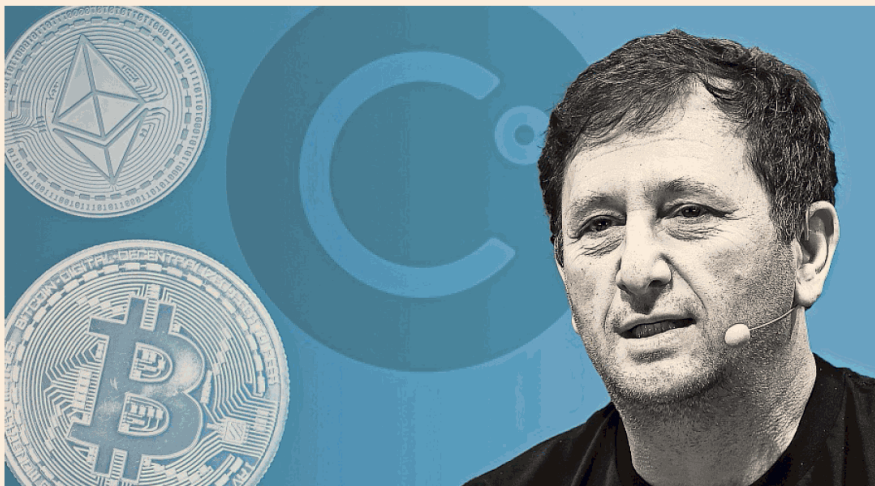
In January, Celsius Network boss Alex Mashinsky gathered his investment team to tell them he would be taking control of the cryptocurrency lender's trading strategy ahead of an upcoming US Federal Reserve meeting.

Prices of popular cryptocurrencies such as bitcoin and ether had fallen from their all-time highs and the former telecoms entrepreneur said Celsius needed to protect itself from further declines. A hawkish outcome, he was convinced, could crash crypto prices.

In the days before the Fed met, Mashinsky personally directed individual trades and overruled executives with decades of finance experience, according to multiple people familiar with the matter.

In one case, Mashinsky ordered the sale of hundreds of millions of dollars' worth of bitcoin, refusing to wait to double-check Celsius's often unreliable information on its own holdings. Celsius – which at the time held \$22bn of customer crypto assets – bought the bitcoin back a day later at a loss.

"He was ordering the traders to massively trade the book off of bad information," one of the people said.



Bitcoin prices ticked up after January Federal Reserve meeting
\$ per coin (‘000)

moment of crisis had arrived. The company had been taking losses for much of the month with the downturn in crypto prices. On a call on January 21, the Friday preceding the Fed meeting, Mashinsky told his investment team that the coming week would be the most defining of their careers.

"He had a high conviction of how bad the market could move south. He wanted us to start cutting risk however Celsius could," said one of the people familiar with events. Not all agreed.

Mashinsky clashed repeatedly with then-chief investment officer Frank van Etten, a former Nuveen and UBS executive, over what trades Celsius should make, but also over Mashinsky involving himself in such decisions.

Van Etten, who had joined in September 2021, left in February this year, according to his LinkedIn entry. Mashinsky, in a January 14 press release, cited his arrival at Celsius as an example of "top tier talent" joining the company. Van Etten said he was not in a position to comment at this time.

The sale and buyback of bitcoin Mashinsky ordered came just a day or two before the Fed meeting. One reason he had been pushing for Celsius to sell was the issue with EquitiesFirst and Celsius had hedged that exposure by buying bitcoin ahead of repayment. Mashinsky argued EquitiesFirst might repay the bitcoin faster as prices fell. If that happened, Celsius would have

"He was slugging around huge chunks of bitcoin." Another person familiar with the

'He was ordering the traders to massively trade the book off of bad information'

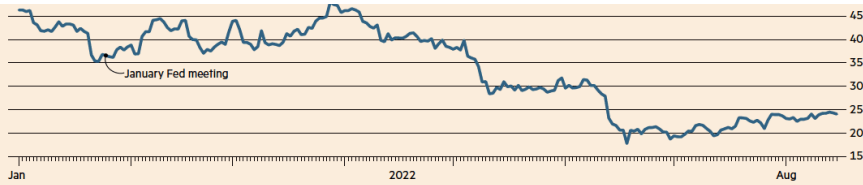
events said that while Mashinsky might have been making his views known based on his knowledge of crypto markets, they insisted "he was not running the trading desk."

Mashinsky's fears were not borne out in the short term. The Fed confirmed plans to raise rates and crypto markets shrugged. Celsius made \$500m of trading losses in January, some of the people said, though it is not clear how much was attributable to Mashinsky.

The previously unreported events highlight the fraught internal dynamics at Celsius in the months leading up to its July bankruptcy filing, including its weak systems for tracking assets, Mashinsky's fears about a downturn and his willingness to directly involve himself in trading decisions, unlike typical chief executives of large financial institutions.

Celsius built itself up by accepting crypto from its customers and promising them eye-popping returns it generated through deploying the tokens in digital asset markets. Its hundreds of thousands of clients now face significant losses on the crypto they entrusted to the company, which has a \$1.2bn hole in its balance sheet.

Mashinsky and Celsius's lawyers Kirkland & Ellis have told the court in New York the company was pushed into bankruptcy not by mismanagement but by the broader collapse this year in crypto asset prices. Lawyers representing Celsius's unsecured creditors, over-



Hands on: Alex Mashinsky reportedly clashed with his chief investment officer over his close involvement with trades

FT mortgage/Dreamstime/SOPA Images via Reuters

wheelingly its customers, have vowed to investigate Mashinsky's conduct.

An attorney for Mashinsky declined to comment. Celsius and its lawyers at Kirkland did not respond to a request for comment. In a filing to the bankruptcy court last month, Mashinsky said Celsius's assets had grown faster than his ability to invest them and acknowledged it "made what, in hindsight, proved to be certain poor asset deployment decisions".

At the start of the year, Celsius had the outward confidence of a business that had just completed a \$600m equity fundraising led by two big investors, Canada's second-largest pension fund Caisse de dépôt et placement du Québec and US investment group WestCap.

The funding round in December 2021 had valued Celsius at \$3bn. The fast-growing lender, founded in 2017, boasted that it was hiring "traditional finance executives". But problems were bubbling under the surface.

Though Mashinsky claimed Celsius's business of taking in crypto deposits and lending them in crypto was safe — he insisted publicly it did not trade customer assets — the company had suffered big losses of crypto tokens it had not disclosed to customers.

One incident involved a US-based lender called EquitiesFirst, which in July 2021 had been unable to immedi-

ately return \$500m of bitcoin Celsius had pledged to secure a loan, Mashinsky told the bankruptcy court last month.

Another, not previously reported, involved a sizable investment in the Grayscale Bitcoin Trust, the world's largest bitcoin fund whose GBTC units offered investors a tradeable product that tracked the digital token.

Celsius had bought into GBTC when it traded at a premium to the underlying bitcoin in the fund. By September 2021, it held 11mm GBTC, then worth about \$400m but trading at a 15 per cent discount to the trust's net asset value.

Celsius was offered a deal to exit the position that month that would have cut the company's losses, but Mashinsky blocked the sale, arguing that the discount might narrow, according to two people familiar with the matter. Instead it worsened. Celsius would not completely unwind its position until April, when the discount was 25 per cent.

The company's total losses on its GBTC trade were about \$100m to \$125m, according to one of the people familiar with the matter.

Celsius had plugged its losses in part by borrowing from other crypto ventures. It pledged crypto tokens it held as security for loans of stablecoins — the equivalent of dollar crypto — that it would use to buy crypto assets to replace those it had lost, several people

familiar with the matter said. These arrangements left Celsius vulnerable if crypto prices fell sharply. Customers might demand their crypto back at the same time that Celsius had to send more to its lenders as additional collateral for its stablecoin borrowings.

The company would have little of its own cash to fall back on in such a situation. Celsius had been paying out more in interest to customers on tokens such as bitcoin and ether than it generated through its investments, according to people familiar with the matter. And it invested much of the \$600m it raised from investors led by CDPQ and WestCap into its capital-intensive crypto mining business and the acquisition of an Israeli start-up, Kirkland told the bankruptcy court last month.

On Sunday, Celsius disclosed its current monthly net cash flow was significantly negative. Between August and October, the company estimated it would lose \$137m, largely attributable to its mining business. The figures included \$33m of restructuring costs.

Balance sheet figures previously disclosed in the bankruptcy proceedings showed that as early as March this year Celsius's liabilities were greater than its assets but for holdings of its own digital token CEL. Two people familiar with the matter said that had been the situation since 2021. This January, it seemed a

more bitcoin than forecast. It usually tried to maintain a neutral position on its crypto holdings to balance assets and

'He had a high conviction of how bad the market could move . . . He wanted us to start cutting risk'

liabilities. By selling bitcoin before prices dropped, Celsius could profit, Mashinsky reasoned.

"It was not an irrational thought," another of the people familiar with the events said, but there simply wasn't evidence EquitiesFirst would repay any faster. "There was a lot of speculation."

EquitiesFirst said: "We entered into an agreement well before the January date mentioned. Any alteration to that agreement would have required consensus from all parties." It added it would satisfy all its obligations to Celsius.

Mashinsky's fears about the market proved at least poorly timed. While the Fed confirmed plans to raise rates in March, there was no collapse in crypto until May. Indeed, bitcoin rallied in the weeks after the January Fed meeting.

An internal audit report was presented to the board and Celsius investors WestCap and CDPQ in February, recommending accelerating investment in the company's technology. WestCap and CDPQ declined to comment.

The report noted the audit was requested by Mashinsky. It covered January 1 to January 21, according to two people familiar with the matter. It is unclear why it did not cover the trading immediately before the Fed meeting.

The Celsius employee who led the internal audit, a former banker with almost two decades of internal audit and controls experience, was shortly after moved to work on new commercial product and partnership ideas.

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Commodities

Record BHP cash return announced as coal surge helps deliver 26% profit rise

NEIL HUME — LONDON

BHP said it would return a record sum to investors as surging coal prices helped the biggest miner deliver a 26 per cent rise in annual profits.

The Australian group declared a final dividend of \$8.9bn, or \$1.75 per share, taking payments for the year to \$16.5bn, the highest disbursement in its history.

BHP said that shareholder returns were close to \$56bn, including the shares in Woodside Petroleum given to its shareholders in exchange for the sale of the miner's petroleum division.

The payout concludes a year for BHP in which it spun out its oil and gas units, unified its share structure in Australia, and approved development of a Canada potash project.

Boss Mike Henry is looking to increase exposure to higher-growth resources that will be in demand as the

world decarbonises. The company has seized on a sharp drop in commodity prices to launch a \$5.8bn cash offer for Australian rival OZ Minerals.

The bid was rejected by the OZ Minerals board last week and Henry refused to say whether he would increase the

OZ Minerals would be 'nice to have but not vital' and the \$140bn business would stay 'disciplined' on price

offer. OZ Minerals would be "nice to have but not vital" for BHP, and the \$140bn company would remain "disciplined" on price, Henry said.

"This is a very full and fair offer. It's really disappointing that the other side . . . has chosen not to engage on what we think is a pretty compelling

offer for shareholders." Henry was speaking after BHP reported its highest profit since 2011, when it still owned an oil and gas business. Underlying profit from continuing operations rose 26 per cent to \$21.32bn on revenue up 14 per cent to \$65bn in the year to June.

The miner ended the year with net debt of just \$333m, below its \$5bn-\$15bn target range.

Over the year BHP generated more than \$24bn of excess cash. The main driver of improved profits was BHP's Australian coal business, which delivered underlying earnings before interest and tax of \$8.7bn against a loss of \$577m a year as prices soared.

Earnings in iron ore dipped from \$24.3bn a year ago to \$19.5bn. The company said it was studying plans to increase annual production to 330m tonnes, up from 283mm last year.

Equities

Chinese property stocks rally on hopes of state groups' support for bond issues

HUDSON LOCKETT AND CHENG LENG HONG KONG

Shares in Chinese property companies rose sharply on reports that Beijing may order state-run groups to guarantee some developer bonds issued in the onshore market.

The Hang Seng Mainland Properties index rose by up to 10.5 per cent yesterday as investors snapped up shares after reports state-owned groups could provide support for real estate companies' renminbi-denominated bond issuance.

Hong Kong-listed shares in both Country Garden and Longfor Properties rose as much as 18 per cent, and those of Gemdale Properties 7.6 per cent and CIFI Holdings 19.4 per cent.

The rally followed a report in which REDD, an emerging markets intelligence group, said that five to six cash-strapped property groups had been told

that policymakers planned to provide them with liquidity support by ordering state groups to underwrite and guarantee their new renminbi-denominated bond issuance.

The report named Country Garden, Gemdale, Longfor and CIFI among developers shortlisted for government support. It added that the plans could provide a boost for lower-risk developers whose ability to refinance debt obligations in the onshore market has come under pressure this year as the sector has grappled with a liquidity crisis and slowing economic growth.

"Many traders are expecting direct backing and guarantees from state banks," said one Shanghai-based trader at an Asian brokerage. "As long as there's liquidity backing, market sentiment will improve."

Debt relief for developers from central government could provide a

reprieve for China's housing market, which has been in turmoil since Evergrande, the world's most indebted developer, defaulted on a dollar bond payment last year.

Other developers later defaulted on dollar and renminbi repayment obligations. This has led to broader doubts about the industry, which had come to rely substantially on sales of unfinished homes for revenues as the government cracked down on excess leverage.

Questions over whether developers will be able to deliver pre-sold homes have spurred hundreds of thousands of buyers to boycott mortgage payments, throttling sales revenues and worsening the liquidity crunch.

Hong Kong's Hang Seng Mainland Properties index is down 43 per cent year to date and Bloomberg data show Chinese developers have lost about \$54bn in market capitalisation in 2022.

Wednesday 17 August 2022

FINANCIAL TIMES

9

COMPANIES & MARKETS

The day in the markets

What you need to know

- Poor US construction data leave Wall Street flat
Confidence survey casts fresh doubts over outlook for German economy
Oil prices fall on recession fears

US stocks were subdued yesterday and oil prices fell after a fresh burst of disappointing economic data from the US and Germany added to concerns over the global growth outlook.

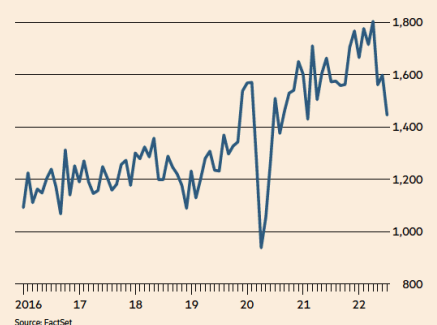
Wall Street's broad S&P 500 was up 0.1 per cent by late morning in New York, while the technology-heavy Nasdaq Composite was down 0.3 per cent. Europe's regional Stoxx 600 share index closed 0.2 per cent higher. Germany's Dax rose 0.7 per cent and London's FTSE 100 added 0.4 per cent.

Those moves came after data showed that the rate of new home construction in the world's largest economy fell to its lowest level in July since early 2021. US housing starts last month fell 9.6 per cent month on month to an annualised pace of just under 1.45m, lower than Wall Street forecasts of about 1.54m and below June's figure of 1.6m.

"Homebuilders now have far too much inventory, and prices are under pressure," wrote Ian Shepherdson, chief economist at Pantheon Macroeconomics.

Fresh survey results cast a pall over the outlook for Germany. Figures from economic research group Zew showed investment professionals' confidence in

US new-home construction cools Housing starts (annualised rate, '000)



policy tightening will be guided in part by signals given by economic data releases.

This has made market watchers pay more attention to individual data points than they have previously, said Aitaf Kassam, Emea head of investment strategy and research at State Street Global Advisors.

The muted performance in US equity markets came despite Walmart, the

previous session in the latest sign of recession fears stalking markets. US marker West Texas Intermediate dropped 2.6 per cent to \$87.3 a barrel.

Hong Kong's Hang Seng index closed down 1.1 per cent, pulled lower by a drop in the shares of food delivery group Meituan after Reuters reported that tech group Tencent planned to sell all or the bulk of its 17 per cent stake.

Pound suffers from the UK's weak outlook

Jane Foley

Markets Insight

The UK's weak growth outlook has been weighing on sterling all year. This has meant that it has not seen much benefit from the

Bank of England starting its rate rise cycle sooner than many of its G10 peers. The pound has dropped about 10 per cent against the dollar and a little less than 1 per cent against the euro.

Economics textbooks indicate that higher interest rates are supportive for currencies. That said, there has been clear evidence around the world recently that the tone of central bank policy statements has been having a key directional influence on currency markets, almost irrespective of interest rate announcements. What matters is the commentary on the outlook.

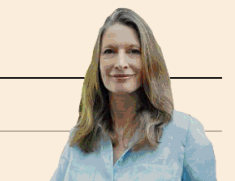
And that tone from the UK has been pretty bleak. In May, the pound fell after the BoE's 0.25 percentage point rate rise announcement, primarily owing to the market's shock at the central bank's

of 2025 onwards to boost demand if supply-side issues that are lifting inflation are resolved. But still, current warnings on UK growth come as investors are assessing post-Brexit Britain.

In a report published in June 2021, the BoE concluded that both Covid and Brexit have had a big impact on business investment. It estimated that the UK's decision to leave the EU raised uncertainty and lowered the level of investment almost 25 per cent in 2020-21, with the effects having built up gradually since the 2016 Brexit referendum.

In a speech last month, outgoing MPC member Michael Saunders stated that

The weakness of the UK economic outlook implies risk of a slide to \$1.15 from \$1.21 in coming months



mental backdrop is not attractive to overseas savers. Investors would like clear leadership defined by fiscal prudence and by policies designed to improve productivity and long-term growth potential.

Uncertainty is a powerful disincentive for many investors and it would appear that the UK government has not done enough to convince overseas investors of the benefits of Brexit.

Both remaining candidates for the Conservative party leadership worked closely with outgoing prime minister Boris Johnson and there are no guarantees that either would significantly alter economic uncertainties and improve the overall environment for investors.

The new PM could also struggle to gain broad support in a country on the cusp of recession. UK labour shortages combined with the cost of living spike have stirred strike action and, with a winter energy price crisis looming, further unrest is possible. This could lead

the economy had deteriorated again in August. A reading of minus 55.3 was worse than the previous month's figure and a consensus forecast of minus 53.8. Central banks have indicated monetary

world's largest bricks-and-mortar retailer, reporting stronger than feared quarterly figures and raising its full-year guidance. In oil, Brent crude fell 2.2 per cent to \$93.06 a barrel, extending declines from

US government bonds came under pressure, with the yield on the benchmark 10-year Treasury note rising 0.04 percentage points to 2.83 per cent as its price fell. Ian Johnston

downward revision for UK growth. And in an astoundingly candid policy statement on August 4, BoE governor Andrew Bailey warned that the UK economy was set to drop into a 15-month recession in the fourth quarter this year. The pound lurched lower against the euro as a result, although it ended the day a little higher.

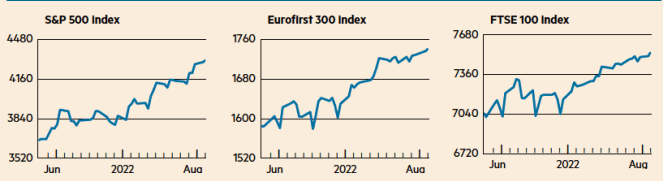
Brexit and Covid had reduced growth potential because of lower labour supply, weak investment and, owing to leaving the EU specifically, through reduced trade openness.

to a choppy period for politics ahead of a 2024 general election - which would be another headwind for the pound.

Markets update

Table with columns for Stocks, Currency, Govt. bonds, World Index, Commods, and various indices like S&P 500, Eurofirst 300, Nikkei 225, FTSE100, Shanghai Comp, Bovespa.

Main equity markets



Biggest movers

Table listing biggest movers in US, Eurozone, and UK, including Walmart, Target, Home Depot, Best Buy, and various European companies like Thyssenkrupp and ArcelorMittal.

Wall Street

Better than expected results sent Walmart rallying. The retail behemoth reported earnings of \$1.77 per share for the second quarter, beating the \$1.62 Wall Street had expected.

Europe

A cut to its guidance sent Switzerland's Sonova down sharply. The hearing aid group expected full-year sales to rise between 15 per cent and 19 per cent, down from a previous target of 17 to 21 per cent.

London

Cyber security group Darktrace surged after confirming that it was in the 'early stages of discussions' with Thoma Bravo, the US private equity firm.

MORAL MONEY SUMMIT ASIA. Accelerating ESG Integration to Unlock Value and Drive Progress. 7-8 September 2022. Presented by FT LIVE, Co-Presented by MoralMoney. Speakers include Poman Lo, Maria Mendiluce, Ahmed Mazhari, and Ravi Menon.

MARKET DATA

WORLD MARKETS AT A GLANCE. FT.COM/MARKETSDATA. Change during previous day's trading (%). Stock Market movements over last 30 days, with the FTSE All-World in the same currency as a comparison. Includes charts and tables for Americas, Europe, Asia, and Global indices.

Table with columns for Country, Company Name, and various financial metrics like P/E, Dividend Yield, etc.

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STOCK MARKET: BIGGEST MOVERS
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ACTIVE STOCKS

UK MARKET WINNERS AND LOSERS
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Table with multiple columns containing financial data, likely stock prices and market indices for various regions and sectors.

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Table titled 'FT 500: TOP 20' listing the top 20 companies in the FT 500 index.

Table titled 'FT 500: BOTTOM 20' listing the bottom 20 companies in the FT 500 index.

Table titled 'BONDS: HIGH YIELD & EMERGING MARKET' showing bond market data for high yield and emerging markets.

Table titled 'BONDS: GLOBAL INVESTMENT GRADE' showing bond market data for global investment grade bonds.

Table titled 'GILTS: UK CASH MARKET' showing data for the UK cash market, including gilts.

Table titled 'INTEREST RATES: OFFICIAL' showing official interest rates for various countries.

Table titled 'BOND INDICES' showing various bond indices and their performance.

Table titled 'VOLATILITY INDICES' showing volatility indices for different markets.

Table titled 'GILTS: UK CASH MARKET' showing data for the UK cash market, including gilts.

Table titled 'GILTS: UK FTSE ACTUARIES INDICES' showing actuarial indices for UK gilts.

Table titled 'COMMODITIES' showing prices for various commodities like oil, gold, and copper.

Table titled 'BONDS: INDEX-LINKED' showing index-linked bond data.

Table titled 'BONDS: BENCHMARK GOVERNMENT' showing benchmark government bond data.

Table titled 'GILTS: UK FTSE ACTUARIES INDICES' showing actuarial indices for UK gilts.

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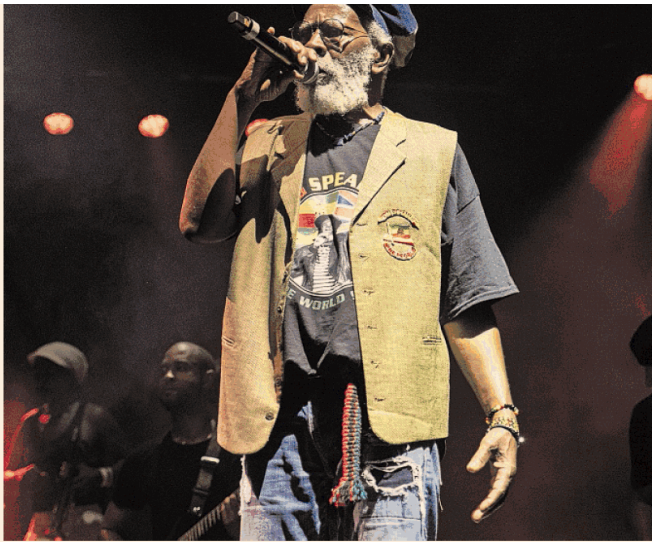
John Paul Rathbone

The atmosphere was electric, the horns soared and there was the same soul-shaking bass that pushed inexorably forward like an ocean current.

It has been a sad two years for lovers of classic reggae. Pioneers such as Bunny Wailer, Lee "Scratch" Perry and U-Roy have passed away.

Rodney got his start in the 1960s when Bob Marley, who was from the same town of Saint Ann's Bay, told the budding musician to try his luck at Kingston's iconic recording studio, Studio One.

The audience for this show was a



Burning Spear on stage at the O2 Academy Brixton — Dave Burke/Shutterstock

multigenerational rainbow crowd of elderly Rastafarians, fiftysomething white men with thinning hair, and younger followers of mixed ethnicities.

Supported by reggae stalwarts Horace Andy and Johnny Clarke, and with his tight, eight-piece Burning Band, who wove in jazzy inflections and funky guitar solos, Rodney's performance

ARTS ONLINE

The Life of a Song Maurice Williams's doo-wop classic 'Stay' was given a new lease of life by Jackson Browne in the 1970s. Charles Morris tells its story ft.com/arts

fluctuated between wailing laments and righteous sermons that admonished in an avuncular tone to live a righteous life.

Sometimes, after standing motionless like Mount Rushmore, he would call out: "Talk to me people," and the place would erupt. Towards the end, extended renditions of roots classics "Marcus Garvey" and "Slavery Days" brought roars from the sweat-soaked crowd.

Turnage's Time Flies — a commission with Tokyo Metropolitan Symphony Orchestra and NDR Elbphilharmonie — opened the BBC Symphony Orchestra's concert on Monday; Sakari Oramo conducted. It employs large numbers: the brass and percussion

can composer Missy Mazzoli. Monday brought the British premiere of a three-part orchestral work, Time Flies, by British composer Mark-Anthony Turnage.

Mazzoli's concerto, played by the violinist Jennifer Koh with the Philharmonia Orchestra conducted by Santtu-Matias Rouvali, is in five parts, casting the soloist "as a soothsayer, sorcerer, healer and piper-type character, leading the orchestra through five interconnected healing spells".

Turnage's Time Flies — a commission with Tokyo Metropolitan Symphony Orchestra and NDR Elbphilharmonie — opened the BBC Symphony Orchestra's concert on Monday; Sakari Oramo conducted. It employs large numbers: the brass and percussion

bbc.co.uk/proms

"Tokyo", surprisingly, abounded with the jazziness associated with various American cities and, though this was a return to ebullience, the Bernstein-like sound brought the work nearest to cliché.

The unfamiliar tuba concerto,



Jennifer Koh at the BBC Proms

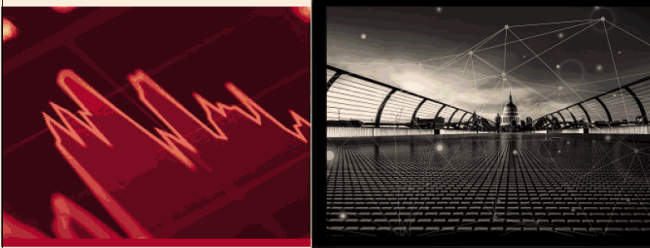
with marvellous cadenzas in each movement, was a joy, a work that extends our idea of the composer and the instrument.

bbc.co.uk/proms

The Banker

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Decentralised finance: Why banks should take notice

8 September | 2pm BST

Interest in decentralised finance (DeFi), particularly in the form of cryptocurrencies, has surged in the last two years, as near-zero interest rates and rising inflation have encouraged people to hunt for higher-yielding investment opportunities outside the traditional system.

Join us for this fifty-minute webinar to learn more about the rise of decentralised finance, the opportunities which it presents for institutions and why banks should be taking notice.

Register now at thebanker.com/decentralisedfinance

An event from the Financial Times

The slippery slope of paying for rewards

GAMING

Tom Faber



What are you going to spend it on? I asked my 15-year-old cousin, who had just received a £50 Xbox gift card.

I watched as he opened 100 boxes, each accompanied by audiovisual pyrotechnics reminiscent of slot machines.

When you get a coin in Super Mario, an enemy's head exploding in a shower of gore in Grand Theft Auto.

Loot boxes such as those in Apex Legends are at the centre of a heated debate that has prompted legislative action in Europe and Asia.

Developers layer these to create a "reward cycle" (also ominously named a "compulsion loop"), a chain of activities designed to become habitual and which elicit a dopamine hit.

Most games interlace short, mid- and long-term rewards that trigger at different times. The short-term rewards often take the form of sensory feedback: the

reward cycle (also ominously named a "compulsion loop"), a chain of activities designed to become habitual and which elicit a dopamine hit.

Loot boxes were removed from 'Star Wars Battlefront 2' after an outcry

bright "ding" when you get a coin in Super Mario, an enemy's head exploding in a shower of gore in Grand Theft Auto.



'Apex Legends' offers many opportunities to spend money within the game

Decades of intensive farming have cleared swaths of the Cerrado region, which acts as an important carbon dioxide 'sink' and helps fend off global warming. But farmers insist it is sustainable.

By Michael Pooler



The agriculture boom stripping Brazil's savannah

Sprinkler heads dangle from a suspended pipeline that stretches for several hundred metres, producing a fine mist that falls on row after row of green shoots. The irrigation system slowly turns on wheels around one of 36 perfect circles here, depending on the season, grow soy, cotton, beans, millet, sorghum or wheat.

With its scale and mechanisation, the enormous farm in Brazil is a paragon of modern crop production. All in the heart of South America's largest tropical savannah, which was largely empty for much of the country's history.

"Brazilian agriculture has completely changed in the past 20 years," says Celso Zanella, whose family founded the Grupo Decisão estate in the west of Bahia in 2003. "When all this was overgrown, I said, 'I have an opportunity!'"

Deep within the country's interior, the conversion of huge swaths of a region known as the Cerrado into pasture and arable land over the past few decades has helped transform Brazil into an agrarian powerhouse.

Once considered largely inhospitable, the region covering almost a quarter of the country is now one of the world's breadbaskets, home to some of the biggest farms on the planet. Its cotton, corn and beef are shipped overseas by international commodities trading groups.

Most important of all are soybeans, crushed for animal feed and oil. On the back of rising Chinese appetite for meat, Brazil has become the world's number one soy producer, with about half its output — which has almost doubled over the past 10 years — coming from the Cerrado.

But the extent of the agricultural encroachment on to this vast patchwork of grasslands, wetlands and wooded areas is alarming ecologists. A rise in land clearances and wildfires has sparked warnings about the ecosystem's role in combating global warming and its importance as a water source, feeding eight of Brazil's 12 basins.

Although it contains less dense foliage and canopy cover than the much larger Amazon rainforest to its north and west, the Cerrado is often called an "upside-down forest" because of the deep roots of its plants. Along with capturing water, they provide a significant carbon dioxide "sink" that helps fend off planetary heating. Tearing up trees, bushes and roots releases the gas.

"If deforestation in the Cerrado continues at this rate, it will lose its historic role of carbon absorption and storage," says Jean Ometto, an agronomist at Brazil's National Institute for Space Research (Inpe). "It means that it can lose biodiversity."

The arguments around the Cerrado are more nuanced than those over the Amazon, where deforestation is often the result of illegal logging, wildcat miners and cattle ranching.

Most activists and experts do not question the case for agricultural development in the Cerrado. But some are asking if the farming boom has now gone too far and threatens the region's ecological role. The global food crisis provoked by the war in Ukraine has sharpened this tension, creating an extra incentive to expand planting in countries such as Brazil.

Long a cause for environmentalists, the Cerrado is now on the radar of European supermarkets keen to provide consumers with food not linked to deforestation or land degradation.

"Deforestation of the Cerrado contributes to the emissions that generate greenhouse gases and aggravate climate change," says Mercedes Bustamante, a biologist and professor at the University of Brasília. Data from Inpe shows that 8,531 sq km was levelled in the 12 months to July 2021 — more than five times the size of Greater London. It was an 8 per cent jump to a six-year high.

Although the overall scale of clearances remains below levels witnessed during the early 2000s, "this advance is more serious because there is less Cerrado standing," adds Bustamante.

Almost one-fifth of the Cerrado's native vegetation was removed between 1985 and 2020, by which point grazing pastures occupied nearly a quarter of its 2m sq km area and agriculture some 13 per cent, according to environmental think-tank Mappiomas.

Just over half of the region's original landscapes are still intact. "The situation in the Cerrado is critical," says Turi Salmons, director at the not-for-profit Instituto Cerrado, a conservation NGO. "[It] deserves the same attention and admiration as the Amazon."

Severely threatened

There was little more than a petrol station in Luis Eduardo Magalhães 30 years ago. Today, the growing municipality of 90,000 people in western Bahia is an advert for the prosperity of Brazil's agribusiness revolution.

An aerial view of deforestation on the border between Amazonia and Cerrado in Nova Xavantina, Mato Grosso, Brazil

The town is the unofficial centre of an agricultural frontier known as Matopiba. An acronym for the northeastern states it intersects — Maranhão, Tocantins, Piauí and Bahia — the region is home to the largest undisturbed remnants of the Cerrado, but also the highest concentration of clearances.

Migrants with farming knowledge and capital from southern states began to arrive in the 1980s. With the fertile valleys already cultivated, they bought cheap overgrown land on immense plains. Acidic soils with poor nutrients have been turned into some of the most productive farmland on Earth, through the development of hardy seeds, application of fertilisers, irrigation and investments in machinery.

Odaíl Ranzi was among the early pioneers, living in a tent for two years while he set up his farm. Now the president of the Association of Farmers and Irrigators of Bahia, he argues that Brazilian agriculture is sustainable and environmentally sound. "Farmers are very conscious about preservation. Today it is practically 90 per cent direct planting [without tillage], so there isn't erosion because it's protected," he says. "In the Matopiba region, yes there is deforestation, but within the law."

Any "suppression of native vegetation" — a term that covers clearances and deforestation — requires authorisation by public agencies, as does extracting water from rivers. *Fazendeiros*, large farm owners, say it is a rigorous process. "We have the strictest forest code in the world," says Ranzi. While the 2012 law forces private landholders in the Amazon to preserve 80 per cent of native vegetation, in the Cerrado it is just 20 per cent, rising to 35 per cent in the zone between the two regions.

A Mappiomas study suggested that 98.4 per cent of land conversions in the Cerrado in 2021 had some kind of irregularity, such as lack of environmental licences, or overlap with an indigenous reserve or other protected area.

This, says Ane Alencar, director of

science at non-profit group Ipam and a co-ordinator of Mappiomas, "seems to be the result of the feeling of impunity that has reigned in the country" as a result of budget cuts at enforcement bodies and the relaxation of environmental laws.

Some ecologists say the quota for native vegetation is now insufficient to protect the savannah region. "The high fragmentation of the remaining landscape favours the extinction of endemic species in the region," says Manuel Ferreira at the Federal University of Goiás.

The region shelters about 5 per cent of all the Earth's biodiversity. But according to some scientists, there are already signs of strain on the Cerrado. A paper last year found the region was "becoming hotter and drier". It said that intense daytime warming and a sudden drop in absolute humidity were "probably related to the massive conversion of Cerrado vegetation into croplands".

Gabriel Hofmann, a researcher at Rio Grande do Sul Federal University, co-wrote the paper. He says regional climate changes here are more pronounced than those globally.

"The ecosystem could collapse due to these imbalances," he adds. "It's one of the main centres of biodiversity in the world that's severely threatened at present, mainly through the expansion of the agricultural frontier."

Another recent study into water resources in west Bahia concluded that streamflow in the Pratidão River had dropped by almost two-fifths in the three decades to 2018. "Our results indicate that agricultural changes rather than climate change may be the main driver," it read.

Yet many *fazendeiros* and their supporters bristle at criticism over conservation, particularly from Europeans, who they accuse of hypocrisy given the continent long ago cut down most of its woodland. And question why they should give up economic opportunities.

"What will people live off?" asks Zé Carlos, the mayor of São Desidério. The municipality in western Bahia had the second-highest level of Cerrado clearances in 2021, according to Inpe data.

The politician says his town offers opportunities thanks to activity associated with agribusiness, such as machinery vendors, restaurants and tyre shops. "We can't let development stop," he adds. "We still have a lot of poverty."

Land disputes

Ednaldo Lopes Leite points at a sea of blooming white cotton flowers and says he and his family and neighbours used to pick wild fruits and graze cattle on this land. "The deforestation finished it," says Lopes Leite, gazing at the vast arable fields abutting the wild Cerrado he can still access. "It's all crops now."

He is a *gerizeiro*: the name given to traditional communities who settled in

isolated corners of western Bahia from the 19th century onwards, but typically without formal land titles.

The tracts now off-bounds to Lopes Leite's family and neighbours lie on a megafarm complex called Agronegócio Condomínio Cachoeira do Estrondo, comprising more than a dozen landowners across 214,000 hectares in Formosa do Rio Preto municipality.

The *gerizeiros* allege that since 2014 they have been subjected to harassment, intimidation and violence by private security forces.

For its part, the Estrondo estate said it had "suffered many criminal attacks over the years, from destruction of properties to harassment of employees and their families". "It is of the utmost interest to the owners of the Estrondo estate to maintain the best possible relationship with the locals," it said.

After a court decision granting 45,000 hectares to some 120 *gerizeiro* families was upheld in 2021, there are hopes for a final resolution. Yet the dispute is not exclusive to Matopiba. While agricultural colonisation has brought development to this frontier zone of the Cerrado, in some cases it has also provoked conflicts over land and resources.

Fight over soybeans

In a bid to halt further destruction of wild Cerrado, campaigners have focused on the commodity trading groups who act as a conduit for soybeans to international markets.

Given their commercial power, these companies are the "key actors", says Alex Wijerata, campaign director at Mighty Earth, the advocacy group. "They build the silos, they have a direct supply chain, they provide the port and crushing facilities and the ships," he adds. "But their response is totally wanting."

A collection of NGOs, European food companies, retailers and investors previously sought to convince traders to stop sourcing soybeans from Cerrado land cleared post-2020. But the idea was rejected. Cargill, Bunge, Archer Daniel Midlands and Louis Dreyfus Company together accounted for 55.2 per cent of known Cerrado soy exports in 2018, according to supply chain data platform Trase. All declined to be interviewed for this article. So too did Amaggi, Brazil's largest grain and fibre company.

These traders have adopted self-imposed deadlines to rid their supply chains of deforestation and native vegetation conversion by the end of the decade. Cargill said in a statement that it was committed to "find lasting solutions for protecting forests and native vegetation in the Cerrado in ways that are economically viable for farmers".

Bunge said it was the first company to foster large-scale efforts in the Cerrado

"What will people live off? We can't let [progress] stop. Even more so in a country like ours, where we still have a lot of poverty"

Zé Carlos, the mayor of São Desidério



"to track indirect purchases by sharing knowledge, methodologies and tools with resellers". Under a collective initiative called the Soft Commodities Forum, six of the biggest traders have begun to disclose the proportion of soy that they source from the most affected areas of the Cerrado that is free of deforestation.

While activists say the responses do not go far enough, sector representatives counter that it is the legal right of landowners to deforest within the rules.

"This soy has a market," says André Nassar, president of the Brazilian Association of Vegetable Oil Industries (Abiove), which represents traders. "We can guarantee it won't go to [Europe], but I can't stop the farmer from producing."

Abiove provides maps and data based on satellite imagery for its members to monitor farms and thereby meet their deforestation commitments. The aim is to guarantee the "traceability" of Cerrado soybeans — a feat likely to be harder for the roughly 30 per cent of indirect purchases through intermediaries such as local warehouses. "It's a challenge, but it's surmountable," says Nassar, whose organisation is offering a traceability tool to indirect suppliers.

Industry figures, meanwhile, claim that soy-driven conversion of native Cerrado vegetation has been steadily decreasing, pointing to analysis that only 9 per cent of new plantations between 2014 and 2021 were on deforested lands. Yet sceptics argue the crop remains an indirect cause of Cerrado deforestation, due to its displacement of livestock grazing sites.

One idea that is taking off is the making of payments to farmers to preserve untouched areas of Cerrado voluntarily. Projects are also taking shape to offer financial incentives such as cheap credit in exchange for not deforesting, restoring degraded tracts, planting on old pastures and the sustainable intensification of beef ranching.

An initiative launched at last year's UN climate summit in Glasgow has secured \$4bn in commitments towards funding "deforestation and conversion-free" cattle and soy production in South America by 2025, backed by financial institutions and agribusiness groups. The Innovative Finance for the Amazon, Cerrado and Chaco scheme has a goal for its signatories to release \$200m by the end of 2022.

Some believe a balance can be struck between feeding the world and saving the planet's most biodiverse savannah. "Brazil doesn't need any further ecosystem destruction for reaching national targets of [agricultural] production increase in the coming decades," says Frederico Machado of WWF-Brazil. "There is plenty of already cleared or deforested lands that are suitable."

Additional reporting by Carolina Ingliz

'If [tree-cutting] in the Cerrado continues at this rate, it will lose its historic role of carbon absorption and storage'

Jean Ometto, Inpe

Cerrado: Brazil's upside-down forest



The FT View



FINANCIAL TIMES
"Without fear and without favour"

ft.com/opinion

Attack on Rushdie underlines threats to free speech

Freedom of expression needs to be defended with even more vehemence

Until the terrible assault on Salman Rushdie last weekend, it was tempting to believe that the "Rushdie affair" had been consigned to history. The original fatwa against the author was issued more than three decades ago – by Ayatollah Ruhollah Khomeini, who was then Iran's supreme leader. But in recent years, the threat against Rushdie had seemed to recede. The novelist took to the stage in New York state last Friday unprotected by security.

Pointedly, when he was attacked Rushdie was giving a speech about the importance of protecting writers in peril. Over the decades, the novelist has become both a symbol and a champion of freedom of speech. Free speech remains a core principle of a liberal society. It needs to be defended with even

more vehemence in the aftermath of the attack on Rushdie.

Khomeini's fatwa marked a dangerous departure from global norms. Here was the leader of a state calling for the death of a foreign citizen over a work of fiction, *The Satanic Verses*, which the cleric deemed blasphemous. Giving in to a threat like that, by withdrawing the novel, would have been profoundly dangerous to free speech around the world.

Even if the immediate threat to Rushdie seemed diminished in recent years, the threat to free speech posed by Islamist extremists, both Shia and Sunni, has never disappeared. The Japanese translator of *The Satanic Verses* was murdered in 1991. Theo van Gogh, the Dutch filmmaker, was murdered in 2004. In 2015, extremists murdered 12 people at the Paris offices of Charlie Hebdo, a satirical magazine.

Threats continue. Last month a man was arrested after being found with a loaded assault rifle outside the New York home of Masih Aljinejad, an Iranian-

American women's rights activist.

On many occasions, voices in the west qualified condemnation of attacks with suggestions that the likes of Rushdie, Van Gogh or the editors of Charlie Hebdo had also been at fault by being gratuitously offensive to Muslims. Some of those who failed to support Rushdie in the 1990s were conservatives, who had long disliked his leftwing views. These days, it is more likely to be the left who are squeamish about offending the supposedly downtrodden.

There are some legal restrictions on free speech – such as incitement to violence or libel. But, beyond that, freedom of speech in a liberal society must include the prerogative to say upsetting or offensive things. It can be uncomfortable or even dangerous to defend the right to give offence. But the opposite reaction is far worse, opening the door to a society governed by fear, conformity and stagnant ideas.

The Islamist extremist threat to free speech remains especially dangerous

It can be uncomfortable or even dangerous to defend the right to give offence. But the opposite reaction is far worse.

because of its ability to inspire radicals all over the world, with explicit exhortations to murder. But sometimes governments have also resorted to undercover assassinations to stamp out dissident voices – witness the slaughter in 2018 of the Saudi journalist, Jamal Khashoggi.

Less brutal, but more insidious, perhaps, has been the effect of "cancel culture" on freedom of speech. In 2020, Rushdie himself signed the celebrated Harper's letter, which declared that the "free expression of information and ideas, the lifeblood of a liberal society, is daily becoming more constrained."

The letter's signatories included heroes of the left, such as Noam Chomsky, and of the right, such as JK Rowling, both of whom have faced death threats. In a liberal society, one principle that all political camps must unite to defend is free speech. That is true when challenging those who seek to silence others. But death threats and assassinations that aim to punish free expression are in an abhorrent category of their own.

Opinion Science

Spread of bird flu demands a sharper response



Anjana Ahuja

Seabird colonies stud the UK coastline like crystals on a hem. The country's jagged cliffs and rocks reportedly host, among other species, 90 per cent of the world's manx shearwaters, just under 70 per cent of northern gannets and around 60 per cent of great skuas, an aggressive species often called the pirate of the seas.

Those colonies have been under threat as never before, from a severe strain of bird flu. The viral disease, spread by migrating birds, usually strikes in the cooler seasons with a lull over the summer, producing short, sharp outbreaks in farmed poultry or backyard flocks that quickly burn out.

This year, though, has been different: highly pathogenic avian influenza H5N1 (usually shortened to HPAI), has persisted into the hotter months

to an August update. That is in addition to outbreaks among laying hens, turkeys and chickens.

The unprecedented epidemic has prompted a £1.8bn government effort to tackle HPAI. Professor Paul Digard, a molecular virologist at Edinburgh University who has joined this effort, says it is critical to figure out why the virus is now ravaging coastal colonies.

"Is it just chance that it's made it to seabirds that it's never really encountered before?" Digard asks. "Or has something fundamental changed about the virus that means it can now infect animals that it previously couldn't? And why is the virus hanging around in the summer? Is it just because it's found its way into these [seabird] populations or is the virus more stable?"

As a rule, he says, viruses fare worse in hot weather. One possibility is that genetic mutations have boosted its ability to survive summer conditions, including high levels of ultraviolet radiation.

Migratory ducks, geese and swans are key international spreaders, with outbreaks around the globe tracking migration patterns. North America and Asia have also seen large epidemics this year; one concern is that a changing virus might eventually be able to reach new territory, such as South America and Australia.

One change in the virus that might allow for greater spread is the capacity to infect an animal without making it ill. Some duck species, for example, can be silent carriers – via migration, they can disperse their viral cargo over thousands of miles to other birds through direct contact or through bodily fluids and droppings. One line of the consortium's research will be to understand why different species react differently to the same virus.

To minimise the spread in wild birds, the Royal Society for the Protection of Birds has now called for a moratorium on the widespread release of game birds ahead of the UK's autumn shooting season, in case any are infected; (Last week saw the start of the grouse shooting season on August 12, or the Glorious Twelfth, that species is so far unaffected). Some sporting estates, unable to source enough target birds, have already cut back activity.

Whether or not the season goes ahead, tightening biosecurity and widening surveillance is a sensible strategy to protect at-risk species, the

Letters

Cities need to invest before self-drive cars can hit the road

John Thornhill is spot on about the regulatory challenge of introducing autonomous vehicles into the existing traffic patterns of contemporary cities ("Intelligent cars need intelligent regulation", Opinion, August 12). However, addressing the challenge will take far more effort than merely getting "quick-witted entrepreneurs" and "slow-moving bureaucrats" on to the same rules-based page.

The larger problem is how to find the money to fund the massive infrastructure that this burgeoning transformation will require. Public investment is needed to ensure that the new internet-based transport guidance systems are in continuous high-quality contact with changing conditions on the complex weave of streets that comprise modern cities. An assumption implicit in too much

of the current conversation is that future autonomous driving will resemble the present but the cars will drive themselves. However absent public infrastructure investments to fully integrate the necessary continuous communications between the individual vehicles – navigating the complex web of city streets and some ability to reroute as conditions change

– the gridlocked collision experience of San Francisco robotaxis, described by Thornhill, will become a routine problem. The only difference is that it will involve not just taxis but all types of autonomous vehicles. Elliott Sclar, Emeritus Professor of Urban Planning Co-Director, Center for Sustainable Urban Development, Climate School Columbia University, New York, NY, US

Drax will keep the lights on, whatever the weather

The Lex note "Drax/Kwarteng: wood you believe it" (August 12) neglected to mention that what differentiates biomass from intermittent renewables (like solar and wind) is that it provides reliable, renewable power that keeps the lights on, no matter what the weather.

The UK-generated baseload power that the Drax power station in Selby, North Yorkshire, produces from biomass is used by 4m homes and has never been more important to this country's energy security.

Drax does not cut down forests to produce woody biomass pellets, as Lex suggests. The economics would never stack up.

After sustainable forests are harvested to produce timber for construction and furniture-making, we take what's left over. Around 75 per cent of the material used in our pellets is sawdust, chips and dead and diseased wood that would often instead be sent to landfill or burnt at the side of the road.

Our biomass also only comes from forests where carbon stocks are growing or stable. Since the 1950s the areas we source from in the US South have doubled in growth and our supply chain is heavily regulated both in the UK and abroad, ensuring we never contribute to deforestation.

Thousands of the world's leading climate scientists at the UN Intergovernmental Panel on Climate Change are clear that bioenergy combined with carbon capture and storage (BECCS) will play a vital role in the low-cost removal of CO₂ from the atmosphere, offsetting emissions from industries unable to fully decarbonise, such as aviation and agriculture.

Drax is half way through a £5bn programme of investment into renewable technology and infrastructure that will put the UK at the forefront of global efforts to reach net zero, while supporting energy security and creating thousands of jobs in the north of England. Will Gardiner, Chief Executive, Drax Group London EC2, UK

Here's one idea for how to lower UK energy bills

Sebastian Payne is right that "immediate action on energy bills will be vital" for the new prime minister (Opinion, August 12). Meanwhile the energy sector itself could take action by tapering the companies' daily standing charge. The present system of levying a flat charge on all users means that the lower the usage, the higher the rate.



The City must do more to avail of Brexit freedoms

Visiting from Hong Kong after a two- and a half-year "Covid gap", the City of London appears as a lost Latin American township, silent at midday, memorialised in Tristram Hillier's semi-surrealist paintings, operating at horse and cart speed.

Cities add value by concentrating skills and making them accessible, efficient to use for local and international businesses, reinforcing the qualities of each working professional, whether in finance, law, accounting or investment (Report, July 26). Even allowing for summer holidays, the City looks like a ghost town. Getting to or between meetings is primitive and slow.

Businesses don't want top talent to arrive from overseas to discover Brexit freedoms mean pedal power or horse and cart are re-endangered in "modern" London, nor to moulder from meeting to meeting on foot, nor to queue for buses.

In your story on the reforms needed to support the City's future, Freshfields lawyer Mark Austin says he creates "grids" of the pros and cons of different cities for clients assessing where to list (and observes) "until now, we haven't come out that well, the amount of friction we have". I'd add that clusters like the City don't work if minimum standards of physical communication are sabotaged. Paul Serfaty, Hong Kong

Military stand-off with Taipei has Covid parallels

In her report on the tensions following US House Speaker Nancy Pelosi's visit to Taipei, Kathrin Hill writes that "China extends military drills around

Don't write off South Africa's prospects just yet

Gideon Rachman's piece on South Africa ("South Africa's fear of state failure", Opinion, August 16) is typically elegant and well-composed but relies too heavily on the views of opposition politicians who may well feel that they have much to gain by painting such a grim picture.

While it is true that the governing African National Congress is a broken, dysfunctional organisation that these days does far more harm than good, South Africa is a very long way from being a "failed state", a term with a very specific academic definition premised on the notion of the legitimate authority of the state.

Corruption and incompetence have certainly diminished trust in the state, but several of the key cornerstones of legitimate state authority remain fully intact – most obviously, the rule of law and judicial independence, which proved to be robust bulwarks that ultimately arrested Jacob Zuma's corrupt enabling of "state capture". Opposition politician Mmusi Maimane is quoted as saying exactly this in the piece, having been quoted near the top of the piece asserting the state is "about to fall".

There are growing signs of fragility – a different concept – and enormous socio-economic precarity. But the country is approaching a "second transition" in which the ANC will lose power and, with a fair wind and bold leadership, a new, sustainable economy can be built.

Besides, South Africa remains a superb – and largely safe – tourist destination. Richard Calland, Associate Professor, Public Law University of Cape Town, South Africa

No one questioned Attlee's mandate to set up the NHS

The validity of the 2019 UK general election is queried in Arthur Birchall's letter (August 3). But a low turnout does not of course mean that "more than half did not want them (the Conservatives) in power at all" – perhaps apathy is a more cogent reason.

Look at the 1945 general election, which brought in a party with an openly socialist agenda, including nationalisation of many major industries and the birth of a free NHS. Commonly referred to as a landslide victory, Clement Attlee's Labour won a 146-seat majority winning 48 per cent of the votes cast, on a 75 per cent turnout of the electorate. It is worth noting that there appears to have been no subsequent

Is the Union in the Truss list of endangered species?

In the interview Liz Truss gave to the FT ("Iconoclast refuses to budge on goal for change", interview, August 6) she is quoted as saying: "There are things I very much care about conserving. The natural environment we have – protecting endangered species." Some will hope this includes the survival of the UK as a unified nation state, and that she cares about conserving the Union.

Having spent part of her early life in Scotland, she may well have an understanding and sympathy for the Scottish people. It is to be hoped she has. Only by doing so will the next British prime minister – whoever it is – build better relations with Scotland. Failure to do so may lead to another Scottish referendum, and the break-up of the Union. Selwyn Hodson-Pressinger, London SW1, UK

Why employers should back T-level qualifications

One thing that won't be predictable tomorrow – in fact, it will be trailblazing – is the UK's first ever T-level results ("University admissions to return to 'more predictable' cycle, says UCAS chief", Report, FT.com, August 14).

The students who will get their results have been the first in the country to take these fantastic new technical qualifications for 16 to 19-year-olds. The first subjects include design, surveying and planning, digital and education and childcare, with more being added in the coming years including health and science, engineering, and legal finance and accounting.

A pass at T-level is the same as three A-levels and well over 100 universities are already accepting them. They involve classroom-based learning and stand out from other technical qualifications because 20 per cent of students' time is spent on the frontline with businesses on work placements.

For any students – and parents – concerned about the reported competition for traditional university undergraduate courses, we urge them to remember that an apprenticeship is now a prestigious choice. There are nearly 650 available to choose from, training tomorrow's economists, nurses, aerospace engineers, countryside rangers, brewers, laboratory scientists, skilled designers and archaeologists.

Businesses need a gifted workforce, but many struggle to find the skills they need at a price they can afford. Now is also the perfect time for

the longest and largest ever recorded in the UK, as well as in other European countries.

poultry industry and human health. Every avian encounter creates an avenue of viral traffic, rolling the dice on a new variant.

This is manifestly unfair and also ineffective as a deterrent to waste. A variable standing charge could ensure that the lowest users are exempt from standing charges and that higher users pay a higher rate.

crucial shipping route for second day beyond original schedule" (Report, August 10). Is there a pattern here? Does anyone remember the "four-day" lockdowns in Shanghai, that were still in place four months later?

questioning or hand-wringing over the lack of a majority mandate for the programme carried out over the following five years - reflecting national self confidence in its representative form of government.

employers to break out of that cycle by getting on board with T-levels and apprenticeships, training their own skills pipeline for the future.

Opinion

Liberals must overcome their aversion to conflict

WORLD AFFAIRS
Janan Ganesh



At the breakfast table, George Orwell once cut in half a live wasp and watched a "stream of jam" leak out the back of it. To "drive a bayonet into a Buddhist priest's guts" was another urge from time to time.

mild liberals of the HG Wells sort couldn't? This might be the key to Churchill, too. He could see Nazism for what it was precisely because the appeal of hierarchy and conquest was not wholly lost on him.

The invasion of Ukraine displaced the Rushdie affair (which itself displaced the Spanish civil war) as the shorthand test of someone, as the quickest way of placing them. And here again the findings are odd.

We needn't turn to the grand canvas of geopolitics to see the liberal love of the quiet life. It is there in the pervasive dinner-party trope that, yes, Richard Dawkins is "right", but must he be so beastly about it?

someone who wouldn't take their own side in a quarrel. It is increasingly a feat to recognise the quarrel.

Another liberal party is to say that cancel culture is a distraction from the economic crisis. And perhaps it is. But then one novelist's torment was a distraction in the not notably quiet year of 1989.

What if Orwell's trace of malice allowed him to recognise the real thing in Hitler and Stalin?

some ways the liberal west's exemplar nation. Historic guilt about Russia has a part in Berlin's tentativeness. But so does a deeply consensual policy's unease with conflict and sharp choices.

It is there, too, in the growing denial that something has gone very wrong with identity politics. When a liberal says, "There is no culture war," what I hear is: "Please let there be no culture war. Otherwise, I shall have to fall out with my friends, stand up to my children, upset my employees. Or worse, go along with them and feel a coward."

There is nothing innate about liberalism that mandates evasiveness. People answering to that philosophic label in the Baltics, Poland and the US have proven as much by aiding Ukraine. Still, the phenomenon that Orwell embodied recurs across eras and contexts. It is telling how many of Rushdie's staunchest defenders - Susan Sontag, Christopher Hitchens - were radicals.

Ruto's victory points to a new post-ethnic politics in Kenya

Zeinab Badawi

was watching the latest election results in the hair salon of my Nairobi hotel. Like everybody else in Kenya, I was impatient to know who had won the presidential election. This was four days after the August 9 poll.

I happened to glance at the gentleman at the basin next to mine: it was Odinga. I asked him if he was to be Kenya's new president. He confidently answered yes. Two days later it was officially announced that Ruto had won in the first round by 50.49 per cent to Odinga's 48.85 per cent.

Why did Ruto win? He ran a disciplined campaign that focused on bread and butter issues. Most Kenyans are struggling with high inflation and unemployment, and subsidies on fuel and staples are due to end soon. Ruto also presented himself as the outsider - the "hustler" as he put it. He fell out with President Uhuru Kenyatta early in the second term, which allowed him to distance himself from the present government's economic failures.

Many of the young people I spoke to believe their lives will not improve regardless of who is in power

Kenya's own home county, Kiambu, backed Ruto.

This indicates a marked shift away from ethnic to issue-based politics. This does not mean ethnicity was not a factor in how people cast their vote: Odinga gained the Luo vote, and the Kalenjin swung behind his candidate Ruto. But economic concerns that transcended community loyalty undoubtedly helped ensure the latter's victory.

While it might bruise the egos of some senior BOE officials, it would in no way send the UK down the dangerous paths of Trump or Turkey. Central bankers should welcome the additional shackles. Too much freedom and too little accountability for unelected officials is unhealthy in a democracy.

This time around the authorities had invested a great deal of time, effort and money in trying to ensure the poll was peaceful as well as transparent, inclusive and credible. There were voter education campaigns in the media, and a four-layered verification process for the vote: the Independent Electoral and Boundaries Commission, the body responsible for the elections, was seen to have conducted an improved electoral process from the previous elections in 2017 - a reflection of how state institutions have matured in Kenya.

One big test for Ruto will be whether he can deliver for the youth. Sixty-five per cent of Kenyans are under 35 years of age and they are politically alienated. Of 22mm eligible voters, only 7.5mm of the population of 53mm, there were 6mm new potential electors, only 2.8mm of whom registered - and not all of them will have bothered to cast their ballot.

Central bank independence is on the decline

ECONOMICS
Chris Giles



A decade ago, respect for central bankers peaked. With three words, Mario Draghi's commitment to do "whatever it takes" ended the eurozone crisis and demonstrated the value of strong, independent institutions.

independence. Her allies, such as the likely next chancellor Kwasi Kwarteng, have made implicit threats, saying, "We need to look at what went wrong".

It would be simple to present Trump and Erdoğan as cautionary tales for Truss. Powell ignored Trump's bullying. Rightly so because, a few years on, we know the Fed's core mistake was to tolerate too low interest rates for too long, amplifying inflation. Turkey, which cut rates on Erdoğan's orders, now suffers an official inflation rate of 79.6 per cent in July, with many economists thinking the true rate is even higher.

This inference would, however, be wrong. Many of Truss and Kwarteng's economic positions are bizarre, but they are correct in their diagnosis that something has gone wrong at the BOE. Of course, high energy prices have contributed much to the surge in inflation, but the UK suffers from the worst of all worlds - having the US disease of excess demand, a UK-specific drop in labour supply that the BOE failed to notice, firms that feel comfortable in raising prices and workers determined to protect their wages. It is no wonder inflation is marching up to 13 per cent.

When trying to defend the BOE's independence in this environment, its governor Andrew Bailey has a problem. The traditional argument is to say that if independence were loosened, all hell would break loose and the UK would return to the high inflation of the 1970s. That has already happened.

Without that card, the BOE has resorted to the risky strategy of blaming



others and insisting it has made no mistakes. According to Bailey, the BOE is also a victim of high inflation and it could not have foreseen Russia's invasion of Ukraine and the resulting rise in natural gas prices. "We don't make policy with the benefit of hindsight," Bailey likes to say.

For those who want to protect valuable economic institutions such as the BOE, the governor's position is impossible to support. Hindsight is valuable. It allows us to learn lessons. In any case, Bailey did not need hindsight, he just needed to listen to his chief economist in February 2021, who warned that the "greater risk at present is of central bank complacency allowing the inflationary (big) cat out of the bag".

Instead, Bailey is falling into the trap

If Truss becomes the next prime minister, she can review the Bank of England's autonomy

described by Professor Ricardo Reis of the London School of Economics of blaming the rain for getting wet even though he was holding an umbrella. As Reis said, when you have a target of 2 per cent, inflation rates of more than 7 per cent for well over a year are almost always the central bank's fault.

The new prime minister and chancellor will be fully entitled therefore to review the central bank's mandate. I think it is unlikely they would want to change the legal requirement of the BOE to "maintain price stability" or to use the Treasury's reserve powers to direct the central bank's Monetary Policy Committee.

Instead, Truss might want to give the BOE a new definition of price stability. She has hinted that she is interested in a nominal gross domestic product target. Since this also rose at an annual rate of 9.1 per cent in the second quarter, it would not make a lot of difference.

But Truss and Kwarteng could act perfectly within the boundaries of the BOE's operational independence to sharpen its incentives. They could

amplify the importance of inflation control in the annual letter the chancellor writes to set the BOE's inflation target.

Even better, Kwarteng could write a more pointed reply to the BOE when it next has to explain an inflation deviation of more than 1 percentage point from the target. Traditionally, the BOE says that something outside its control has occurred and that it has already taken action to correct matters. The chancellor then replies with a supine acceptance of the central bank's arguments. Instead, the chancellor's letter should become a proper means of challenge and accountability for the BOE.

While it might bruise the egos of some senior BOE officials, it would in no way send the UK down the dangerous paths of Trump or Turkey. Central bankers should welcome the additional shackles. Too much freedom and too little accountability for unelected officials is unhealthy in a democracy.

chris.giles@ft.com

Space co-operation offers the prospect of warmer EU-UK relations

Will Marshall

When terrestrial politics has been frosty, nations have turned to space as

fect sense. The expense and global coverage of space systems means that it's difficult for any one nation to go it alone. In the same way that Cern has brought together the best minds in nuclear physics, the European Space Agency (ESA) has been a crucible for co-operation. There are huge mutual benefits to collaborating - scientifically, technically, economically and politically - with citi-

stellation in low-earth orbit to create a single global player in connectivity. Importantly, both the UK and French governments will have board representation in the new group. Commercial imperatives have brought the British and French governments, quite literally, to the table.

The details of the merger come just a few months after the EU announced

provide exactly the same specification as the planned EU system, but it covers most of its desired capabilities - and it did so a decade earlier.

So here's a smart way through: the UK, which retains exclusive rights over OneWeb, could allow the EU to use its satellite systems to meet Brussels' communications objectives. In return, the EU could allow the UK to return to Gal-

realities and the EU and UK must work together closely, including in the security arena.

Such a space-led detente should, by the same force of logic, extend to Horizon Europe, the EU's €95bn flagship scientific research programme. The impasse threatens to rupture connections carefully fostered over four decades, which have enriched science to the

V a venue for co-operation – to cast differences aside in the name of science. The joint US-Soviet Apollo-Soyuz mission at the height of the cold war involved extraordinary levels of collaboration between the adversaries and showed the powerful role space can play.

That's why the announcement of a merger last month between French satellite operator, Eutelsat, and the newer British satellite operator, OneWeb, is important. It opens up the opportunity for London and Brussels to get relations back on track.

Before Brexit, the UK belonged to both the EU's Galileo global navigation system and Europe's Copernicus earth observation programme. It made per-

sons benefiting from technologies that give us GPS, weather forecasts and communications.

The UK is still a member of ESA after leaving the EU, but this does not give it access to Galileo or Copernicus, which are EU programmes. Brexit means that the UK can no longer participate in the secure part of Galileo, while its involvement in Copernicus is the subject of continued wrangling. There may be understandable reasons for arriving where we have, but it's clear that both sides are losing out.

The Eutelsat-OneWeb deal presents an opportunity to change all of this. The agreement would combine Eutelsat's geostationary broadcast satellite fleet with OneWeb's satellite internet con-

plans to build a third major satellite fleet, to compete alongside large US commercial constellations such as SpaceX's Starlink. It will cost billions of euros and take ten years to construct. Meanwhile OneWeb, after a decade of development, is nearing the final stages of deployment, with 600 of its intended 648 satellites in orbit. OneWeb may not

beo and Copernicus. This means making the relatively easy decision to bring the UK into the Copernicus fold, while recognising that Europe's defence imperatives, especially in light of the Ukraine war, now change the calculus for the UK rejoining Galileo.

The horse trade is win-win, pure and simple. Both sides get what they want, including getting access to critical capabilities many years before they would otherwise. Moreover, London and Brussels would save a huge amount of taxpayers' money. A deal of this sort would no doubt require compromise on both sides, particularly after the EU has been clear that sovereignty is important to its ambitions for a new constellation. But we are in a world of changed geopolitical

benefit of the UK and the EU/27, as well as the world. Again, it's a spat with no real winners. The EU misses out on €6.9bn in allocated funding and the UK is denied precious research partnerships. This isn't what post-Brexit statecraft should look like.

Very soon, a new UK government will have to get to work, dealing with a formidable range of challenges. Resetting EU relations has the potential to help it address many of its immediate political and economic issues. A nimble act of space-diplomacy with immediate benefits, as well as symbolic value, could provide the perfect place to start.

do not believe that the political elites have their best interests at heart.

Ruto is wealthy and, noting the prevailing socio-economic challenges, will have to expend considerable efforts to generate prosperity, which he has emphasised would be one of his key priorities. He must respond to the aspirations of Kenya's youthful population and, crucially, ensure that the shift towards a post-ethnic political environment in Kenya is maintained. The outsider has come in from the cold. Now he must deliver on his campaign promises.

The writer was a member of the Commonwealth Observer Group for the Kenya elections. The views expressed here are her own.

Lex

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Ethereum: urge to merge

Ethereum is on the cusp of a radical change. Critics say blockchain technology and cryptocurrencies are too energy-intensive to play a role in finance. The riposte of ethereum developers is The Merge. They aim to combine the main ethereum blockchain network with another system to slash power consumption.

The Merge promises to edge digital assets, whose prices have taken a battering, closer to the mainstream. A successful dress rehearsal in August means the change could take place in coming weeks. Like bitcoin, ethereum uses a proof-of-work model in which complicated equations must be solved in order to unlock new digital tokens or validate transactions. This drains a great deal of computer power.

Estimates of energy consumption vary, but bitcoin is thought to use up to 150 terawatt hours yearly, 0.65 per cent of the global energy supply. Ethereum would burn up about 75 Twh annually. The Merge means ethereum will shift to proof-of-stake, in which users verify transactions using their existing assets. This requires less power – 99.95 per cent less, the community-created information site ethereum.org says.

Token owners can invest their capital via staking, loaning out digital assets to validate transactions. The annual return for staking is about 3.85 per cent on proof-of-stake blockchain network Solana, say estimates from Coinbase, a crypto platform. Ethereum, a larger network with more transactions, could provide higher returns. Ethereum.org predicts 7 per cent.

Ethereum's digital token ether is the second-largest cryptocurrency after bitcoin. But the gap is large. Ether's market value is about half of bitcoin's, according to data from CoinGecko.

Like all cryptocurrencies, the price has retreated from a record high last year as interest rate rises reduce demand for risky assets. It is down 60 per cent from its high point, just below bitcoin's 65 per cent drop.

The Merge could reduce the gap by propelling ether's price. It jumped more than a tenth after a test network completed a simulation of the switch planned for the main network.

The update has been delayed before. Even if it occurs, not everyone plans to

adopt it. Some miners who stand to lose out are making plans to run the old version of ethereum.

But such a move will not be widely supported. Reducing crypto's energy use is a widely shared goal.

Third Point/Disney: let it grow

Investors are a demanding lot. Take Third Point. Nearly two years ago, the hedge fund run by Dan Loeb urged Walt Disney to axe its dividend and spend more aggressively on streaming service content. The House of Mouse did just that. The investments appear to have paid off. Disney Plus added 14.4m subscribers in the most recent quarter, blowing past estimates and pulling ahead of Netflix in subscribers.

Third Point is back. After selling its position earlier this year, it has taken a fresh \$1bn stake. With it comes a list of requests, including spinning off ESPN, a board shake-up, taking full control of streaming service Hulu.

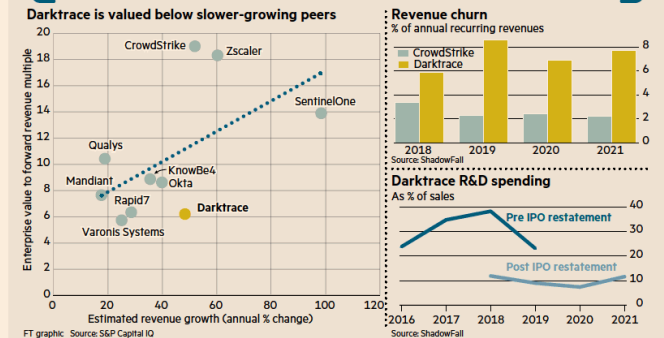
The proposed changes push Disney to reverse its direction, but they are in tune with the zeitgeist. After outsized gains posted in the pandemic, the streaming sector has slowed. That has contributed to Disney's shares falling more than a fifth this year. They are down 37 per cent from their March 2021 peak. Expensive streaming content may add subscribers, but it is taking a long time to translate into profits. Still, Third Point's recommendations may not be the best way to improve Disney's performance.

ESPN is cash-generating, for example. Viewers' willingness to pay for live sporting events means Disney's cable TV business remains profitable despite cord-cutting. The linear networks unit boasts a 30 per cent margin and pulled in \$8.4bn in operating profit last year. Bundling sports offerings into its streaming services has helped drive growth at Disney Plus. Spinning out ESPN may reduce Disney's \$46bn debt pile. But it will also strip the company of a key source of content and subsidies for its transition from cable TV to streaming.

Cost-cutting can backfire if it ends up diminishing the quality of Disney's theme-park experience or TV and film content. Plans to raise prices on streaming services and introduce an

Darktrace/Thoma Bravo: me and my shadow

The UK cyber security group trades at a steep discount to peers with similar levels of growth. A formal bid from Thoma Bravo, if it comes, would dismiss questions over low R&D spending, high revenue churn and links to Mike Lynch, who faces extradition to the US on fraud charges.



Darktrace promises to find threats lurking shyly in IT systems, as its name implies. The UK cyber security group has some shadows of its own. The business is something of a black box and shareholder Mike Lynch is fighting extradition to face criminal charges in the US. The volatile shares are twice their float price but have halved since their September peak. Thoma Bravo may offer investors a way to step back into the light. The US buyout group has made a bid approach. This lifted the stock, valuing the group at £3.4bn.

Cyber security is a good investment in a dangerous era. Darktrace's financial metrics are up there with highly rated peers. Yet even after the pop from a potential takeover offer,

the shares were valued at just six times 2023 revenues. That was two-thirds lower than CrowdStrike of the US.

The darkest cloud shadow drifting across the landscape is controversy over Lynch. This year, he lost a case brought by Hewlett-Packard. The legacy IT group bought software unit Autonomy from him and others for \$11bn in 2011. HP's successor claims the value was fraudulently inflated.

Lynch has no management role at Darktrace, but he helped create the business, which employs several ex-Autonomy staff, including chief executive Poppy Gustafsson.

Critics have questioned Darktrace's financial reporting as they did that of Autonomy. Why, for example, is R&D spending – which is equivalent to 13

per cent of sales – only half what CrowdStrike spends? Higher reliance on artificial intelligence and lower UK wages are questionable justifications. Short seller Shadowfall also thinks customer churn rates are higher than officially stated.

Thoma Bravo will know all this. It will also be aware that Darktrace sales still rose by almost half last year. The buyout group has stumped up large premiums for its growing cyber security portfolio.

Public investors should also seek a decent mark-up on the rolling average price of this volatile stock. Lynch's 4.3 per cent stake is currently worth £146m. His legal fighting fund, which is already substantial, may be about to get bigger.

Walmart: no ifs no gluts

Americans love a bargain. At Walmart, shoppers bagged \$700 gazebos for \$250 and half-price television sets. This helped the US's biggest bricks-and-mortar retailer tame its inventory glut during the second quarter.

Just three weeks ago, Walmart spooked the market with a massive profit warning. It now appears to be on steadier footing. As Walmart is a bellwether for US consumer demand, that should reassure investors in Main Street USA as well as in the store chain.

The group made better than expected quarterly sales and profits and slightly reversed the hefty cut it made to its full-year earnings outlook.

Adjusted operating profit is now expected to fall 9.1 per cent for the year. This still represents a sharp deterioration from guidance of a 3 per cent increase given in February. Even so, its results justify cautious optimism. Inflation means more consumers are trading down and shopping at its stores. This is reflected by increases in like-for-like sales, transaction volumes and average ticket value.

Walmart's inventories were \$60bn at the end of July. That is up from \$48bn a year ago, but down from the \$61bn of three months ago. The number still does not fully reflect a clear out of excess merchandise. Inflation accounted for about 40 per cent of the \$12bn year-on-year increase in the absolute value of inventory on hand. A chunk of inventory is "wanted" goods. These will cover spikes in demand when kids go back to school and around Halloween and Thanksgiving.

Those red "Reduced" price stickers come at a cost. Gross margins fell 132 basis points in the quarter. But Walmart is now better placed to focus on selling products to which Americans have shifted their spending – groceries and essential goods.

The shares, down 3 per cent this year, are close to recovering losses since the first profit warning in May. That seems fair. Walmart's reputation for everyday low prices should give it an edge if inflation persists.

ad-supported tier are more sensible, albeit slower, ways to reach the goal of achieving profitability at Disney Plus.

Japan activism: Elliott zigs, Murakami zags

US hedge fund Elliott Management, unhappy with SoftBank's performance, has dumped most of its position in the Japanese investment group. Veteran activist Yoshiaki Murakami is going the opposite way, aggressively increasing his stake in Jaco, Japan's biggest venture capital group.

The tumbling asset values that hit SoftBank also meant a sharp decline in Jaco earnings in the quarter to June. Weak demand for listings have

clouded the outlook. SoftBank has been reducing its holding in Alibaba. Jaco has been slower in slimming a stake in Nomura Research Institute that anchors its own portfolio. The consultancy remains affiliated to investment bank Nomura, unlike Jaco.

Murakami wants the 4 per cent stake, worth \$730m, liquidated with proceeds used for buybacks. Jaco shares trade at a steep discount on several measures. On a per share basis, its market value is about 40 per cent lower than its net asset value and nearly half its fair value valuation as of end-June. The stake in NRI must take much of the blame since it is worth half Jaco's entire market value.

Jaco's gross return on investment was just 1.7 per cent at the end of June. The return on equity for the year to

June was a measly 3 per cent, compared with over 19 per cent at the peak of the equity market rally in the year to March last year, S&P data say.

A takeover is a real possibility. The main fund of the investor group led by Murakami, City Index Eleventh, and other parties now have a stake of nearly 15 per cent stake in Jaco. They have hinted at increasing the stake to 51 per cent. Murakami has the advantage that he will not suffer the hostility that foreign activists have typically faced in Japan.

Jaco has a more stable record compared with SoftBank, having listed more than 1,000 of its portfolio groups.

But the NRI stake is glaringly large, as is Jaco's discount to net assets. The group should meet Murakami halfway and cut the shareholding sharply.

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ACROSS

- Old Hollywood actor can work in a creative style (6)
- Blog Joe broadcast before noon entering mountain range (7-7)
- Stagnation of breathing happens one day, occasionally (6)
- Fabric woman laid up in church (8)
- Republican getting unpopular after severe defeat (4)
- Classic porcelain (5)
- Goon in New York, over with sketch writer (4)
- Remark about lawyer, one earning praise (12)
- Reckon fish right for winter sportsman? (5,5)
- American car recruits love to maintain (4)
- Feeble limiting radius needs exercise (5)
- Gill squid, edging removed by unknown (6)
- Maybe Dietrich's key part of script involved in sin (8)
- Pan one initially used, mixing onions, garlic etc (6)
- Villa perhaps given penalty (3,5)
- Element of info on beef curry at the back (6)

DOWN

- Olympic officials on track for sports event (4,4)
- Ring Dicky, Greek character, about my card game? (3,5)

SOAS University of London

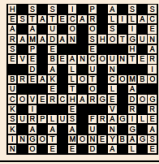
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- 3 When cycling, hear South American runner (4)
- 5 Private room, with Elizabeth meeting Jeremy, an author of poems (4,8)
- 6 Part of body captured by Paul Nash (4)
- 7 Hold salt over vessel (5)
- 8 Hide mattress in auditorium (3,3)
- 11 Big cheese, four ounces, on small base (7)
- 15 Update of Hound Dog, say, fast track covered by the King (5)
- 16 Bent Asian money disheartened Kathy (5)
- 18 Visiting fanatic up in Greenland's capital, acclimatising (8)
- 19 Winner from Belize, half grabbed by press agent (8)
- 21 It's on the agenda to cut most of little tree (6)
- 22 Ruffian's long time encased by some thermal insulation (6)
- 26 Seconds of TV dinner – and booze such as this? (4)
- 27 Fine loose linen shirt sourced here? (4)




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