FINANCIAL TIMES

THURSDAY 1 SEPTEMBER 2022 INTERNATIONAL NEWSPAPER OF THE YEAR ASIA

Gorbachev The legacy

- Last Soviet leader helped end cold war — OBITUARY, PAGE 3
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Chelsea's LA story

Californian investors take a run at English football club — BIG READ, PAGE 13

China checks Covid policy cuts emissions

AP Photo/Andy Wong

A worker waits in a Covid-19 testing booth near the venue for a trade fair in Beijing yesterday. Lockdowns tied to Xi Jinping's zero-Covid policy played a big part in the 8 per cent fall in China's carbon emissions in the three months to June, as curbs dragged on the economy.

The largest decline in emissions in a decade also reflected a crisis in the heavily indebted property sector, according to the Centre for Research on Energy and Clean Air, which compiled the data.

"The reduction was driven by falls in steel and cement output due to the real estate slump, [a] fall in transport oil consumption caused by Covid-19 control measures [and] slow electricity consumption growth."

Growth falters page 4

German factories halt output after Russia's 'alarming' squeeze on gas

- Moscow stops Nord Stream flow
- Manufacturers cut consumption
- Prices ease back

GUY CHAZAN — BERLIN

German manufacturers are halting production in response to the surge in energy prices caused by Russia's squeeze on gas supplies, a trend the government has described as "alarming".

Robert Habeck, economy minister, said industry had worked hard to reduce its gas consumption in recent months, by switching to alternative fuels such as oil, making its processes more efficient and reducing output.

But he said some companies had also "stopped production altogether", which he said was "alarming".

He spoke as Russia halted the flow of gas through the Nord Stream 1 pipeline, which it claimed was for three days of planned maintenance. The outage comes as European countries struggle with deep cuts in Russian gas supplies that have pushed prices to record highs.

The shutdown of the pipeline will add to anxiety in European countries as they seek to secure vital supplies ahead of the winter months.

Russia has been accused of "weaponising" energy supplies to Europe and stoking a cost of living crisis in retaliation for western sanctions linked to its invasion of Ukraine.

Prices have more than doubled since Gazprom first restricted supplies on the pipeline three months ago, limiting capacity to 20 per cent.

Italian energy company Eni said its supply from Gazprom had recently been cut by more than a quarter to 20mn cubic metres per day. French utility Engie has also reported a cut in supplies over what Gazprom has described as a contract dispute.

The European gas market has had some relief, however, with prices coming off an all-time high last week. After surging to a peak above €340 per megawatt hour on Friday — the equivalent of almost $550 a barrel in oil terms — gas prices have fallen back to €234/MWh, including a further 6 per cent fall yesterday, although prices are only back to where they were trading in mid-August.

German business leaders say the pain of costlier energy inputs is being exacerbated by recent interest rate hikes in the US and slowing growth in China, one of Germany's largest export markets.

Siegfried Russwurm, head of the main German business lobby, the BDI, said this week that gas consumption by industry had declined 21 per cent in July compared with a year previously. He added that the price of electricity for 2023 had risen above €700/MWh — "more than 15 times the level of past years".

Robert Habeck says the competitive advantage in an abundance of cheap Russian gas 'won't come back any time soon, if ever at all'

Habeck said rising gas prices were affecting companies ranging from big industrial groups to small and medium-sized enterprises that form the Mittelstand. The business model of large parts of German manufacturing was based on the abundance of gas from Russia that was cheaper than gas from other regions, he said.

That competitive advantage "won't come back any time soon, if it ever comes back at all", Habeck said.

US coal-fired plants live on page 8

Briefing

Tencent to offload $14bn from portfolio
The Chinese internet group has unveiled a plan for divestments from its listed equity portfolio as it comes under pressure from investors and Beijing's recent antipathy towards Big Tech.— PAGE 5

EU to suspend visa deal with Moscow
The bloc has backed eastern states' calls to cut the numbers of Russians entering their countries, the first time it has agreed to target ordinary civilians over the invasion of Ukraine.— PAGE 2

Bid to obstruct Trump probe, says DoJ
The US justice department has said efforts have been made to "obstruct" its probe into Donald Trump's mishandling of classified files, casting doubt on his claim that he has co-operated.— PAGE 4

Error highlights Cineworld complexity
The struggling cinema chain has incorrectly reported the identity of its largest investor in its annual report, as it failed to keep track of changes to its complex ownership.— PAGE 6

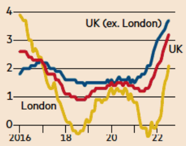
Japan lines up defence spending boost
Tokyo's defence ministry has submitted a record $40bn budget request but the final sum is likely to be higher as Japan seeks to counter what it sees as the rising threat from China.— PAGE 4

Klarna losses surge in tough six months
Losses at the Swedish payments provider have quadrupled. The company, once Europe's most valuable private tech group, blamed employee costs and rising credit losses.— PAGE 16; LEX, PAGE 16

Christian ETF group hits out at liberals
Inspire Investing has removed environmental, social and governance labels from its funds, saying "intolerant liberal activists" have "weaponised" the concept of sustainable investing.— PAGE 5

Datawatch

Rising rents
% change over 12 months



Source: ONS

Rents in the UK rose 3.2 per cent in the 12 months to July — the biggest annual growth rate since this series began in 2016. The East Midlands had the highest growth, at 4.3 per cent, while London had the lowest, at 2.1 per cent

Kyiv's counter-attack raise stakes in the south

Analysis ▸ PAGE 2

Inflation fears and rate-rise bets drive Europe debt market to historic sell-off

NIKOU ASGARI — LONDON

Europe's bond market was on course for its worst month on record, with investors betting on big rate rises from the European Central Bank and Bank of England at a time of rampant inflation.

The market for high-grade government and corporate debt posted a fall of 5.3 per cent in the month to Tuesday, the biggest drop since the Bloomberg Pan-European Aggregate Total Return index began in 1999. The decline has been broad, with UK, German and French debt all hit by heavy selling.

The continent's bond markets have been knocked as investors brace themselves for more aggressive central bank interest rate rises in the face of surging food and fuel prices triggered by Russia's war in Ukraine.

The selling picked up speed yesterday after fresh data showed the rate of consumer price growth in the euro area hit a record high of 9.1 per cent in August.

Higher than expected inflation puts further pressure on the ECB to accelerate the pace of interest rate rises when policymakers meet this month. The central bank raised its main interest rate in July for the first time in more than a decade but economists expect it will need to pursue further increases as it battles inflation. The BoE is engaged in a similar effort to quell surging inflation in Britain, which is running at the highest level in more than 40 years.

Markets expect the ECB's borrowing costs to hit 2.1 per cent by March from zero currently, while the BoE is being priced to raise rates to 4.1 per cent in March from a current level of 1.75 per cent, according to Bloomberg data based on pricing in money markets.

"Clearly the hawks have the momentum in their favour," said Antoine Bouvet, senior rates strategist at ING.

Analysts at JPMorgan, Goldman Sachs and Bank of America all said yesterday that they expected the ECB to raise rates by 0.75 percentage points at next week's meeting. The last time it raised its deposit rate by such a margin was in 1999.

"Even if inflation does pass its peak, the central banks are going to remain hawkish," said Richard McGuire, head of rates strategy at Rabobank.

The yield on Germany's benchmark 10-year Bund rose more than 0.7 percentage points to 1.54 per cent in August, its biggest monthly jump since 1990. The yield on the UK's 10-year gilt climbed from 1.8 per cent at the start of August to 2.8 per cent yesterday.

Additional reporting by Ian Johnston

Eurozone inflation page 2

Australia	A$7.00(inc GST)
China	RMB30
Hong Kong	HK$33
India	Rup220
Indonesia	Rp45,000
Japan	¥650(inc JCT)
Korea	W4,500
Malaysia	RM11.50
Pakistan	Rupee 350
Philippines	Peso 140
Singapore	S$5.80(inc GST)
Taiwan	NT$140
Thailand	Bht140
Vietnam	US$4.50

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No: 41,108 ★

Printed in London, Liverpool, Glasgow, Dublin, Frankfurt, Milan, Madrid, New York, Chicago, San Francisco, Tokyo, Hong Kong, Singapore, Seoul,

World Markets

STOCK MARKETS

	Aug 31	Prev	%chg
S&P 500	3993.85	3986.16	0.19
Nasdaq Composite	11917.38	11883.14	0.29
Dow Jones Ind	31808.15	31790.87	0.05
FTSEurofirst 300	1639.39	1656.60	-1.04
Euro Stoxx 50	3522.16	3561.92	-1.12
FTSE 100	7284.15	7361.63	-1.05
FTSE All-Share	4007.46	4045.21	-0.93
CAC 40	6125.10	6210.22	-1.37
Xetra Dax	12834.96	12961.14	-0.97

CURRENCIES

Pair	Aug 31	Prev	Pair	Aug 31	Prev
$/€	1.006	0.999	€/$	0.995	1.001
$/£	1.164	1.163	£/$	0.859	0.860
£/€	0.864	0.859	€/£	1.157	1.164
¥/$	138.625	138.935	¥/€	139.395	138.775
¥/£	161.304	161.596	£ index	77.742	78.540
SFr/€	0.981	0.975	SFr/£	1.136	1.135

CRYPTO

	Aug 31	Prev	%chg
Bitcoin ($)	20071.57	19812.77	1.31

GOVERNMENT BONDS

Yield (%)	Aug 31	Prev	Chg
US 2 yr	3.45	3.46	-0.01
US 10 yr	3.12	3.12	0.01
US 30 yr	3.24	3.24	0.00
UK 2 yr	3.08	3.02	0.06
UK 10 yr	2.80	2.70	0.10
UK 30 yr	3.08	2.98	0.10
JPN 2 yr	-0.08	-0.09	0.01
JPN 10 yr	0.23	0.22	0.00
JPN 30 yr	1.19	1.20	-0.01

Dubai

Nikkei	28091.53	28195.58	-0.37
Hang Seng	19954.39	19949.03	0.03
MSCI World $	2645.37	2668.79	-0.88
MSCI EM $	992.76	991.65	0.11
MSCI ACWI $	616.75	621.52	-0.77
FT Wilshire 2500	5197.96	5256.80	-1.12
FT Wilshire 5000	40607.66	41072.24	-1.13

Ethereum	1550.17	1524.37	1.69
COMMODITIES			
	Aug 31	Prev	%chg
Oil WTI $	91.36	91.64	-0.31
Oil Brent $	97.25	97.84	-0.60
Gold $	1730.30	1751.25	-1.20

GER 2 yr	1.19	1.15	0.03
GER 10 yr	1.54	1.51	0.03
GER 30 yr	1.62	1.60	0.02

Prices are latest for edition
Data provided by Morningstar

A Nikkei Company

INTERNATIONAL

Cost of living

Eurozone inflation surge spurs rate rise call

Three-quarter-point move from ECB already priced in by markets

MARTIN ARNOLD — FRANKFURT

Eurozone inflation rose to a record 9.1 per cent in the year to August, intensifying fears that soaring prices are becoming embedded and spurring calls for the European Central Bank to raise interest rates more aggressively next week.

The flash estimate of consumer price growth published yesterday by Eurostat, the European Commission's statistics bureau, was up from 8.9 per cent in July, which was itself the highest level in the 23-year history of the euro. It was also higher than the 9 per cent expected by economists polled by Reuters.

The fallout from Russia's invasion of Ukraine has sent wholesale gas and electricity prices to record levels in Europe in recent weeks and pushed up the cost of fertiliser and commodities such as wheat. The latest rise in food and energy prices is set to exacerbate a cost of living crisis across the 19-country eurozone.

Joachim Nagel, Germany's central bank president, said high inflation was "becoming an enormous burden for more and more people". He added: "We need a strong interest rate hike in September. And further interest rate hikes can be expected in the coming months."

Eurozone government bonds sold off, sending their yields higher after the data were released, reflecting growing expectations the ECB will raise rates by 0.75 percentage points for the first time in its history on Thursday next week.

Analysts at JPMorgan, Goldman Sachs and Bank of America changed their forecasts and money market traders were fully pricing in such a move.

The EU is preparing emergency measures to curb the price of electricity by separating it from the soaring cost of gas. News of the preparations has helped bring wholesale energy prices down from record highs in recent days.

But a growing number of ECB rate-setters worry the inflationary shock caused by disruption resulting from the invasion has been accentuated by the reopening of economies as coronavirus restrictions ended this year.

The removal of stimulus measures to cushion the blow of higher prices was expected to lead to more price pressures in the coming months. Economists expect inflation to accelerate in September, when several German measures expire, including a fuel duty rebate and subsidised €9 monthly rail ticket.

"Before the end of the year, we expect headline inflation to hit 10 per cent," said Jack Allen-Reynolds, economist at Capital Economics. "With ECB policy rates a long way below appropriate levels, it is clear that the bank will raise interest rates by a larger than normal increment next week. A 75 basis point hike looks increasingly likely."

Further pressure on prices was likely, said Christoph Weil, economist at Commerzbank, "because many companies have not yet fully passed on their higher production costs to consumers".

Eurostat said energy price inflation slowed but still rose 38.3 per cent in the year to August. Price rises of processed food, alcohol and tobacco accelerated to 10.5 per cent, their first double-digit increase.

The closely tracked measure of core inflation, which excludes more volatile energy and food prices, rose 4.3 per cent in August from 4 per cent in July.

Invasion. Counter-offensive

Ukraine claims first success in battle for Kherson

Kyiv says it has cut through Russia's first line of defence around regional capital

JOHN PAUL RATHBONE AND ROMAN OLEARCHYK — KYIV

Ukrainian officials had hinted for two months of an imminent counter-offensive in the south. But then Russia deployed more troops to the region. As the end of summer approached, the opportunity to attack seemed to have passed.

This week, Kyiv made its move. It is Ukraine's first big counter-attack since Russia's all-out assault on the country began in February and comes despite Kyiv's repeated complaints that the army lacks sufficient heavy western weaponry to make a decisive strike.

President Volodymyr Zelenskyy's stated aim is to recover Kherson, a regional capital with a strategic position on the Dnipro river that Russian forces captured in March after they swept north from Russian-held Crimea.

Operational details remain sketchy amid a near total Ukrainian news blackout. Russia has provided little information except to say that the attack had failed. As of yesterday, three days into the attack, Ukraine claimed to have broken through Russia's first line of defence around the city of Kherson.

The recapture of the region would bring big military benefits to Ukraine. It would dash Russian hopes of extending its occupation of Ukraine's southern Black Sea coastline up to the port of Odesa. It would also be a defeat even the Kremlin might find hard to mask.

According to a Ukrainian military adviser, the offensive has already had a strategic success. It has forced Russia to move troops away from its offensive in the eastern Donbas region. That has recreated the multiple fronts that failed so spectacularly for Russia when it launched the invasion in February.

Ukraine is adopting unusual military tactics in its counter-attack. An estimated 30,000 Russian troops are deployed throughout the Kherson oblast. But instead of taking them on with a sweeping second world war-style manoeuvre, Kyiv plans to corrode their will to fight by choking supply chains and lines of retreat through a mix of missile, drone and artillery strikes, partisan resistance and close combat.

Destruction: a man surveys the ruins of his house following a Russian missile strike on the city of Mykolayiv, near Kherson, this week
Dimitar Dilkoff/AFP/Getty Images

Source: Institute for the Study of War, AEI's Critical Threats Project • Map shows events as of 7pm August 29

This scrappy approach avoids the destructive artillery barrages and missile strikes that Russia used to take cities such as Mariupol with such high cost to civilian lives.

Ukraine's preparations for the offensive began more than two months ago with a series of rocket, artillery and drone strikes launched on Russian supply lines and military infrastructure. Strikes on the Antonivsky bridge at Kherson and at Nova Kakhovka further upstream have particularly increased the vulnerability of Russian supplies.

"It may take a series of efforts, but it is the end result — the return of Kherson to Ukrainian governance — that matters, not how it looks," said Andriy Zagorodnyuk, a former defence minister and chair of the Centre for Defence Strategies think-tank.

Even if the offensive did not achieve its full military objectives, it would confer important benefits, analysts said. These included boosting Ukrainian morale and showing western allies that the funds and weapons they had supplied were worth adding to.

In addition, the initiative is meant to broadcast to Moscow that its plans to annex Kherson and other occupied territories through staged referendums, as it did in Crimea in 2014, are doomed because Ukraine will not stop in its efforts to recover them.

"The political and informational aspects of the offensive are really important," said Anthony King, professor of war studies at Warwick university in the UK. "Even if the maximal military goals aren't achieved, after being on the defensive for so long, for Ukraine to just have the confidence to go on the offensive is useful."

Success is far from assured. Although Ukrainian forces had led a superb defence since Russia's partial invasion of the country in 2014, they had "very limited or almost zero experience of [conducting] large-scale offensive actions", said Sergii Grabskyi, a reserve colonel in the Ukrainian military in an interview on the Geopolitics Decanted podcast.

The army is also short of the heavy western weaponry such as artillery, tanks and US-made Himar missiles.

Compounding the difficulties, Russian forces have begun to dig in to defensive positions around Kherson, which will be hard to take. Russia still retains a huge artillery advantage over Ukraine.

Even so, the ratio of Ukrainian troops to Russians in the area was "much better in terms of equality or parity . . . than they were" in the Donbas, the US defence department said.

There is also a precedent of Russians beating a hasty retreat when they realise they cannot win, as happened after their attempt to take Kyiv and north-eastern regions of Ukraine failed in March.

A tipping point could come if Ukrainian troops surround the thousands of Russian soldiers that are all but stranded on the western bank of the Dnipro river. "Russians fear looking weak, and will prefer to retreat than accept defeat — just as they did earlier in the war," said the Ukrainian adviser. "Or they may not, in which case we will move into close combat in a final push."

Travel curbs

EU to suspend Russia visa deal under pressure from border states

HENRY FOY — PRAGUE

The EU has agreed to suspend a visa deal with Moscow and backed demands by eastern member states to curb Russian arrivals, as it bowed to pressure to punish travellers over Vladimir Putin's invasion of Ukraine.

The decision was a victory for Poland, the Baltic states and Finland, which had threatened to take steps to stop Russian citizens entering their territory and the bloc's free-travel Schengen zone if countries led by France and Germany blocked a collective approach.

The move marked the first time the EU has agreed to target ordinary Russians directly in the wake of the invasion. "We agreed politically . . . that something has to be done," said Josep Borrell, the EU's chief diplomat, after a meeting of bloc foreign ministers in Prague yesterday.

The arrival of about 700,000 Russians in the five EU members bordering Russia since the invasion began in February "has become a security risk for these neighbouring states", Borrell said. "These countries can take measures at a national level to restrict entry."

Suspending the visa agreement, implemented in 2007 to facilitate Russian travel to the bloc, "will significantly reduce the number of new visas issued [to Russians] by the member states", Borrell said. "It is going to be more difficult, and it is going to take longer."

Pressure to act on the visa issue has divided the 27-member EU as it seeks to continue punishing Moscow for its invasion. "It was acknowledged that we have a possibility to look for national or regional solutions on how to ensure that our national security issues are being met on the border," said Gabrielius Landsbergis, Lithuania's foreign minister, after the meeting. "And now what needs to be done . . . is to find those solutions."

Officials said the five countries favoured a joint approach and could have measures in place as soon as next week, pending talks between them.

Potential measures will probably include extended scrutiny of travel documents and questioning of travellers, and rules in the Schengen travel code that allow countries to take action against people they believe could be a security risk. These measures would probably entail long waiting times at all EU-Russia border crossings, deterring would-be travellers.

At the same time, suspending the 2007 visa facilitation agreement with Moscow will make Russian visas more expensive, require more supporting documentation and entail extended waiting times for travel permits.

The majority of Russians who have entered the EU by land since the invasion are tourists who use the border states as a gateway to travel to western EU countries for holidays. All five border states have said they plan to ensure passage for dissidents seeking to flee Russia and other humanitarian cases.

The Kremlin has vowed to retaliate against the EU if the bloc goes ahead with plans to restrict visas for Russian citizens in response to the invasion of Ukraine.

Additional reporting by Max Seddon in Riga

FINANCIAL TIMES
6th Floor, Nan Fung Tower
Central, Hong Kong

Japan: Nikkei Tokyo Newspaper Printing Center, Inc., 1-10-5, Shinonome, Koto-Ku, Tokyo 135-0062
Representative; Hiroko Hoshino; ISSN 0915-9460

Covid-19

US approves Moderna and Pfizer jabs targeting Omicron

KIRAN STACEY — WASHINGTON

US drug regulators have approved applications by Moderna and BioNTech/Pfizer to release a Covid-19 vaccine that specifically targets the dominant strain of the Omicron variant.

booster dose with a bivalent Covid-19 vaccine to provide better protection against currently circulating variants".

Case numbers and deaths have remained high, in part because recent variants have proved better able to evade vaccines. The US Covid death toll

Energy consumption

Brussels to tighten rules on smartphone components

ALICE HANCOCK — BRUSSELS
TIM BRADSHAW — LONDON

Smartphone manufacturers supplying the EU will face stringent requirements to provide spare parts and ensure longer battery life, according to draft proposals from Brussels yesterday.

Extending the lifecycle of all the smartphones sold in the EU by five years would save emissions of about 10mn tonnes of CO_2, roughly the same as taking 5mn cars off the road, according to the European Environmental Bureau, a non-governmental body.

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Published by
The Financial Times (HK) Limited, 6th Floor, Nan Fung Tower, 88 Connaught Road Central, Hong Kong
Asia Editor: Robin Harding

Printed by
Australia: Spotpress Pty Ltd, 24-26 Lillian Fowler Place, Marrickville, NSW 2204
Hong Kong: Kin Ming Printing Co Ltd, 15/F BLK A, 18 Ka Yip Street, Ming Pao Industrial Centre, Chai Wan; Representative; Angela Mackay; ISSN 1025-918X

South Korea: Maeil Business Newspaper, 30-1, 1-Ga, Pil-Dong, Jung-Ku, Seoul, 100-728
Singapore: SPH Media Limited, 2 Jurong Port Road, 619088
Representative, Anjali Mahindroo

The Food and Drug Administration yesterday gave the companies the go-ahead to roll out their "bivalent" shots, which target both the original strain of Covid and the fast spreading BA.4 and BA.5 subvariants, ahead of a national booster programme this autumn.

US officials had previously resisted pushing ahead with variant-specific vaccines, but have been persuaded by the fact that many people with two or more shots are still susceptible to infection. They have taken this next step with the new vaccines despite a lack of clinical evidence about how they will work, in an attempt to head off a surge in infections this winter.

Robert Califf, head of the FDA, said the regulator strongly encouraged anyone eligible "to consider receiving a

since the start of the pandemic passed 1mn this summer, and the country continues to report almost 400 deaths and more than 5,000 hospital admissions linked to coronavirus every day.

Officials are worried about what will happen this winter when people begin to socialise indoors more.

The two bivalent vaccines were approved despite the companies not having conducted human trials into whether they work or are safe.

Instead, officials relied on data from a previous bivalent vaccine, which was made by BioNTech/Pfizer and combined the original strain with the BA.1 subvariant. They found that shot provoked a better immune response in trial participants and did not trigger any safety concerns.

The European Commission said that at least 15 component parts should be made available for at least five years from the date of a smartphone's introduction to the market and that batteries should survive at least 500 full charges without deteriorating to below 83 per cent of their capacity.

Phones would also have to display an energy efficiency label, similar to those used for washing machines, which will show battery endurance and other characteristics, such as resistance to drops.

The scheme is Brussels' latest directive targeting electronics manufacturers after introducing in June a requirement to use a standardised charger by 2024, despite years of industry opposition, in particular from Apple.

The draft rules, which also cover tablets and standard mobile phones, suggest that if hardware is made more repairable and recyclable it would cut the energy consumption involved in its production and use by a third.

"Devices are often replaced prematurely by users and are, at the end of their useful life, not sufficiently reused or recycled, leading to a waste of resources," the document said.

A senior EU official warned that products that did not meet sustainability requirements "will go off the market".

Smartphone makers argue that requiring more parts are available simply increases the use of plastic. Digital Europe, representing the sector, said: "A potential overproduction . . . will result in higher consumer costs."

INTERNATIONAL

Kremlin's charismatic pragmatist whose policies ended an empire and the cold war

Mikhail Gorbachev
Last Soviet leader
1931-2022

Mikhail Gorbachev, who has died aged 91, was the last leader of the Soviet Union and its first and last state president. Although he ruled in Moscow for less than seven years, the consequences of his tenure rewrote the global order at the end of the 20th century.

During his years in the Kremlin, from 1985 to 1991, he ended one-party communist rule in the Soviet Union, halted the global arms race and allowed the peaceful liberation of the states of central and eastern Europe. His policies terminated the "dictatorship of the proletariat" and ended the cold war but led to the collapse of the Soviet empire in the process.

Lauded in the west as a hero and awarded the Nobel Peace Prize in 1990, he was and still is condemned by many in Russia for wrecking its economy and putting paid to its superpower status. In reality he attempted to reform a system that was in terminal decline, and thereby triggered a revolution that he could not control.

In contrast to his predecessors, Gorbachev was articulate and charismatic. He was also a brilliant tactician in the politics he knew best: manipulating the party. His instincts were democratic but his experience was bureaucratic. He was a pragmatist who could never quite bring himself to abandon his communist roots and throw in his lot with the most radical reformers. As a result, he ended up despised by diehard conservatives and liberal democrats alike.

Gorbachev was an outstanding student of the Soviet system, the first party leader to have attended university, followed by a stellar career through the party bureaucracy. Yet he eventually dismantled the totalitarian state created by Vladimir Lenin and Joseph Stalin. As he wrote in his autobiography in 1995, he was "a product of the *nomenklatura* [the party elite] and at the same time . . . its gravedigger".

Unanimously elected as party general secretary in 1985 aged just 54, he was the first relatively young and vigorous leader of a system ruled for decades by elderly men. Although his elevation was regarded with initial suspicion in Washington and other western capitals, it signalled the start of a "second Russian Revolution" that proved unstoppable.

Gorbachev embarked on what he called *perestroika* — restructuring. The slogan was chosen to sound unthreatening. The intention was to reform the communist system, to make it more efficient and humane. But given the stagnation throughout the economy and society, he knew it would require radical change.

On the eve of his election as party leader, he told his wife Raisa: "We can't go on living like this." Yet as each attempt to revitalise the economy was thwarted by an entrenched and corrupt bureaucracy, he switched to ever more fundamental political transformation that came to threaten the leading role of the Communist party itself.

Gorbachev's greatest successes were on the world stage, where he overcame deep mutual suspicion and forged close ties with Ronald Reagan, then US president, and his successor, George HW Bush. After a 1984 meeting with Margaret Thatcher, she famously concluded: "I like Mr Gorbachev. I think we can do business together."

In the west, his easy smile, intelligence and charm inspired "Gorbymania" from the crowds who mobbed him on his travels with the glamorous and

> 'I like Mr Gorbachev. I think we can do business together'
> Margaret Thatcher, 1984

supposed to be a carefully orchestrated opening of the media to expose the sins of the past and outmanoeuvre opponents of reform. But by removing draconian curbs on information, it resulted in a diversity of opinion and public debate that exposed the entire power structure to devastating criticism.

When he arranged in 1986, behind the backs of the KGB secret police, to end the exile of Andrei Sakharov, father of the Soviet nuclear bomb, he liberated a man who rapidly became the moral conscience of the country. The most famous

Soviet dissident wanted genuine democracy and an end to the "leading role" of the Communist party. In 1989, at the Congress of People's Deputies, a grudging Gorbachev gave him the platform to say so. The nation stopped work to watch them argue on live television and, from that moment, the revolution was unstoppable.

One of Gorbachev's greatest failures, however, was in not dismantling, or at least emasculating, the KGB itself. At first he relied on the security service to drive the reform process, but in the end it became the leading force of reactionary opposition and led the coup attempt in 1991 that sought to overthrow him.

Although the coup failed, the president's inability to revive the moribund economy and contain an upsurge of nationalist revolts that spread from the Baltic republics to the Caucasus was what eventually destroyed the Soviet Union.

What started as demonstrations for devolution to outlying parts of the empire became outright independence movements, spreading in turn to Russia itself. Gorbachev never understood why there was so much resentment of Soviet rule but his democratic instinct meant he was not ready to suppress it. Without a ruthless tsar in the Kremlin, the centre could not hold.

He also refused to intervene militarily to stop the overthrow of communist regimes in eastern Europe, espousing what Gennady Gerasimov, his spokesperson, famously described as the "Sinatra doctrine; they'll do it their way".

He even gave his blessing to German reunification in 1990 against strong opposition from the security services. It was a sign of weakness for which the KGB, the military establishment, and communist loyalists never forgave him.

was awarded the Nobel Prize for his "leading role in the peace process". But already his authority in Moscow was fading fast.

As the economy collapsed and demonstrators demanded independence on the streets of Tallinn, Vilnius and Tbilisi, he swung back to the conservatives in his party, attempting to reimpose Soviet authority. It was too late. The centre of power was moving inexorably to the Russian presidency then held by his great rival, Boris Yeltsin.

The abortive three-day coup in August 1991 merely accelerated the process of disintegration. Gorbachev, briefly placed under house arrest in his holiday villa in Crimea, never recovered his full authority. The Communist party was banned and Yeltsin emerged as hero of the hour. The Soviet Union ceased to exist on December 25 and its last leader was bundled ignominiously into retirement.

Controversy over that imperial disintegration persists to this day. President Vladimir Putin, a former KGB colonel, is driven by the belief that the collapse of the Soviet Union was "the biggest geostrategic tragedy of the last century".

Mikhail Sergeyevich Gorbachev was born on March 2 1931 into a peasant family in the village of Privolnoye, in the rolling wheat lands and sheep farms of the Stavropol region in southern Russia. His experience as a child under German occupation was important.

"Our generation is the generation of wartime children. It has burned us, leaving its mark both on our characters and on our view of the world," he wrote in his memoirs.

He never forgot the experience of stumbling across the rotting corpses of Red Army soldiers under the snow. "There they lay in the thick mud of the trenches and craters, unburied, staring

Nuclear accord: Mikhail Gorbachev, left, and US president Ronald Reagan sign a missiles reduction deal in December 1987. Below top, embracing East German leader Erich Honecker in April 1986. In Oslo in June 1991 to deliver a delayed Nobel Peace lecture
AFP/Getty Images; STR; Alexander Zemlianichenko/AP

It made him acutely aware of the futility of war and suspicious of the power of the military establishment.

Thanks to his family history, the future party leader was also conscious of the cruel and arbitrary treatment of dissent under Stalin. Both his grandfathers suffered persecution in the 1930s: one was exiled to Siberia, the other was imprisoned and interrogated by Stalin's NKVD security police, forerunners of the KGB, as a suspected Trotskyite.

He still managed to be top of his class in school and went on to Moscow State University to study law in 1950. Later he admitted that he and his fellow students were subjected to "massive ideological brainwashing". But he read voraciously, declaring that "the first authors who sowed the seeds of doubt" in his mind about the communist system were Marx, Engels and Lenin.

Energetic, persuasive and a good listener, Gorbachev owed his swift promotion to Yuri Andropov, head of the KGB, who became his most important patron. Andropov saw his protégé as a loyal communist who would rejuvenate the leadership and clean up the system. When still under 40, he became party leader in Stavropol and in 1978 was summoned to Moscow. He was made agriculture secretary in the central committee and promoted to the Politburo two years later.

When Andropov succeeded Leonid Brezhnev as party leader in 1982 he appeared to be grooming Gorbachev as his successor. But he died and his protégé's path was blocked by Konstantin Chernenko, a Brezhnev loyalist determined to reverse the reform process.

Meanwhile Gorbachev had met by chance the man who became his most important intellectual inspiration for reform: Alexander Yakovlev, a former head of the party's ideology depart-intelligent Raisa in the 1980s. In Germany he was most popular of all, thanks to his role in backing unification after the fall of the Berlin Wall.

His "new thinking" was instrumental in ending the ideological confrontation between east and west. Seeing a direct link between ruinous military expenditure and the sorry state of the Soviet economy, he set out to end the global arms race. He promoted the idea of a nuclear weapons-free world by 2000 and pulled Soviet troops out of their disastrous intervention in Afghanistan.

In the USSR, however, his perestroika unleashed forces he could not control. His initial popularity, boosted by televised walkabouts and frank public debates, faded as his reforms failed to transform the domestic economy and improve ordinary lives. Perestroika sought to promote private initiative without dismantling the ossified state planning system or allowing a real market economy. The result was a collapse in state-controlled production and chaos in the distribution of goods.

Glasnost, or transparency, the other pillar of his transformation process, also had unintended consequences. It was

That was the year when Gorbachev

at us out of black, gaping eye sockets."

ment. They met in 1983 when Gorbachev was on an official visit to Canada to inspect farm facilities.

Stranded for hours while awaiting the arrival of Ottawa's farm minister, they took a "walk that changed the world" and discovered that they shared almost identical ideas. Three weeks later, Gorbachev persuaded Andropov to bring Yakovlev, the Soviet ambassador to Canada, back to Moscow.

His other key ally was Eduard Shevardnadze, former party leader in Georgia, who became his inspired choice as foreign minister in 1985, his trusted envoy throughout the detente and confidence-building that ended the cold war.

It was Yeltsin's instinct to back the opposition that proved the most prescient and it was Gorbachev's hesitation to break from his party that destroyed him. Its banning after the 1991 coup removed Gorbachev's power base. He never forgave Yeltsin for his disloyalty.

The death of Raisa in 1999 left Gorbachev devastated. Asked once what he discussed with his wife, he had replied with one word: "Everything."

Quentin Peel

See The FT View

Presidential reaction

Putin hails former leader's 'huge' historical role

Vladimir Putin has saluted Mikhail Gorbachev's "huge influence on the course of global history" in a message to the late Soviet premier's family.

The Russian leader said Gorbachev "led our country through a period of difficult, dramatic change and substantial foreign policy, economic and social challenges", the Kremlin said.

Putin has in the past praised Gorbachev but lamented the social and economic repercussions of the USSR's break-up in 1991. Putin's resentment over the collapse of the Soviet Union and Nato's eastward expansion fuelled his decision to invade Ukraine.

But in the telegram to Gorbachev's relatives, the Russian president said "he profoundly understood that reforms were essential and tried to solve the problems that had come to the fore".

Putin also paid tribute to Gorbachev's charity work and asked his relatives to "accept my sincere words of sympathy and support over your loss".

Gorbachev is a complicated figure in Russia where many ordinary citizens resent the social and economic hardship that came along with his reforms and the humiliation of losing the Soviet Union's superpower status.

Dmitry Peskov, Putin's spokesman, said Gorbachev was an "extraordinary, unique person" who "will be remembered all over the world". But his faith that the end to the cold war would usher in improved relations with the west was naive, Peskov said.

"There was no romantic period and 'honeymoon century'," Peskov said. "Our opponents' bloodthirstiness showed itself. It's good that we realised and understood this in time."

Russian state television also offered a mixed assessment of Gorbachev's legacy. Olga Skabeyeva, host of a vitriolic current affairs talk show, said the western praise pointed to the former leader's mistakes.

"All our enemies are calling Gorbachev a reformer and a real man of the world who helped to unite Europe by destroying the Iron Curtain and putting an end to the arms race," Skabeyeva said. But she pointed to an article in Chinese state newspaper Global Times, which highlighted "the naivety and immaturity of Gorbachev, whose devotion to the west plunged the country into an era of political and economic instability".

By contrast, US president Joe Biden saluted a "man of remarkable vision" who allowed "a safer world and greater freedom for millions of people".

Some western leaders seized on Gorbachev's death to underline how Putin's war in Ukraine and increasingly authoritarian rule had dismantled the late Soviet leader's legacy by rolling back hard-won freedoms he introduced.

Emmanuel Macron, French president, praised Gorbachev's "commitment to peace in Europe". Olaf Scholz, Germany's chancellor, said the former Soviet leader had died "at a time when not only democracy in Russia has failed . . . But also when Russia and the Russian president Putin have dug new trenches in Europe [and] begun a terrible war against a neighbouring state, Ukraine".

Gorbachev is remembered less fondly in states that were formerly part of the Soviet Union, particularly Lithuania, where a court began hearing a lawsuit against him this year charging him with war crimes over the violent suppression of pro-independence protests in 1991.

Alexei Navalny, the jailed Russian opposition leader, wrote from prison that Gorbachev deserved praise for avoiding the temptations of corruption and clinging to power.

"He left office peacefully and willingly in respect of voters' wishes. That alone is a huge triumph by the standards of the former USSR," Navalny wrote.

Max Seddon in Riga

INTERNATIONAL

Carbon reduction

Chinese emissions drop as growth falters

World's biggest emitter records fourth quarterly decrease in succession

PRIMROSE RIORDAN — HONG KONG
LESLIE HOOK — LONDON

China's carbon emissions fell almost 8 per cent in the April to June quarter compared with the same period last year, their sharpest decline in the past decade, according to climate research service Carbon Brief.

The fall in emissions reflected a dramatic slowing in Chinese growth caused by large-scale Covid-19 lockdowns and a crisis in the heavily indebted property sector. It was the fourth consecutive quarter in which emissions have fallen in China, the world's biggest emitter.

Lauri Myllyvirta, an analyst at the Helsinki-based Centre for Research on Energy and Clean Air, which compiled the data for Carbon Brief, said there had been a drop of 44 per cent in the number of construction projects started and a 33 per cent fall in those completed during the second quarter.

"The [emissions] reduction was driven by falls in steel and cement output due to the real estate slump, [a] fall in transport oil consumption caused by Covid-19 control measures, slow electricity consumption growth and strong rises in renewable power generation."

Steel is heavily used in construction and the steel sector is the country's second-largest carbon-emitting sector after power generation.

The most recent fall of a similar magnitude was in the first three months of 2020, when emissions declined 7 per cent as lockdowns disrupted the economy early on in the pandemic.

The economy is now also being dragged down by spiralling debt in the property sector following last year's default of developer Evergrande.

Since then, other developers have defaulted. Cement production for the second quarter fell 18 per cent year on year, according to the Centre for Research on Energy and Clean Air. During the same period, the Chinese economy as a whole expanded only 0.4 per cent, official data showed.

A heatwave and drought have caused further disruption this quarter. In August, China's south-western Sichuan province, which relies on hydropower, was forced to instruct industrial power users to halt production after tributary rivers ran dry.

With hydropower generation far below normal levels, analysts have predicted China will turn to coal to increase electricity supplies, despite the impact on emissions. Yet Beijing has vowed to reach peak CO_2 emissions by 2030.

China had been trying to boost coal power capacity, approving 21 gigawatts in new projects in the first six months of the year, the largest amount since 2016, Myllyvirta pointed out. He said there were signs that coal power generation was unable to keep up with demand in August because of previous energy policies that made it too expensive.

"Sichuan's [coal-fired] thermal power plants were reportedly generating at 70 per cent of full capacity at a time when the [power] shortage was at its worst, a situation where 100 per cent would be expected," Myllyvirta said.

"This indicates that high fuel prices and regulated electricity prices . . . are a part of the problem."

Additional reporting by William Langley in Hong Kong

Global warming. Economic fallout

China drought wreaks havoc on manufacturers

Industry has been disrupted by heatwaves experts warn are probably tied to climate change

PRIMROSE RIORDAN, GLORIA LI AND ANDY LIN — HONG KONG

Er Hu works in an office tower in Chongqing most days. But when forest fires erupted in the south-western Chinese city as it faced the country's worst drought for decades, the 31-year-old visa consultant grabbed his motorbike and rode to the outskirts to help transport supplies to fight the blazes.

"There were 1,000-2,000 firefighters on the mountains but lots of motorcycle volunteers," he said, adding that cars struggled to navigate the muddy paths.

Sichuan province started to restore power for industrial users from Sunday, but the impact on the broader economy from the heatwave, which caused temperatures in Chongqing to rise 7C higher than the average level over the past decade, has been severe. Widespread power shortages in the south-west paralysed industry in a crisis that scientists said was probably caused by climate change.

The drought caused rivers that feed hydroelectric plants to dry up. This included the Yangtze, China's largest and most important waterway for trade, which dropped to its lowest level on record. The river was so low near Chongqing that 600-year-old Buddhist statues which had been underwater for centuries were exposed.

"The combination of duration, area and intensity of this heatwave in eastern China has no precedent in world climatic history," said climatologist and weather historian Maximiliano Herrera. "The 2013 heatwave was considered the most intense before 2022, but this one has doubled its duration, it's much more intense and has encompassed a larger area."

One possible reason for the extreme weather is that climate change has caused the jet stream, the band of fast-moving air that controls weather in the mid-latitudes, to "wobble", said Johnny Chan, emeritus professor of atmospheric science at the City University of Hong Kong.

With a less stable "jet stream, you can get a blocking situation [where] there will be persistent warm air coming south to the north", he said, adding that the tropical high-pressure system had also extended over more of central China than in the past. "It usually stays on the coast, but now it extends very far inland. Lakes are drying up in Central China."

Sichuan, Chongqing and Hubei province, an area with a combined population of more than 174mn, export power to manufacturing hubs on China's east coast. But this year, Sichuan's hydropower has operated at about 20 per cent of average capacity, according to David Fishman, an energy market analyst at the Lantau Group.

"As long as the river flow rates remain depressed, Sichuan hydropower generation loses the capacity to be treated as baseload," Fishman said, referring to the minimum level of demand.

The heat has caused a surge in demand for power and air-conditioning, with Sichuan setting records for peak power load. Authorities were forced to order manufacturing companies to pause production for more than two weeks. "The implication for business is pretty broad . . . In Sichuan, it has created a perfect storm of conditions. Any kind of manufacturing is having issues," said Even Pay, an analyst at consultancy Trivium China.

Manufacturers such as Toyota and Foxconn halted production, while the power shortages caused supply chain problems for the Shanghai-based operations of Tesla and state-owned carmaker SAIC Motor. Changan Automobile, another state-owned carmaker, said it expected to produce 100,000 fewer vehicles in August after power cuts forced its Sichuan plant to close.

Sichuan is also a significant source of lithium and polysilicon, vital for the production of electric vehicles and solar panels, sectors Beijing hopes will help revive growth in its slowing economy.

Power rationing will lead to a reduced production of lithium, which is used to produce batteries, with lithium carbonate output estimated to fall by 1,250 tonnes and lithium hydroxide by 3,050 tonnes in August, according to the Shanghai Metals Market.

The production shortages have sapped economic output, but the strains have been particularly acute for those trying to live in the extreme conditions.

Authorities instructed office managers to increase air conditioner temperatures to save electricity, so workers put ice bricks in front of fans to stay cool. Carriages in the subway were darkened as cities dimmed lighting. And Beijing's zero-Covid policy meant authorities in Chongqing did PCR tests on August 24 while fires raged behind them.

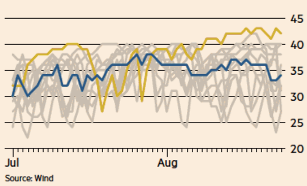
Leo Lewis see Opinion

Dried up: a woman poses for a photo on the bed of the Jialing river, a tributary of the Yangtze in Chongqing
Noel Celis/AFP/Getty Images

'The duration, area and intensity of this heatwave in eastern China has no precedent in world climatic history'

Chongqing is 7C hotter than the average level in the past decade

Daily recorded highest temperature in Chongqing (C), 2022 vs 2011-21 average



Source: Wind

Military budget

Japan's fears about Beijing prompt big rise in defence spending

KANA INAGAKI — TOKYO

Japan will upgrade its cruise missiles and research hypersonic weapons as it seeks to significantly increase military spending to counter what Tokyo sees as the rising threat from China.

The defence ministry yesterday made a record ¥5.6tn ($40bn) budget request for the year to March 2024, compared with ¥5.4tn in planned spending for the current fiscal year.

But people with knowledge of internal ministerial discussions said the final budget would top at least ¥6tn after the inclusion of additional requests for military equipment to be made at the end of 2022, when Japan issues a new national security strategy and defence guidelines. This would make the figure one of the biggest increases in the country's military spending in the postwar period.

Tokyo has been steadily increasing its defence budget for the past decade, but spending has remained equivalent to about 1 per cent of gross domestic product, which is low by global standards.

That is poised to change under Prime Minister Fumio Kishida. He has pledged to "significantly" upgrade defence capabilities after Russia's invasion of Ukraine raised fears that China could make a similar move against Taiwan.

The ruling Liberal Democratic party has called for Japan to match Nato's target for member states to spend 2 per cent of GDP on defence, but the government has not set a specific target.

The people familiar with the budget discussions said Japan was considering developing homegrown cruise missiles that would have a range of more than 1,000km. This would allow Japan to strike targets within North Korea or China from ships and fighter jets.

The long-range surface-to-ship missiles are expected to form the basis of first-strike capabilities against enemy bases that Japan, which has traditionally committed to a purely defensive military stance, is considering as part of the national security strategy.

Those deliberations are likely to intensify after China carried out military exercises in response to a visit to Taiwan by US House Speaker Nancy Pelosi. Tokyo criticised Beijing for firing ballistic missiles into Japan's exclusive economic zone for the first time as part of the drills last month.

The upgrade of cruise missile capability is expected to be part of a long list of extra items the defence ministry plans to put price tags on by the end of 2022.

The budget request included outlays for drills to be conducted near the Ryukyu Islands — which Tokyo calls the Nansei Islands — where China has recently increased its naval presence. It also included spending on unmanned aerial vehicles as well as cyber security and space capabilities.

How far the Kishida administration can actually increase military spending remains unclear. He will need the backing of LDP coalition partner Komeito, which draws its support from Buddhist voters, for the expanded budget and the addition of first-strike capabilities. Those talks are due to begin in October.

Venezuela relations

Colombia's leftwing president offers olive branch to Maduro

JOE PARKIN DANIELS — CÚCUTA

The Tienditas International Bridge, three parallel crossings linking Colombia and Venezuela across the Táchira river, was intended as a paean to commerce between the neighbouring South American nations.

But before a single truck had crossed, relations soured and plans for an inauguration in 2016 were shelved. Three years later, diplomatic ties were severed when Colombia joined a US-led coalition to try to force revolutionary socialist president Nicolás Maduro from power through economic sanctions and political pressure.

That strategy failed as Maduro entrenched himself in power, with support from Russia, China and Iran that helped him weather an unprecedented economic collapse and the exit of 6mn refugees, more than 2mn of them to Colombia.

Now, as western nations consider what to do about Venezuela, Colombia's newly elected leftwing president, Gustavo Petro, is trying a different approach. Formal diplomatic ties between the two Andean nations were re-established in recent days with the arrival of newly appointed ambassadors in Bogotá and Caracas.

A smiling Maduro, wearing a Caribbean cane hat given to him by Colombia's new ambassador, Armando Benedetti, joked with attendees at the Miraflores presidential palace in Caracas. But he struck a cautious tone over the normalisation of relations, saying this had to be done well and "in an orderly way" or it would fail.

"These are two countries that have historically had very close ties, so there's economic, humanitarian, and security issues that can now be addressed as part of this geopolitical realignment," said Theodore Kahn, a senior analyst in Bogotá at Control Risks, a consultancy.

"But there's a big question mark over how much Maduro can or will do to create a security situation on the Venezuelan side of the border that is favourable to the negotiations that Petro wants."

Business people on either side of the Tienditas bridge are impatient for its reopening, mindful that bilateral trade peaked at $7bn in 2008. The reopening would take place "in the short term", Germán Umaña, Colombia's new trade minister, said at a recent symposium in Cúcuta attended by business leaders and Colombian officials. "And the short term means the short term."

Fresh approach: Gustavo Petro has re-established diplomatic ties with Venezuela in recent days

Briefly part of the same country after independence from Spain, Colombia and Venezuela share close cultural, historical and trade links. But the two nations diverged sharply after 1999, when Hugo Chávez launched his Bolivarian socialist revolution in Caracas. Three years later Bogotá elected a conservative president who declared an all-out war on Marxist guerrillas with the support of the US.

When Maduro assumed power after Chávez's death in 2013, he continued with his mentor's state-led economic policies while cracking down hard on dissent and harassing the political opposition. The ensuing economic collapse, worsened by US sanctions on the vital oil industry, was among the worst man-made depressions recorded in peace-time anywhere in the world.

Informal trade has continued between Columbia and Venezuela, often on the clandestine trails that permeate the porous border. But official trade, stymied by the sanctions and by Venezuelan hyperinflation and widespread shortages, has withered. Last year, Colombia exported just $331mn of goods to Venezuela.

Business groups claim trade could be worth $1.2bn a year once the border reopens, though other estimates say an initial figure of $600mn is more realistic.

But if those figures are to be achieved, shifting trade from smugglers to the legal economy is vital, business groups say.

"If we can have a stronger institutional framework, we could have a much more formal, stable, deep and balanced economic relationship," Carlos Fernández, the president of the Venezuelan Federation of Chambers of Commerce, said. "The importance of the reopening is not only in what it means for border trade, but binational trade in general."

Classified documents

Trump team accused of trying to obstruct FBI investigation

JAMES POLITI — WASHINGTON

The US justice department said efforts had been made to "obstruct" its probe into Donald Trump's mishandling of classified documents from his days at the White House, casting doubt on the former president's claims that he has co-operated with federal investigators.

In a court filing late on Tuesday, the justice department challenged Trump's request for the appointment of a "special master" to review material recovered by the FBI during its raid of his Mar-a-Lago estate on August 8 ahead of a hearing on the matter today.

But the DoJ's filing went further, including a photograph of some of the highly classified documents retrieved from Trump's Florida home. The filing also detailed the interactions between federal prosecutors and the former president's team that led to the FBI search.

"The government . . . developed evidence that government records were likely concealed and removed from the storage room and that efforts were likely taken to obstruct the government's investigation," the justice department said.

"That the FBI, in a matter of hours, recovered twice as many documents with classification markings as the 'diligent search' that the former president's counsel and other representatives had weeks to perform calls into serious question the representations made in the June 3 certification and casts doubt on the extent of co-operation in this matter."

According to the filing, federal investigators seized 13 boxes containing more than 100 documents with classification markings during the search.

Previous court filings, including the government's heavily redacted affidavit in support of the search warrant, have revealed that Trump is facing a criminal investigation for possible violations of the Espionage Act, which covers the handling of sensitive information related to national defence, as well as obstruction of a judicial inquiry and the mishandling of public records.

The probe has been launched as Trump remains the putative frontrunner for the Republican presidential nomination in 2024, according to polls of Republican primary voters. He has suggested that he intends to run for a second term in the White House.

Hype hazard Dubious business model of China start-up Missfresh meant continual fundraising and lofty promises ➔ COMPANIES

Companies & Markets

Tencent shifts strategy with $14.5bn target for disposals

- Effort to reduce antitrust pressures
- Quarterly revenue falls for first time

CHENG LENG, QIANER LIU AND ELEANOR OLCOTT — HONG KONG

China internet group Tencent is pivoting from years of aggressive stakebuilding to a focus on divestments as it comes under pressure from investors and Beijing's antipathy to Big Tech.

As part of a shift in strategy, the company has outlined a soft target of divesting about Rmb100bn ($14.5bn) of its $88bn listed equity portfolio this year, according to two people familiar with the matter. It would take place depending on market conditions and internal profit targets.

Partial divestments in large China groups such as food-delivery service Meituan were in the pipeline, the people said. Meituan was not a priority for sales owing to its strong performance, but cutting its stake could help reduce pressure on Tencent from the anti-monopoly regulator, the people said.

> Investors are pushing for assets that disappoint to be divested as Covid policy and the property crisis hit

A crackdown that began in 2020 has led to nearly 100 deals involving Alibaba and Tencent coming under antitrust scrutiny from regulators, reversing Beijing's once laissez-faire approach towards the country's internet sector.

Investors had also pressed the company to divest underperforming assets, a third person with direct knowledge of the matter said, as China's Covid policies and property crisis batter the economy.

Tencent in August posted its first fall in quarterly revenues, amid weak ad and games sales, marking a departure from the days of double-digit growth in its internet units that had fuelled its aggressive investment strategy.

Its approach was not driven by any urgent need for cash, and sale proceeds could be distributed in a variety of ways, including special dividends, share buybacks and bonuses for employees, the people said.

Proceeds in 2022 would contribute to two batches of funds planned by Tencent that would be based on themes espoused by Beijing, including sustainable social values and common prosperity, two of the people said.

Tencent promised last year to raise Rmb100bn to support rural revitalisation and help increase earnings for low-income groups, in a move that was in step with Beijing's call for greater corporate social responsibility.

Tencent said: "We have repeatedly made clear publicly that our Rmb100bn commitment towards our sustainable development initiative is a multiyear initiative that is separate from our investment decisions. There is no time-line for contributions to this fund."

While Tencent has begun its divestment drive, one person said that the team was still deliberating on which stakes could be reduced in non-core businesses and at what target price.

The Shenzhen-based firm owns over 10 per cent of six large tech companies listed in China and is the biggest investor in short-video sharing app Kuaishou and question-and-answer site Zhihu.

In January, it offloaded more than $3bn worth of shares in Singaporean internet conglomerate Sea. Last year Tencent gave out $16.4bn worth of stakes in ecommerce operation JD.com to shareholders as a dividend, in a move that some saw as the start of the pivot.

Tencent was expected to continue to invest overseas and in strategic growth areas, including enterprise software, video services and the games industry, though more selectively than before, said Fitch analysts Kelvin Ho and Jia Wen in a report in May.

Additional reporting by Sun Yu in Beijing

New course Rome in talks on ITA sale with Delta, Air France-KLM and private equity

The Italian government has sought to accelerate privatisation of the Alitalia successor — Alessandro Serrano/AGF/Shutterstock

SILVIA SCIORILLI BORRELLI — MILAN

Italy is in exclusive talks to sell a controlling stake in ITA Airways, the successor company to bankrupt Alitalia, to Delta Air Lines, Air France-KLM and US private equity firm Certares.

The three placed one of two bids in May for the acquisition of ITA Airways.

Yesterday the Italian Treasury, which controls the business, said the offer was deemed "more respondent to [the government's] objectives."

It added that a binding agreement would be reached only if the negotiations fully satisfied the Treasury.

The latest offer comes after Lufthansa and Swiss-Italian shipping conglomerate MSC had expressed interest in acquiring a majority stake.

They were deemed the preferred contenders until this week, when Delta, Air France-KLM and Certares returned with an improved offer, according to people close to the situation.

Under the private equity-led offer, the Treasury would maintain a 40 per cent stake in ITA Airways, while Certares would own the controlling 60 per cent stake.

Delta Air Lines and Air France would be ITA's commercial partners and could, at a later stage, acquire up to 20 per cent of the company, the people said.

In February, the Treasury was given a mandate by the cabinet to search for a buyer, as Rome sought to accelerate the airline's privatisation after its bail-out in 2021.

In January, ITA boss Alfredo Altavilla said the potential deal with Lufthansa and MSC was a "very compelling solution" for the carrier, which needs to find an international partner to expand beyond its domestic market.

MSC is the largest container-shipping group and hopes to expand into air cargo through the deal, while Italy is Lufthansa's main foreign market.

The German airline's chief executive Carsten Spohr in May told Italian newspaper Corriere della Sera that Rome would become the group's southern hub.

However, people close to the negotiations between the Treasury and the two groups of contenders said that an expansion into the US market proposed by Certares, Delta and Air France-KLM had been deemed more attractive and potentially profitable.

They said the offer would also give the Treasury greater control over the company's corporate governance to prevent, for example, ITA being sold or broken up, compared with the rival bid from Lufthansa and MSC.

Lufthansa said that the Treasury's decision to enter exclusive negotiations with the other bidders "allows for more state influence and does not provide for a full privatisation of ITA".

Italy is due to hold general elections next month and the rightwing coalition, which is widely favoured by opinion polls, has expressed doubts on the national airline's sale.

Faith-based fund provider Inspire bans ESG labels

EMMA BOYDE

A Christian faith-based exchange traded fund provider has removed environmental, social and governance labels from its products after claiming that "intolerant liberal activists" have "weaponised" the concept of sustainable investing.

Inspire Investing, which changed the names of four of its ETFs to label them as ESG in March, said it had decided to renounce ESG because "hard-left activists were seeking to strong-arm companies into acquiescence with their extremist policies" on ESG issues.

"ESG has become weaponised by liberal activists to push forward their harmful, social-Marxist agenda," said Robert Netzly, founder and chief executive of Inspire, which has $2bn in assets under management.

Inspire's decision highlights politicisation of sustainable investing, particularly in the US, where a backlash is growing in Republican-led states.

Florida last Tuesday passed a resolution banning its pension funds from considering ESG factors in their investing strategies. Texas criticised BlackRock and nine European financial groups for "boycotting" fossil fuels.

Inspire adopted the term "faith-based ESG" in 2019 to describe its "biblically responsible" approach to investing, which scores companies negatively if their primary revenue is derived from alcohol, tobacco, gambling, pornography or cannabis. Companies also score negatively if they support abortion, in vitro fertilisation or LGBT rights.

Inspire's approach is designed to appeal to increasingly influential evangelical and conservative Christians but its methodology led to it being criticised by the media and blocked from databases of ESG investments, said Netzly.

"We did not ask for a fight but we will never stop defending what is right and true so long as God gives us breath in our lungs and assets in our funds," he said.

Moves by US regulators to tighten rules on fund names also influenced Inspire's decision. The Securities and Exchange Commission has proposed rule changes to prevent investors being misled by fund labels such as ESG.

"Some of the key tenets of [Inspire's] strategy often seem at odds with modern-day interpretations of ESG and sustainable investing," said Alyssa Stankiewicz, associate director of sustainability research for data provider Morningstar.

Richemont feels heat from activist investor Bluebell

INSIDE BUSINESS
EUROPE
Leila Abboud

Fans of Cartier watches often face long waits to buy rare designs such as a £28,000 platinum, asymmetric version of the iconic Tank. Shareholders of Richemont, Cartier's parent, will need similar patience to see whether Bluebell Capital Partners can catalyse change at the luxury group chaired by Johann Rupert.

Since its public campaign began in July, the activist hedge fund has asked for changes to the board structure and make-up, and urged Richemont to focus on its lucrative watches and jewellery brands instead of unprofitable ecommerce and fashion ventures.

At first glance, the campaign looks quixotic. Bluebell has only a small stake, and Richemont's dual-class shareholding structure gives Rupert, 72, almost total power to pick directors and set strategy. His family holding company owns unlisted B shares that carry 50 per cent of the voting rights, despite only owning 9.1 per cent of issued capital.

But Bluebell has already won one concession. Richemont has agreed to its demand to nominate a board director specifically to represent holders of the listed A shares, something provided for in the bylaws but never applied.

Rupert has, however, rejected Bluebell's proposed nominee, Francesco Trapani, a luxury veteran who ran high-end jeweller Bulgari for decades before selling to LVMH and working for them until 2016.

In a letter to shareholders, Rupert wrote the board could not "responsibly recommend" Trapani because he was too close to LVMH, a key competitor.

Instead, Richemont wants to name a current board member to the post — not exactly a sign of openness. It also rejected Bluebell's proposals to increase the minimum size of the board and mandate that A and B holders each had equal representation.

"There is no need to change our board, neither legally nor morally," Rupert told a Swiss business paper. "I am not going to give in to coercion."

Bluebell took the gloves off in a letter to proxy advisory firms ISS and Glass Lewis after they opposed Trapani joining the board. Richemont's "historical long-term underperformance" was due to a "universally known shortfall in governance" — namely that Rupert acted like a "padre-padrone" who owned the whole company instead of a minority stake.

'There is no need to change our board, neither legally nor morally. I am not going to give in to coercion'

Richemont shares have offered total returns of about 70 per cent in the past five years compared with the more than 200 per cent at rivals Hermès and LVMH and almost 100 per cent for Kering, according to Refinitiv data.

One sore point for investors has been how Richemont burnt billions on an unprofitable foray into ecommerce with the YOOX Net-a-Porter and then took almost a year to ink a deal to offload a majority stake in the platform.

Continued investment in subscale fashion brands such as Chloe and Delvaux does not make much financial sense, either. Critics argue that focusing management attention on Cartier could boost profits and help close the valuation gap with rivals.

Shareholders may use the window offered by Bluebell's campaign to express discontent about these broader issues, including the question of who will succeed Rupert at Richemont.

The billionaire has ruled out his children but little else has been said publicly on the matter.

The activist pressure at Richemont carries lessons for other big luxury groups, which are mostly still controlled by founding families. While Richemont is alone in protecting family control with a dual-class structure, others enjoy double voting rights or the fortress-like commandite structure at Hermes.

Governance experts frown upon such measures and there is a risk of nepotism when management roles are occupied by heirs. Yet investors have rarely challenged the legitimacy of luxury's dominant families. Governance was not a concern for investors when the sector was booming, as it has for much of the past decade, driven by growing wealth in China and the seemingly insatiable appetites of rich Americans.

But analysts have predicted a slowdown in the coming quarters as inflation bites and consumers feel the pinch. If companies with shaky governance start to underperform, it leaves them more at risk that investors will demand changes.

That may be the bet Bluebell is making even if it loses the shareholder vote next week. It has won a symbolic victory by forcing Richemont and Rupert to contend with its criticism. Like a collector on that Cartier wait list, the activist is playing a long game at Richemont.

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COMPANIES & MARKETS

Financial services

Klarna losses quadruple as costs soar

Buy now, pay later group hit by rising wage bill, loan defaults and competition

SIDDHARTH VENKATARAMAKRISHNAN
LONDON

Losses at Swedish payments provider Klarna quadrupled in a bruising first half for Europe's one-time most valuable private tech company, as it prepares to slash costs in an effort to find a route back to profitability.

The payments company yesterday reported a net loss of SKr6.2bn ($581mn) for the first half of 2022, compared with SKr1.4bn a year earlier.

Klarna attributed the losses to higher employee costs, investments in integrating newly acquired Swedish price comparison service PriceRunner and rising credit losses, reflecting the greater difficulty of underwriting new customers with limited credit histories.

Revenues increased 24 per cent year on year to SKr9.1bn, driven by growth in markets including the US, where Klarna has built up 30mn users — a fifth of its global total. Its gross merchandise volumes grew 21 per cent to SKr396bn.

"Klarna has been operating in a very different environment in the first half of 2022," said Sebastian Siemiatkowski, chief executive and co-founder. "When we set our business plans for 2022 in the autumn of last year, it was a very different world than the one we are in today."

Klarna's struggles reflect the challenges facing buy now, pay later services, which allow consumers to defer or divide payments into instalments.

'When we set our business plans for 2022 in the autumn of last year, it was a very different world'

The products are highly popular among younger users in sectors such as fast fashion. However, worsening economic conditions, growing regulatory scrutiny, and competition from lenders and big tech companies are challenging the business model.

After several attempts to raise cash at higher valuations failed, Klarna's shares slumped in July to $7bn after it raised $800mn from investors including Sequoia and Mubadala, the Abu Dhabi sovereign wealth fund. Klarna secured a valuation of $46bn as recently as June last year, following a $639mn funding round led by Japan's SoftBank.

The value of other buy now, pay later providers has collapsed. Shares of US-listed provider Affirm, which has partnered with big retailers such as Amazon and Walmart, are down more than 80 per cent from their high in November.

The results also offer a snapshot into the struggles facing non-profitable fintechs, as investors become more cautious as interest rates rise.

Klarna last made a profit in 2019, although it said its business in established European markets such as Sweden and Germany was profitable.

"We've had a few years now where growth has been really heavily prioritised by investors," said Siemiatkowski. "Now, understandably, they want to see profitability."

Klarna said in May it would slash staffing 10 per cent to cut costs. Siemiatkowski said it would look at tightening lending, especially to new customers.

See Lex

Technology. Restructuring

Snap to cut 20% of staff as it tempers ambitions

Social media network will slash non-core investments to boost slowing revenue growth

HANNAH MURPHY AND CRISTINA CRIDDLE — LONDON

Snap has announced the most radical restructuring its history, as the social media company seeks to reassure investors with scaled-back ambitions in the face of its slowest-ever growth.

The Los Angeles-based company said yesterday it was laying off a fifth of its 6,500-strong workforce and slashing investment in initiatives including augmented reality glasses, video content production, and games — amid an advertising slump, increased competition and macroeconomic woes.

The approach was welcomed by investors, with shares jumping 9.7 per cent in mid-afternoon trading to $10.99 in the wake of the news.

The shake-up is designed to reverse Snap's fortunes as it announced that its current quarter revenues were growing at the slowest pace since it went public in 2017; 8 per cent year on year, compared with 13 per cent in the second quarter.

Chief executive Evan Spiegel said in a memo to staff that the figure was "well below what we were expecting earlier this year", adding: "We must now face the consequences of our lower revenue

Bigger picture: Snap is hoping to generate savings of $500mn a year

performance on increased competition in the sector and privacy changes by Apple that have made it harder for apps to target advertising and measure the success of campaigns.

doing so, which would mostly be incurred in the current quarter.

Snap has always positioned itself as a "camera company" rather than a social media network and, as such, invested in

'The decision to cut back in

He added: "The decision to cut back in areas that generate little or no revenue is prudent," and that "additional headcount reductions suggest [the] slowdown could be worse than feared."

Travel & leisure

Annual report error highlights complexity of Cineworld structure

ROBERT SMITH — LONDON
OLIVER BARNES — LYON

Cineworld incorrectly reported the identity of its largest shareholder in its annual report, as the struggling group failed to keep track of changes to its complex ownership structure.

The second-biggest cinema chain is on the verge of filing for Chapter 11 bankruptcy in the US in an attempt to restructure its nearly $9bn in debt and lease liabilities.

Its largest shareholder is the family of Mooky and Israel Greidinger, the Israeli brothers who serve as chief executive and deputy chief executive respectively.

In its 2021 annual report, Cineworld reported that 20.08 per cent of its shares are owned by Global City Holdings, a Dutch holding company ultimately owned by Greidinger family trusts.

A footnote explains that this entity holds 274.7mn shares, while a further 1mn are held by Global City Theatres, another Dutch entity that is described as "a wholly owned subsidiary of Global City Holdings".

However, according to Global City Holdings' 2020 audited annual accounts, it no longer owns Global City Theatres, which in fact owns almost all of the Greidingers' stake in Cineworld.

Global City Holding sold Global City Theatres to an unnamed "related company" for €1. It recorded the disposal in 2020, but the accounts disclose that the "actual transfer of shares occurred in February 2021".

The chain is on the verge of filing for Chapter 11 in an effort to restructure its $9bn in debt and lease liabilities

After the sale, Global City Holdings held only 1mn shares, equating to just 0.07 per cent of Cineworld's stock.

While the accounts did not name the company that took over Global City Theatres, Dutch corporate records show that it was DKG Park, another entity owned by Greidinger family trusts.

The company is named after the initials of Mooky and Israel Greidinger's parents, Dahlia and Kalman Greidinger, according to a person familiar with the matter.

Cineworld said: "Global City Theatres

growth and adapt to the market.

Popular with so-called Gen Z and Millennial people, Snap's Snapchat is one of the smaller social media networks, with around 350mn daily active users.

The latest cuts and bleak outlook mark a striking volte-face for a company that posted blockbuster growth in the first two years of the coronavirus pandemic, leading it to employ more people, acquire and invest in technology start-ups and develop products beyond its core Snapchat offering, where users post ephemeral content to friends.

Boom times for social media groups in 2020 and 2021 have turned this year into a deep and broad stock sell-off amid high inflation and a wider economic slowdown, forcing the biggest tech groups such as Meta and Google to freeze hiring and implement other cost-cutting measures.

Snap's shares have lost more than 75 per cent of their value in the year to date, after issuing a profit warning in May and posting bleak second-quarter results in July.

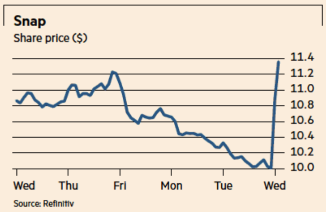
On top of tough macroeconomic conditions, it has also blamed its poor

to adapt to reduced revenues from advertising Lucas Jackson/Reuters

Snap has been particularly vulnerable, as advertisers tightening their budgets typically cull spending from the smallest operators first.

Still, in its results statement in July, Snap said it was "not satisfied" with its earnings "regardless of the current headwinds".

Snap wrote in an investor presentation yesterday that it expected to generate savings of $500mn a year from the latest restructuring, compared with its second-quarter costs. It expects to spend between $110mn and $175mn



hardware including the Pixy, a small drone camera, which was discontinued this month, only four months after its launch.

The company also announced it would be "narrowing its investment scope" in its long-touted augmented reality glasses, Spectacles, in order to "focus on highly differentiated long-term research and development efforts". A senior manager at the company said its focus would be on mobile augmented reality experiences, rather than hardware.

Investment will also be cut in Snap Originals, short-form video content produced in-house, games and Snap Minis, where developers can build simplified versions of their apps within the main Snapchat app.

Snap acquisitions Zenly, a social mapping app, and Voisey, an app to create music voice-overs, will both be shut down.

Jefferies analyst Brent Thill said Snap's renewed focus on profitability was a welcome change but that "it will take time for investors to regain confidence in the underlying fundamentals".

areas that generate little or no revenue is prudent'

Brent Thill, Jefferies analyst

Other analysts noted that Snap's 8 per cent revenue growth in the quarter to date was an improvement on the flat growth it disclosed in late July, indicating the advertising ecosystem could be improving.

Snap announced yesterday that Jerry Hunter, its head of engineering, would become chief operating officer. It also said Google's UK & Ireland managing director Ronan Harris would be joining the company in October as its president of Europe, Middle East and Africa.

But Jeremi Gorman, chief business officer, and Peter Naylor, vice-president of ad sales for the Americas, are leaving the company as part of the shake-up. Gorman said in a social media post that she and Naylor would be joining Netflix, where she would serve as the streaming site's president of worldwide advertising.

Citi analyst Ron Josey said these moves "could prolong Snap's ad growth challenges and increase execution risk", downgrading its recommendation on the stock to neutral from buy due to "continued monetisation headwinds and execution risk".

was and remains the registered owner of approximately 275mn (about 20 per cent) Cineworld shares. Global City Holdings was and remains the registered owner of 1mn Cineworld shares. The registered and total shareholding in Cineworld of the Greidinger family trusts remains 20.8 per cent and did not change in 2020 or 2021, nor has it subsequently."

The errors in Cineworld's annual report underscore the complexity of the Greidinger family's holding companies, which have raised substantial amounts of debt against their shares in the cinema chain, which are down more than 90 per cent this year.

Global City Holdings' accounts show that it began 2020 with £595mn of debt "secured by Cineworld shares".

In March 2020, the group replaced a £420mn margin loan with a smaller £210mn debt facility with "no margining provisions", after selling a 7.9 per cent stake in the company for £116mn to repay some of this debt.

The accounts also show that the group repaid an additional £117mn of debt in the first half of 2020.

Automobiles

Toyota in $5.3bn drive to lift battery output

ERI SUGIURA AND KANA INAGAKI
TOKYO

Toyota will spend up to ¥730bn ($5.3bn) in the US and Japan to accelerate its production of batteries, the latest in a series of investments by Asian carmakers in electric vehicles.

The announcement yesterday came just two days after rival Honda and South Korean battery maker LG Energy Solution said they would spend $4.4bn to build a battery plant in the US.

While many carmakers have signed deals with battery manufacturers, Toyota has focused its efforts on producing batteries internally, believing this can provide a critical competitive advantage in the electric-vehicle era.

The group said it would begin battery production between 2024 and 2026. It will earmark ¥400bn for plants in Japan, including its battery joint venture with Tesla supplier Panasonic.

Another ¥325bn will be spent on Toyota's battery plant under construction in North Carolina. Together, the aim is to increase battery production capacity for the two markets by up to 40 gigawatt hours, which analysts estimate would be enough to power almost 600,000 vehicles.

"This investment is aimed at enabling Toyota to flexibly meet the needs of its various customers in all countries and regions by offering multiple powertrains and providing as many options as possible," the company said.

Once the pioneer of green technology with the Prius hybrid launch in 1997, Toyota has become one of the most vocal critics of a rapid transition to battery-powered vehicles, arguing that consumers should have a wide range of options.

Even so, in December the Japanese carmaker pledged to sell 3.5mn electric vehicles a year by 2030, setting itself up in direct competition with Tesla.

Tightening environmental regulations are also pushing the company to invest more in zero-emission cars. California last week enacted rules that ban sales of new petrol-powered vehicles by 2035.

Recent investments by carmakers and battery makers in the US also come after rising pressure by the Biden administration to cut off China from supply chains for electric vehicles.

"If the speed of electric trends accelerates around the world, Toyota's in-house strategy may not be able to catch up, as it takes time and efforts to develop and produce batteries on its own," said Seiji Sugiura, a senior analyst at advisory company Tokai Tokyo Research Institute.

Ford recently finalised a $7.8bn joint venture with SK On to build three battery plants in the US, while LG Energy Solution and General Motors announced a $2.6bn investment this year to build a third plant as part of their joint venture in Michigan.

Banks

JPMorgan raided in German tax fraud probe

STEPHEN MORRIS — LONDON
JOE MILLER — FRANKFURT

JPMorgan Chase has become the latest bank to be raided by prosecutors in Germany as part of an investigation into the multibillion "cum-ex" tax evasion scandal.

The raid on the bank's Frankfurt office by Cologne prosecutors is the latest step in a sprawling investigation into the dividend tax scandal, which dates back more than a decade. Prosecutors and police in Germany have this year also raided the offices of foreign lenders Barclays, Bank of America and Morgan Stanley.

"We can confirm that our Frankfurt offices were visited this week. We continue to co-operate with the German authorities in their ongoing investigation," the US bank said yesterday.

The Cologne Public Prosecutor's Office said it had been executing search warrants against an unnamed banking institution in the city, as well as separate audit firms and searching the homes of four suspects, all in relation to cum-ex tax evasion schemes.

The fraud, which took advantage of a flaw in the German tax code, is estimated to have cost the continent's taxpayers more than €10bn. It involved share deals executed before and after a stock's dividend payment that duped governments to reimburse taxes that were never paid in the first place.

JPMorgan said it was continuing to co-operate with German authorities

In Germany, tax authorities refunded at least €3.9bn in illicit tax refunds between 2001 and 2011, according to the finance ministry.

The fraud has been dubbed cum-ex, which is derived from Latin meaning "with without", and refers to the disappearing nature of the dividend payments.

The raids in Frankfurt, which were first reported by Bloomberg, are being carried out to locate emails and written correspondence, the Cologne prosecutors added.

More than 50 investigators and IT experts from the local police and tax investigation offices are also involved in the operation.

Cologne public prosecutors are investigating 1,500 people as part of a broader inquiry into the long-running fraud involving international lenders ranging from Deutsche Bank, Barclays and Macquarie to UniCredit's HypoVereinsbank.

COMPANIES & MARKETS

Frantic cash hunt ahead of Missfresh collapse underlines tech hype hazards

China start-up's dubious business model meant continual fundraising and a series of lofty pledges

RYAN MCMORROW AND NIAN LIU
BEIJING
GLORIA LI — HONG KONG

Executives at collapsing China grocery delivery group Missfresh made a series of lofty promises to unwitting investors last year as they hurried to raise cash and stay afloat ahead of a Nasdaq debut.

The start-up, which pioneered speedy grocery delivery in China, raised $1.8bn from investors including tech-focused funds run by Tiger Global and Goldman Sachs.

Missfresh was valued at $3bn at its initial public offering a year ago, before crumbling this summer.

Its problematic and highly unprofitable business model left executives continually raising funds, including with deals struck right before its IPO that have become the focus of investor lawsuits.

This account of Missfresh's desperate fundraising ahead of its collapse is based on court filings, investor presentations, and interviews with people involved. They reveal the dangers of investors too readily believing the hype of a company supposedly at the vanguard of the China tech start-up scene in the hope of making quick returns.

Missfresh hauled in $365mn last year from the government of Qingdao, a coastal city that was promised a new headquarters and supply chain park, and an investment fund set up by Carl Chang, a California real estate mogul and chair of a branch of the San Francisco Federal Reserve Bank, who alleges he was misled by Missfresh and their banker JPMorgan.

In the frenetic era before Xi Jinping cracked down on the country's internet groups, Missfresh chief executive Xu Zheng was always able to find another backer.

But as the era of easy money came to an end, the start-up admitted to overstating revenues, and ran out of cash after one final lifeline — $30mn from a coal mining group for a third of the com-

Most of the Missfresh workforce has been sacked, with many owed wages, while creditors have travelled to the operation's offices to stage demonstrations Gilles Sabrie/Bloomberg

Qingdao and Chang in Orange County.

Chang's company, Kairos Investment Management, pitched the deal far and wide. Its "strategic relationship" with Missfresh meant investors would be getting in at a "compelling discount" for "one of the most anticipated Chinese IPOs of 2021", according to a Kairos presentation.

"We have shares at $5.27 a share of $3.5B valuation," Chang texted one investor on May 31 2021. "JP Morgan mentioned on our exclusive call last week they believe conservatively the

Wall Street's largest bank led the Nasdaq listing of Missfresh, but at a valuation of only $3bn, meaning Chang's fund was underwater before trading had even begun.

"This investment lost money the minute they bought into the pre-IPO, due to bad math," said one person close to the situation. "Then it was a death spiral."

Missfresh stock fell 26 per cent on its first day of trading. By early November, Chang's fund was down 75 per cent, and he emailed his investors with a plan to

'This lost money the minute they bought into the pre-IPO, due to bad math. Then it was a death spiral'

plan to turn cash-flow-positive. A few months later, the group began delaying or missing payments to suppliers.

The defendants, including Kairos and Chang, have rejected the fraud allegation in a court filing.

Chang declined to comment, but in court filings Kairos's attorneys said the group had equally been taken in by Missfresh and JPMorgan's assurances that "the minimum floor for the value of the company at IPO was $5 billion".

In January, they called Solaia's suit "premature", noting that the put agree-

Financials

Lone Star gains $216mn damages over South Korean bank deal

SONG JUNG-A AND CHRISTIAN DAVIES
SEOUL

South Korea has been ordered to pay $216.5mn plus interest to Lone Star Funds, in a ruling that is expected to bring to an end the 20-year saga of the Texan private equity group's acquisition of Korea Exchange Bank.

The International Centre for Settlement of Investment Disputes, a World Bank arbitration tribunal based in Washington, awarded damages totalling just 4.6 per cent of the $4.68bn Lone Star had sought in compensation for delays in the disposal of its Korean investments.

Lone Star initiated the arbitration in 2012, claiming the fund's investors suffered huge losses because of the Korean government's "unlawful interference with Lone Star's rights as the major shareholder of KEB and other Korean companies Lone Star acquired in the early 2000s".

For years, the case was regarded by global financiers as emblematic of Korea's perceived hostility towards foreign investment, damaging the coun-

Seoul 'should not intervene politically or arbitrarily in deals between private parties without grounds'

try's credentials as an investment destination as Lone Star struggled to sell Korean assets acquired in the wake of the Asian financial crisis of the 1990s.

Lone Star Funds paid $1.2bn in 2003 for a controlling stake in KEB, regarded by many in Seoul as the jewel in the crown of the Korean banking system.

Amid public outrage, Korean financial authorities later tried to declare the acquisition illegal, in effect killing a proposed sale of the bank to HSBC.

Prosecutors also accused Lone Star executives of tax evasion and stock pany — fell through in July.

Most of the Missfresh workforce has been dismissed, with many owed two months' wages. Creditors have flocked to the company's offices around the country to protest, and its herd of delivery riders have begun to stuff competitors' goods into the hot pink Missfresh delivery boxes strapped to the back of their scooters.

"I drive for Meituan and Ele.me now," said one 35-year-old rider as he put two hot lunch deliveries into his pink Missfresh box. "They owe everyone a lot of money."

Missfresh spokesperson Chen Yanqing said the company was working on a debt restructuring plan for its main grocery delivery business.

Just over a year ago, with the company's future appearing bright, Xu was again hunting for funding to float Missfresh until a planned New York share sale in the summer. The start-up had $132mn of cash in its accounts at the end of December 2020 but was burning through $90mn a quarter.

"Missfresh was desperate," said a Beijing-based investor who was approached for funding.

During eight years of fundraising, Xu had either tapped or been spurned by most of China's traditional tech investment funds. "We passed several times," said a venture capitalist in Beijing. "The unit economics didn't make sense."

In the run-up to the IPO, the team at Missfresh turned to the government of

value [is] around $12B."

On the call, a JPMorgan banker had explained how they arrived at the $12bn valuation. Missfresh's delivery segment deserved a similar valuation multiple as Amazon, the banker said, while comparing other parts of the business to Alibaba and Shopify.

"We are using pretty conservative [multiples]," the banker said, according to information provided to the FT about the conference call.

Xu said the target market of Missfresh was worth Rmb2.8tn ($405bn) and it was the market leader. "We are running at a slight loss and cash flow is positive," he said. "We always place the greatest focus on high-quality growth."

Less than a month later, on June 25,

"rectify the injustice we feel has been perpetrated on us and our investors".

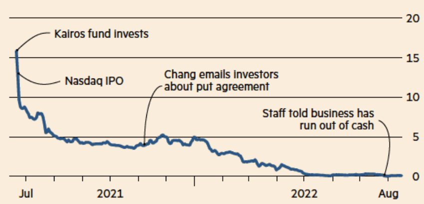
Kairos had entered into a put agreement with Xu, allowing the fund to sell its shares back in about two years' time for a 20 per cent gain, Chang explained. The dealings are part of a lawsuit filed by Connecticut-based investment fund Solaia Capital, which alleges that Chang fraudulently deceived the firm into investing $500,000.

The put arrangement, worth about a quarter of Missfresh's cash at the time, was not publicly disclosed in filings to the Securities and Exchange Commission.

Instead, Xu told Wall Street analysts a few days later that Missfresh was running ahead of schedule on an internal

Gone stale

Missfresh stock ($)



Source: S&P Capital IQ

ment "guaranteed a positive return on the investment".

By the end of June, Missfresh owed suppliers Rmb2bn and had only Rmb200mn in cash on hand, most of which was frozen by Chinese courts over unpaid bills, according to a former employee who had access to the company's books.

The company shut its speedy grocery delivery business late last month.

JPMorgan declined to comment. Missfresh said the IPO process and all of its investor communications were compliant with regulations.

The company's near-disintegration has left Qingdao with an investment loss approaching $290mn and a state-backed development project lacking a marquee tenant.

The investment has made Qingdao partly responsible for Missfresh's failings in the eyes of unpaid suppliers such as Zhang Le, whose company is owed Rmb1.8mn for providing beef jerky and dried seaweed snacks to the digital supermarket.

"They are a shareholder, so they should bear some responsibility," Zhang said.

In recent weeks she joined a group of more than 40 creditors, collectively owed tens of millions of dollars, protesting for payment at Missfresh's offices across China.

They have not yet decided when to take their megaphones and banners to Qingdao city hall.

price manipulation, sending country manager Paul Yoo to prison in 2008. The senior finance ministry official who approved the deal was also jailed.

The stake was finally sold to South Korea's Hana Financial Group for Won3.9tn ($3.45bn) in 2012. Lone Star was forced to cut the price after being found guilty of stock price manipulation.

"The tribunal ruled that our government violated its duty of providing fair treatment by delaying its approval for Lone Star's sale of KEB to Hana Bank," said South Korean justice minister Han Dong-hoon. "But it did not accept Lone Star's claim that it suffered losses by the delayed sale of KEB to HSBC."

He said the government would consider seeking an annulment of the tribunal order, making an appeal likely. It estimated it would have to pay about Won18.5bn in interest. The ruling will come as a relief to Seoul, however, given longstanding predictions it would have to compensate Lone Star to the tune of billions of dollars.

"The government did a good job in defending its case. The ruling will free South Korea of longtime legal risks," said Sung Tae-yoon, professor of economics at Yonsei University.

"But it is a wake-up call against the problem of Seoul's arbitrary taxation and a reminder that the government should not intervene politically or arbitrarily in deals between private parties without enough legal grounds."

Pharmaceuticals

AstraZeneca wins injunction on GSK defection

JANE CROFT AND DONATO MANCINI

AstraZeneca has succeeded in an 11th-hour effort to stop a former senior executive from joining rival GSK after a High Court judge granted the drugmaker an injunction in an unusual legal battle featuring Britain's two biggest pharmaceutical companies.

Christopher Sheldon, who left AstraZeneca last month after holding several senior roles, was set to start at GSK today with responsibility for development across the group's therapy businesses.

AstraZeneca sued Sheldon in July, alleging that starting at GSK before February would put him in breach of a non-compete agreement that was set to run for six months.

The drugmaker, best known for its Covid-19 vaccine, said that Sheldon had received share awards worth £644,553 in return for signing the agreement.

Sheldon informed AstraZeneca of his intention to move in April before leaving in August. He denies the allegations and any wrongdoing.

The case is set to go to trial in October but AstraZeneca sought an urgent High Court injunction yesterday to prevent Sheldon, who had led investor relations at AstraZeneca and held a senior role in its oncology business, starting the role today.

Daniel Oudkerk QC, representing AstraZeneca, told the High Court in London that the pharma group was "likely to suffer irreparable damage" if Sheldon was able to start work at GSK ahead of the full trial in October.

"AstraZeneca obviously has a legitimate business interest in protecting its confidential information," Oudkerk said, adding that Sheldon had knowledge of the group's existing medicines, pipeline of drugs as well as its business development and commercial strategy.

James Laddie QC, representing Sheldon, said there was no reason that the former AstraZeneca executive should be prohibited "from undertaking a job which is unrelated to either of the two roles he performed in the last 12 months of employment with AstraZeneca".

Sheldon had had an "impeccable record" and "it's never been suggested that he's interested in or has taken confidential information to use at GSK", Laddie said.

Mrs Justice Heather Williams ruled that "the most just and appropriate way is to hold the ring until trial and to grant the injunction sought".

Lawsuits over employment agreements are relatively rare in the High Court, with cases usually involving staff working in specialist areas of financial services such as interdealer broking.

GSK said: "Whilst we are disappointed by this interim decision, we continue to believe that Dr Sheldon's position is strong and are confident that he will be able to begin his new role at GSK following the main hearing in October."

AstraZeneca declined to comment.

Media

Bertelsmann in broadcaster merger plea

ALEX BARKER — LONDON

German media group Bertelsmann has urged competition regulators to drop outdated concerns about the proposed merger of France's two biggest private broadcasters, as it warned of the "profound impact" on Europe's entire television sector if the deal is blocked.

Thomas Rabe, chief executive, said the regulatory decision on the combination of Bertelsmann-backed RTL's M6 with Bouygues-owned TF1 would set a continent-wide precedent that could hobble Europe's broadcasters in their battle with US streaming services.

"If the authorities decide against this combination, it is a lost opportunity, not only for this year but for the long term," Rabe told the Financial Times.

"France is a precedent, positive or negative. It will have a profound impact on the audiovisual sector in Europe, and that is something I very much hope decision makers are aware of."

Rabe has made media consolidation a centrepiece of Bertelsmann's strategy, embarking on a flurry of deals in the television and book industry that are testing the limits of competition law.

This autumn will be a critical reckoning on the approach, with regulatory decisions due on three deals: Penguin

> 'If the authorities decide against this combination, it is a lost opportunity, not only for this year'

Random House's proposed $2.2bn acquisition of Simon & Schuster; the TF1-M6 merger in France; and the tie-up between RTL's operation in the Netherlands with Talpa Network, the Dutch media group.

Rabe insisted he was "more convinced than ever" of his strategy to build national champions to fight the global tech giants. The TF1-M6 deal is important for Bertelsmann but looks to be in danger. A report from the French competition authority raised concerns that a combined group would have a 70 per cent share of the national free-to-air television advertising market.

Bertelsmann is trying to convince the authority to broaden the definition of a "relevant market" so it takes account of digital advertising and the plans of Netflix and Disney to carry advertising on their streaming platforms.

While acknowledging the report was a setback, Rabe added: "We are optimistic but not naive. We always knew it would take a significant effort to convince the authorities to change the definition of the market," he said. Should the deal be prohibited, Rabe said it was "very unlikely" that M6 would attempt a similar tie-up in future.

Bertelsmann yesterday reported underlying revenue growth of 3.8 per cent to €9.3bn in the first half of this year. Pre-tax profit fell from €1.8bn to $679mn, mainly as a result of the sale of adtech company SpotX last year.

COMPANIES & MARKETS

Crypto. Rivalries intensify

Binance looks to bolster sector leadership with free trading

World's biggest digital asset exchange gives up fee income

Binance dominates market for trading cryptocurrencies

Monthly spot trading volume ($bn)

Money talks: chief executive Changpeng Zhao

asset prices, rival crypto exchanges have embarked on reconfiguring their long term business strategies.

Equities

Alibaba and Yum first in line for audit checks by US

QIANER LIU AND TABBY KINDER
HONG KONG

US regulators will attempt to inspect the Chinese audit files of Alibaba and Yum China this month as part of a landmark deal between Beijing and Washington, according to people familiar with the matter.

The deal allows the US Public Company Accounting Oversight Board, America's accounting watchdog, to vet the work of audit firms in mainland China and Hong Kong for the first time.

The agreement has laid the foundation to resolve a dispute between the two superpowers that could result in the US banning the trading on its exchanges of about 200 Chinese companies in 2024, threatening the value of around $1.4tn in the companies' shares.

Jack Ma's ecommerce group, Alibaba, is China's most valuable overseas-listed company with a market capitalisation of $249bn on the New York stock exchange. Yum China, which owns the KFC and Pizza Hut brands in China, is worth $21bn on US markets.

Alibaba is audited by PwC in Hong Kong and Yum China is audited by KPMG Huazhen in mainland China.

The Big Four accounting firms, which include Deloitte and EY, together audit about 130 Chinese companies that are currently listed in the US, according to

> The agreement has laid the foundation to resolve

to attract more customers

SCOTT CHIPOLINA

Crypto exchange Binance is ramping up efforts to grab market share by expanding its free trading to include popular token ether, ahead of one of the most anticipated events in the crypto market's short history.

Binance, already the world's biggest digital asset trading venue by volume, is waiving fees for a month for customers trading ether — the second-biggest digital token — using Binance's house currency known as BUSD.

The initiative comes ahead of a widely anticipated upgrade to the ethereum blockchain, where ether transactions are recorded.

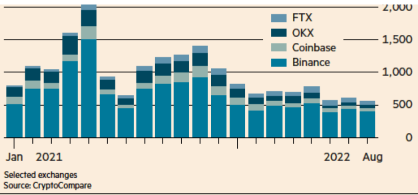
Known in the industry as the Merge, it promises a shift from a legacy, energy-intensive digital ledger system described as "proof of work" in favour of a "proof of stake" model that will vastly shrink its carbon footprint.

The move to offer free ether trading ahead of the big event underscores how Binance is using the fallout of this year's crypto crash to make a fresh attempt at pulling clients on to its platform.

About 90 per cent of Binance's overall revenues are derived from trading fees, which fluctuate with the price of bitcoin and other cryptocurrencies, the privately held group's chief executive, Changpeng Zhao, said this year.

Over the summer, Binance began offering no-fee cash trading in several bitcoin pairs, including the euro and pound.

In the subsequent eight weeks,



BUSD's market capitalisation has grown by 8 per cent to $19bn, according to data compiled by CryptoCompare.

So-called stablecoins like BUSD are often used as a store of value between bets on digital coins since they are designed to track the price of the dollar and other traditional currencies.

BUSD is one of the world's biggest stablecoins, and competes with tether and Circle's USDC.

Sipho Arntzen, Next Generation research analyst at Julius Baer, said Binance's move "may indeed represent somewhat of a 'market grab' strategy".

Binance's latest initiative will last until September 26. It described Merge as "an important milestone for the ethereum and large web3 ecosystem that all users should have the opportunity to be a part of."

Ethereum is widely used by crypto developers as it aims to make blockchains more useful than a simple database of transactions.

Binance's no-fee trading comes after bitcoin — the industry's flagship cryptocurrency — plummeted from a price of almost $70,000 to lows under $20,000 while the failure of the stablecoin terraUSD triggered sell-offs that engulfed many big industry names, including lenders Celsius and BlockFi and hedge fund Three Arrows Capital.

"This approach [to free trading] has also been seen in traditional finance in the past where a well capitalised newcomer seeks dominance with the enticement of commission-free trading for a limited period," said Rufus Round, chief executive of GlobalBlock Digital Asset Trading, a broker.

A spokesperson for the exchange said Binance will "miss out on some fees", although said the company "continues to have strong reserves".

Binance has already increased its leading role in the crypto market this year. The exchange has a 55 per cent trading market share in cash trading, according to CryptoCompare, a rise of nearly 10 percentage points since January.

Its nearest rivals, Coinbase and FTX, have shares of less than 10 per cent.

In response to the collapse in digital

said this year that about 90 per cent of Binance's overall revenues were derived from trading fees
Benjamin Girette/Bloomberg

Coinbase said nearly a fifth of its second-quarter revenues had come from services and subscriptions, even as it racked up a net loss of $1.1bn.

"Temporarily giving up on fees on their main trading pairs can be seen as a concession towards attracting more flow in the current low trading volume environment, which [Binance] will benefit from indirectly through increased traffic in other trading pairs and other product lines and offerings", said Peter Habermacher, chief executive and co-founder of crypto-focused investment firm Aaro Capital.

However, FTX has put the rest of the crypto industry on notice that it is trying to attract customers with a series of high-profile sport sponsorships and by moving to acquire beleaguered crypto lending platform BlockFi, one of the highest profile failures of the sector's crash.

"I would imagine [Binance] is watching the expansion of FTX into all sorts of areas and thinking they need to step up their game," said Ilan Solot, partner at venture capital firm Tagus Capital.

Even so, Arntzen said free trading potentially indicated that Binance expected the size of the market to remain small in the near term.

"This breaking of rank by Binance may represent the beginning of a trend of fee-free trading amongst the large centralised exchanges," he said. "We may have in future a situation where fee-free trading is the norm rather than the exception, similar to what we have seen in the world of traditional finance."

It described Merge as 'an important milestone for the ethereum and large web3 ecosystem'

a dispute between the two superpowers

the US Securities and Exchange Commission.

As part of the US-China deal, the auditors' work on the accounts of Alibaba and Yum China will be inspected by PCAOB officials in Hong Kong in mid-September.

China's securities regulator, the China Securities Regulatory Commission, met the Chinese arms of the Big Four firms in Beijing last week, according to people familiar with the meeting.

Officials told the Chinese accountants to hand over their audit files to US regulators in Hong Kong. The inspections will not be carried out in mainland China due to its strict pandemic restrictions.

The PCAOB will inspect the audits of a handful of Chinese companies initially but could inspect as many as 20 in total, according to two people familiar with the matter.

It will determine by the end of the year whether China and Hong Kong are compliant with the US Holding Foreign Companies Accountable Act, which was introduced in 2020 and required foreign companies whose shares are traded in the US to make their audits available for inspection every three years, or be banned from trading.

The PCAOB declined to comment. The CSRC, Alibaba and Yum China did not immediately respond to comment requests.

Additional reporting by Cheng Leng in Hong Kong

Commodities

Delays and energy crunch lengthen life of American coal-fired power plants

MYLES MCCORMICK — NEW YORK

US utilities are extending the lives of their coal-fired power plants as delays in obtaining cleaner replacements and strong electricity demand drive fears of shortfalls on the grid.

Three coal generators have recently joined a growing list of plants whose planned retirement date has been postponed, bringing to at least eight the number of deferrals this year.

The delays are a setback, at least temporarily, to the country's efforts to wean itself off the dirtiest fossil fuel.

"While this is a difficult decision, it is necessary to maintain the reliable electricity service our communities have come to expect," Javier Fernandez, chief executive of the Omaha Public Power District, said last month as he deferred the conversion of two Nebraska coal-fired units to natural gas by three years.

The public utility pinned the extension on delays bringing new gas and solar projects into service.

OPPD was joined by the investor-owned utility CenterPoint Energy, which announced it was extending the life of a coal unit in Indiana by two years to reduce the amount of power it has to purchase from the regional grid operator's "high-priced capacity market".

Missouri's Ameren, another utility group, has been in a legal battle over the closure of its Rush Island coal plant.

It now looks set to keep its two units operating until 2025 — having applied earlier this year to close them in September — after the grid operator said its closure would lead to a "risk of cascading outages and area voltage collapse".

US coal-fired generating capacity has fallen by more than half over the past 15 years as falling costs for natural gas fuel and wind and solar technologies introduced brutal competition.


Coal is on the move in the US thanks to delays in replacement fuels

But the solar buildout has hit a wall this year, holding up projects that were to replace some of the lost coal generation. Consultancy Wood Mackenzie expects utility-scale solar installations will add 8.7 gigawatts of capacity in 2022, about half of last year's levels.

Developers and utilities blame difficulty in procuring parts, including constraints related to an investigation into whether importers are dodging tariffs on solar panels from south-east Asia and the seizure of some parts under a law barring supplies linked to forced labour in China.

"Many of the operators are attributing the deferral of plant closures to delays in solar or solar [and battery] storage projects," said Morris Greenberg, an analyst at S&P Global Commodity Insights.

US gas prices have also climbed to the highest level since 2008, making coal a more attractive alternative fuel during a year in which electricity consumption is expected to hit a record.

Shipping

Maersk opts to plough record profits into global supply chain integration

RICHARD MILNE
NORDIC AND BALTIC CORRESPONDENT

AP Møller-Maersk is to use its bumper shipping profits to take global the $3.6bn Asian warehousing business that it bought in December as the Danish container group aims to integrate its supply chain around the world.

Maersk's $3.6bn acquisition of LF Logistics, announced in December, closed yesterday and the group is wasting no time in taking the business to Europe and the rest of the world to bulk up its logistics offering.

"Not only will it unlock the growth in Asia but we intend to take the platform globally," Ditlev Blicher, head of Asia-Pacific for Maersk, told the Financial Times. "This is a significant step forward both in our ambition to build a global integrator of supply chains as well as a massive step forward into the Asian theatre."

Container shipping lines such as Maersk are expected to make record profits in both 2021 and 2022 as they benefit from sky-high freight rates owing to supply chain congestion that resulted from a surge in demand after the first wave of the Covid-19 pandemic.

Maersk and its two main rivals — Switzerland's Mediterranean Shipping Company and France's CMA CGM — have used some of the profits to push into land-based logistics, aiming to offer big shippers such as retailers and manufacturers the ability to move goods from the factory floor to the end consumer.

'We are looking to grow this multiple-fold. We are not looking at small growth parameters'

The higher margin logistics business, predominantly used by large retailers, is meant to offer a counterweight to Maersk's volatile container shipping, but some investors have worried that the companies may be overpaying.

LF, which was expected to have $1bn in revenues last year and $250mn in earnings before interest, tax, depreciation and amortisation, runs 223 distribution centres throughout Asia, working to fulfil orders for more than 400 global brands by delivering their goods either to the end consumer or to wholesalers.

It combines fulfilment, delivering goods to a customer's specifications and satisfaction, for both in-store and online orders.

Blicher said Maersk was not currently present in fulfilment apart from in the US and would aim to use LF's IT platform to expand in the rest of the world.

Asked if he thought Maersk could increase LF's revenues, Blicher replied: "Very considerably. We are looking to grow this multiple-fold. We are not looking at small growth parameters, whether in Asia or globally."

He described LF's customer list as "a who's who of blue-chip retailers" and said such customers were keen to have a standardised service around the world, rather than depend on multiple local participants as they do at present.

Maersk, which has raised its group profit guidance three times in each of the past three years, has posted six consecutive quarters of organic revenue growth of more than 30 per cent in its logistics business.

COMPANIES & MARKETS

The day in the markets

What you need to know

- Wall Street equities trade steadily after three days of declines
- German and UK bond yields move higher in wake of eurozone inflation data
- Both debt markets on course for worst month in decades

US stocks steadied yesterday following three straight days of declines fuelled by hawkish messaging from the US Federal Reserve and concerns over aggressive interest rate rises.

The broad S&P 500 gauge was flat by the late morning in New York, having trimmed earlier gains.

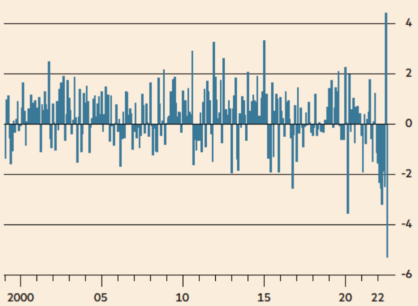
The technology-heavy Nasdaq Composite was up 0.1 per cent. Both indices had closed the previous session down 1.1 per cent, extending falls after central bankers redoubled their commitment at last week's Jackson Hole conference to tackling inflation, even in the face of stuttering economic growth.

Yesterday's moves came on the last day of the month, a time when the rebalancing of portfolios can contribute to volatility.

Across the Atlantic, the pan-regional Stoxx Europe 600 gauge fell 1.1 per cent in the wake of worse than expected eurozone inflation data for August.

The figures showed consumer price growth hit a record 9.1 per cent this month, higher than economists' expectations of 9 per cent. July's reading came in at 8.9 per cent.

August marks worst month for Europe's bonds in decades
Bloomberg Pan-European Aggregate Total Return index (% change)



Source: Bloomberg

costs to tame inflation, which has been stoked by an escalating energy crisis.

Both debt markets closed out one of their worst ever months. The 10-year German Bund yield, seen as a proxy for borrowing costs across the eurozone, has climbed more than 70 basis points in August to 1.54 per cent — reflecting its biggest monthly surge since 1990.

The two-year Bund yield, which closely

core inflation in August and [the] likelihood that they will keep rising will add to the pressure on the ECB to step up the pace of tightening," wrote Jack Allen-Reynolds, senior European economist at Capital Economics, after the eurozone data release.

In the UK, short-dated gilt yields have added 1.29 percentage points in August, their steepest ascent since 1994, jumping

EU and UK opt for contrasting paths on crypto regulation

Matthew Elderfield
Markets Insight

The shape of EU and UK crypto regulation is now clearer than it was before. We have a deal in Europe on the Markets in Crypto-assets (Mica) regulation, the Financial Services and Markets Bill is being read by the UK parliament and new UK Financial Conduct Authority rules are coming for high-risk investments.

What does this mean for the scope of regulation, investor protection, supervision and enforcement?

The UK will start by regulating a few specific crypto assets and service providers while the EU is pretty much going for the whole lot. Mica has a broad definition of a "crypto asset" but the UK is dipping its toe in the water with a narrower "digital settlement asset".

This essentially covers stablecoins used as a means of payments but not, for now, crypto assets as investments.

This choice seems to be about facilitating innovation — and FCA caution as

The FCA's new rules now set an admirably blunt and prescriptive risk warning: "This is a high-risk investment and you are unlikely to be protected if something goes wrong". This will hopefully be matched by EU regulators.

As crypto assets are not protected by deposit insurance or other compensation schemes, supervisory effectiveness is key. Mica and the UK will impose liability on service providers for custody losses, such as cyber attacks on digital wallets.

But policing client asset segregation is hard enough in the non-crypto world. And thinly capitalised service providers

Consumers will continue to be ripped off until both authorities start to take some enforcement cases

the heart of the BCCI bank scandal in the late 1980s — the post-BCCI directive requires bank structures to be sufficiently transparent so they can be effectively supervised.

The UK sensibly applies this principle in its conditions for supervision. Mica needs detailed rules to require this and the AMF needs to get Binance to revise its corporate structure.

National supervisors such as AMF will still oversee service providers under Mica but the European Securities and Markets Authority will be able to intervene with "significant" providers and the European Banking Authority will have direct supervisory powers for the first time, for stablecoin issuers.

The EBA chair is concerned about his ability to get the right staff as the authority expands from its rulemaking and stress-testing remit. Rightly so. The EBA and Esma need more flexibility to ensure they are not outgunned by the crypto firms.

Those data propelled German and UK government bond yields even higher as investors continued to search for clues about how far and fast the ECB and the Bank of England would raise borrowing

tracks interest rate expectations, posted its biggest jump in more than four decades yesterday, rising 5bp to 1.2 per cent.

"The further increases in headline and

11bp yesterday to 3.01 per cent.

US government debt was relatively steady with the 10-year benchmark Treasury yield flat at 3.12 per cent. **Ian Johnston and Harriet Clarfelt**

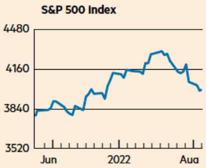
Markets update

	US	Eurozone	Japan	UK	China	Brazil
Stocks	**S&P 500**	**Eurofirst 300**	**Nikkei 225**	**FTSE100**	**Shanghai Comp**	**Bovespa**
Level	3993.77	1639.39	28091.53	7284.15	3202.14	110919.33
% change on day	0.19	-1.04	-0.37	-1.05	-0.78	0.44
Currency	**$ Index (DXY)**	**$ per €**	**Yen per $**	**$ per £**	**Rmb per $**	**Real per $**
Level	109.047	1.006	138.625	1.164	6.894	5.181
% change on day	0.252	0.701	-0.223	0.086	-0.083	2.288
Govt. bonds	**10-year Treasury**	**10-year Bund**	**10-year JGB**	**10-year Gilt**	**10-year bond**	**10-year bond**
Yield	3.123	1.538	0.225	2.797	2.639	12.864
Basis point change on day	0.760	3.200	0.270	9.500	0.800	0.900
World Index, Commods	**FTSE All-World**	**Oil - Brent**	**Oil - WTI**	**Gold**	**Silver**	**Metals (LMEX)**
Level	406.79	97.25	91.36	1730.30	18.70	3773.90
% change on day	0.00	-0.67	-0.52	-1.20	-2.71	-3.33

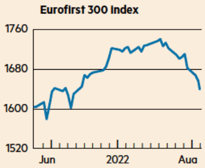
Yesterday's close apart from: Currencies = 16:00 GMT; S&P, Bovespa, All World, Oil = 17:00 GMT; Gold, Silver = London pm fix. Bond data supplied by Tullett Prebon.

Main equity markets

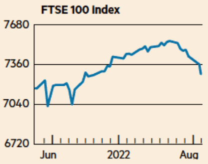
S&P 500 index



Eurofirst 300 index



FTSE 100 index



Biggest movers

%	US		Eurozone		UK	
Ups	Netflix	3.68	Unicredit	4.48	Int Consolidated Airlines S.a.	1.73
	Baxter Int	3.47	Coloplast	2.97	Flutter Entertainment	1.60
	Las Vegas Sands	3.38	Danske Bank	2.18	Endeavour Mining	1.45
	Paypal Holdings	3.06	Caixabank	2.11	Imperial Brands	0.99
	Constellation Energy	2.12	Renault	1.88	Phoenix Holdings	0.84
Downs	Pvh	-7.29	Terna	-4.36	National Grid	-4.14
	Hp	-5.63	Eni	-3.50	Sse	-3.42
	Best Buy	-4.45	Schneider Electric	-3.15	Astrazeneca	-2.97
	Seagate Technology Holdings	-3.94	Telecom Italia	-3.10	Hargreaves Lansdown	-2.29
	Mosaic (the)	-3.48	Edp	-2.97	Glencore	-2.20

Prices taken at 17:00 GMT. Based on the constituents of the FTSE Eurofirst 300 Eurozone. All data provided by Morningstar unless otherwise noted.

Wall Street

Fashion group **PVH**, which operates such brands as Calvin Klein and Tommy Hilfiger, sank after its second-quarter revenue fell short of Wall Street estimates.

It also cut its full-year guidance to reflect "lower consumer demand as a result of inflationary pressures" and "a more promotional environment, particularly in the North America . . . due to elevated inventory levels".

Home-furnishings retailer **Bed Bath & Beyond** tumbled on the possibility that its stock could be further diluted.

Sue Gove, interim chief executive, said that in a bid to "strengthen our liquidity", BB&B had prepared for the potential launch of an at-the-market offering for up to 12mn shares. The proceeds were earmarked for a number of corporate purposes, including the repurchase or repayment of debt.

Disappointing earnings weighed on **Chewy**, the online retailer for pet owners.

Net sales grew 12.8 per cent year on year in the second quarter, missing UBS's estimate of 13.3 per cent and the group's initial guidance of 13-14 per cent.

The broker said consumers were "not clearing out pet shelters the way they were during the pandemic", adding that pet owners were "cutting back on lower priority items such as hard goods" in the wake of higher inflation. *Ray Douglas*

Europe

Belgian construction group **CFE** jumped off the back of a "solid update", said KBC Securities.

The broker flagged up the group's record order book and a net profit of €13.5mn for the half year, which beat the analyst's estimate of €12.7mn.

KBC noted that a better than expected performance by CFE's construction and renovation unit helped offset a weaker showing in its division that handled railway and infrastructure contracts.

Italian bank **UniCredit** rallied after being given authorisation by the European Central Bank for a share buyback of up to €1bn.

Norway's **Nordic Nanovector** sank for the fourth consecutive session following the release of second-quarter results that revealed a loss of NKr91mn ($9.1mn), although this was smaller than the NKr101.8mn loss a year earlier.

Chair Jan H Egberts said the decision in July to discontinue its trial for Betalutin, a treatment for sufferers of follicular lymphoma, a type of cancer, had "been a major disappointment for everyone involved, most particularly patients".

Egberts added that, given the company's current financial position, Nanovector was taking steps to "conserve our resources", which included making 25 employees redundant — about 70 per cent of the staff. *Ray Douglas*

London

A broker's endorsement helped lift retailer **WHSmith** with Berenberg urging investors to "revisit the story given the company's defensive growth profile and its limited exposure to cost inflation".

Analysts said WHSmith was less susceptible to rising prices, in part, because its landlords paid for energy on its premises.

Meanwhile, a North America expansion would results in more than 350 stores across the Atlantic by the end of 2024 — a strategy that would "drive shareholder returns for years to come", said Berenberg.

Another retailer, **Shoe Zone**, rallied on announcing that its trading had "continued to exceed expectations".

The footwear group said "strong demand for summer and back-to-school products" meant adjusted pre-tax profit would be no less than £10.5mn for its financial year.

An unscheduled profit warning sent **Cake Box** plummeting.

The franchise retailer, which specialises in egg-free cakes, said it expected "full-year profitability to be significantly below current market forecasts".

The update prompted Liberum to lower its target price for Cake Box while suggesting investors buy "on weakness" as the company's balance sheet remained in "rude health (no debt)". *Ray Douglas*

explained by its outgoing chair.

The EU's wider investment focus means that issuers of new crypto assets (with important exceptions like purely mined coins) need to publish and be liable for a prospectus-like white paper that sets out their plans.

The differences in regulation extend to service providers. The UK is likely to focus on fewer services, such as exchange and custody.

Mica's more expansive definition covers trading, advice, transmitting orders and more, as well as custody and crypto-to-crypto and crypto-to-fiat exchange.

The UK's next planned step is to legislate for crypto investment risk warnings. Investors need to have a clear understanding of what protection they are (or are not) getting.

might not have deep enough pockets to make good on losses. Supervisors need to be sharp.

The French Autorité des Marchés Financiers raised a few eyebrows recently when it announced it would supervise Binance, the world's largest crypto exchange, under pre-Mica French law.

Binance has been scolded by a number of regulators, including in July when it was fined €3mn by the Dutch and last summer when the FCA concluded that it "is not capable of being effectively supervised". The AMF clearly thinks differently.

The FCA's concern was around Binance's unwillingness to share information about its complex corporate structure. An opaque structure was at

What about enforcement? The US Securities and Exchange Commission has taken decisive action against crypto scams and insider dealing, arguing that many crypto assets are effectively securities subject to existing rules.

The FCA came to the same conclusion in 2019 guidance but enforcement action has not yet followed. Mica will grant fining powers to the EBA and national authorities but, in the mean time, big fines in the EU have been rare.

Consumers will continue to be ripped off until both the UK and EU authorities start to take some enforcement cases under their existing powers — and not just wait for new ones.

Matthew Elderfield is a former alternate chair of the European Banking Authority

MARKET DATA

WORLD MARKETS AT A GLANCE

FT.COM/MARKETSDATA

Change during previous day's trading (%)

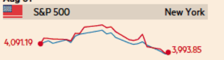
S&P 500	Nasdaq Composite	Dow Jones Ind	FTSE 100	FTSE Eurofirst 300	Nikkei	Hang Seng	FTSE All World $	$ per €	$ per £	¥ per $	£ per €	Oil Brent $ Sep	Gold $
0.19%	0.29%	0.05%	-1.05%	-1.04%	-0.37%	0.03%	No change	0.701%	0.086%	-0.223%	0.582%	-2.74%	-1.20%

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

AMERICAS

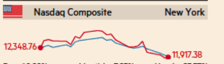
Aug 01 - -

S&P 500 — New York



Day 0.19% Month -6.73% Year -11.45%

Nasdaq Composite — New York



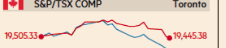
Day 0.29% Month -7.23% Year -23.37%

Dow Jones Industrial — New York

Day 0.05% Month -5.23% Year -10.21%

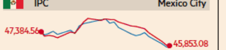
Aug 01 - Aug 31

S&P/TSX COMP — Toronto



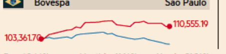
Day -0.40% Month -9.84% Year -6.47%

IPC — Mexico City



Day -1.06% Month -7.31% Year -5.23%

Bovespa — São Paulo

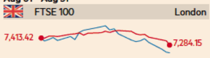


Day 0.44% Month -11.14% Year -21.26%

EUROPE

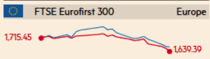
Aug 01 - Aug 31

FTSE 100 — London



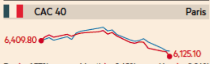
Day -1.05% Month -5.00% Year 0.44%

FTSE Eurofirst 300 — Europe



Day -1.04% Month -6.91% Year -9.00%

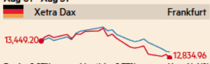
CAC 40 — Paris



Day -1.37% Month -9.62% Year -8.86%

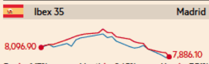
Aug 01 - Aug 31

Xetra Dax — Frankfurt



Day -0.97% Month -0.77% Year NaN%

Ibex 35 — Madrid



Day -1.17% Month -8.45% Year -7.31%

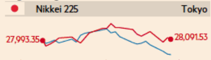
FTSE MIB — Milan

Day -1.22% Month -13.95% Year -14.96%

ASIA

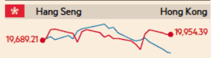
Aug 01 - Aug 31

Nikkei 225 — Tokyo



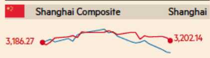
Day -0.37% Month -5.14% Year -9.83%

Hang Seng — Hong Kong



Day 0.03% Month 5.78% Year -24.49%

Shanghai Composite — Shanghai



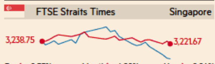
Day -0.78% Month 7.58% Year -5.67%

Aug 01 - Aug 31

Kospi — Seoul

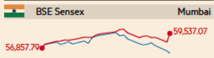
Day 0.86% Month -13.64% Year -30.07%

FTSE Straits Times — Singapore



Day -0.55% Month -4.28% Year -0.96%

BSE Sensex — Mumbai



Day 2.70% Month -5.30% Year 0.91%

Country	Index	Latest	Previous
Argentina	Merval	140081.90	141133.60
Australia	All Ordinaries	7226.10	7230.40
	S&P/ASX 200	6986.80	6998.30
	S&P/ASX 200 Res	5501.70	5608.00
Austria	ATX	2898.80	2890.16
Belgium	BEL 20	3585.84	3629.34
	BEL Mid	9584.18	9633.60
Brazil	IBovespa	110919.33	110430.64
Canada	S&P/TSX 60	1172.66	1178.53
	S&P/TSX Comp	19434.58	19512.90

Country	Index	Latest	Previous
Cyprus	CSE M&P Gen	68.46	68.68
Czech Republic	PX	1173.82	1182.91
Denmark	OMXC Copenahgen 20	1690.99	1694.87
Egypt	EGX 30	10132.15	10122.32
Estonia	OMX Tallinn	1810.22	1796.07
Finland	OMX Helsinki General	10678.87	10688.16
France	CAC 40	6125.10	6210.22
	SBF 120	4740.74	4800.61
Germany	M-DAX	25219.13	25393.83
	TecDAX	2923.71	2944.27

Country	Index	Latest	Previous
Italy	FTSE Italia All-Share	23602.82	23860.51
	FTSE Italia Mid Cap	38065.01	38455.96
	FTSE MIB	21559.32	21825.22
Japan	2nd Section	7228.27	7239.06
	Nikkei 225	28091.53	28195.58
	S&P Topix 150	1685.92	1691.07
	Topix	1963.16	1968.38
Jordan	Amman SE	2555.85	2555.18
Kenya	NSE 20	1750.54	1749.16
Kuwait	KSX Market Index	6633.44	6603.51

Country	Index	Latest	Previous
Philippines	Manila Comp	6583.65	6690.27
Poland	Wig	50357.05	50240.74
Portugal	PSI 20	5995.24	6020.56
	PSI General	4658.14	4690.90
Romania	BET Index	12058.08	12184.82
Russia	Micex Index	2436.57	2445.30
	RTX	1245.71	1212.57
Saudi-Arabia	TADAWUL All Share Index	12455.65	12530.66
Singapore	FTSE Straits Times	3221.67	3239.33
Slovakia	SAX	346.66	345.83

Country	Index	Latest	Previous
Taiwan	Weighted Pr	15095.44	14953.63
Thailand	Bangkok SET	1638.93	1639.45
Turkey	BIST 100	3194.36	3164.96
UAE	Abu Dhabi General Index	9222.93	9251.11
UK	FT 30	2756.80	2769.40
	FTSE 100	7284.15	7361.63
	FTSE 4Good UK	6597.41	6662.08
	FTSE All Share	4007.46	4045.21
	FTSE techMARK 100	6116.67	6122.21
USA	DJ Composite	10915.89	10909.52

Country	Index	Latest	Previous
Cross-Border	DJ Global Titans ($)	436.12	435.09
	Euro Stoxx 50 (Eur)	3522.16	3561.92
	Euronext 100 ID	1196.28	1212.68
	FTSE 4Good Global ($)	9595.00	9605.92
	FTSE All World ($)	406.79	406.79
	FTSE E300	1639.39	1656.60
	FTSE Eurotop 100	3206.14	3244.84
	FTSE Global 100 ($)	2535.33	2535.75
	FTSE Gold Min ($)	1453.86	1481.28
	FTSE Latibex Top (Eur)	4440.00	4432.20

(c) Closed. (u) Unavaliable. † Correction. ♥ Subject to official recalculation. For more index coverage please see www.ft.com/worldindices. A fuller version of this table is available on the ft.com research data archive.

STOCK MARKET: BIGGEST MOVERS

AMERICA

ACTIVE STOCKS	stock traded m's	close price	Day's change
Tesla	36.8	276.38	-1.32
Apple	26.9	159.15	0.24
Nvidia	22.1	151.89	-2.79
Amazon.com	16.9	128.26	-0.47
Advanced Micro Devices	15.0	85.29	-1.65
Microsoft	11.8	263.83	0.86
Netflix	7.1	228.77	8.12
3m	7.1	124.39	-0.47
Alphabet	6.7	109.46	0.52
Alphabet	5.7	110.49	0.58

BIGGEST MOVERS	Close price	Day's change	Day's chng%
Ups			
Netflix	228.77	8.12	3.68
Baxter Int	58.44	1.96	3.47
Las Vegas Sands	37.89	1.24	3.38
Paypal Holdings	94.61	2.81	3.06
Constellation Energy	81.38	1.69	2.12
Downs			
Pvh	58.26	-4.58	-7.29
Hp	29.35	-1.75	-5.63
Best Buy	71.56	-3.33	-4.45
Seagate Technology Holdings	66.69	-2.74	-3.94
Mosaic (the)	55.20	-1.99	-3.48

Based on the constituents of the S&P500

LONDON

ACTIVE STOCKS	stock traded m's	close price	Day's change
Shell	758.5	2290.00	-49.50
Bp	360.3	441.50	-7.75
Astrazeneca	297.1	10644.00	-326.00
Glencore	262.0	473.30	-10.65
Rio Tinto	193.9	4771.00	-44.00
Diageo	177.9	3764.00	-27.50
Unilever	159.1	3925.50	-18.00
Gsk	137.0	1379.40	-21.40
Hsbc Holdings	130.1	528.80	-0.70
Anglo American	109.2	2783.00	-3.50

BIGGEST MOVERS	Close price	Day's change	Day's chng%
Ups			
Lancashire Holdings	493.60	15.20	3.18
Ti Fluid Systems	146.60	3.80	2.66
Beazley	583.00	15.00	2.64
Hammerson	21.83	0.47	2.20
Wh Smith	1429.50	29.50	2.11
Downs			
Tullow Oil	48.60	-3.20	-6.18
Drax	636.00	-34.50	-5.15
Baltic Classifieds	144.80	-6.80	-4.49
Energean	1294.00	-58.00	-4.29
National Grid	1078.00	-46.50	-4.14

Based on the constituents of the FTSE 350 index

EURO MARKETS

ACTIVE STOCKS	stock traded m's	close price	Day's change
Novartis N	461.7	80.63	-0.03
Nestle N	452.4	116.76	-0.59
Roche Gs	392.6	321.39	-1.02
Eni	384.1	11.81	-0.43
Asml Holding	265.5	486.35	-4.05
Totalenergies	258.2	50.71	-1.72
Unicredit	241.2	9.80	0.42
Intesa Sanpaolo	203.9	1.72	-0.01
Zurich Insurance N	200.1	442.34	3.16
Inditex	191.0	21.55	-0.59

BIGGEST MOVERS	Close price	Day's change	Day's chng%
Ups			
Unicredit	9.80	0.42	4.48
Ericsson, Telefonab. L M Ser. B	7.50	0.20	2.68
Swiss Re N	77.63	2.02	2.67
Ericsson, Telefonab. L M Ser. A	7.87	0.20	2.56
Vonovia Se Na O.n.	27.52	0.50	1.85
Downs			
Eni	11.81	-0.43	-3.50
Neste	49.59	-1.73	-3.37
Totalenergies	50.71	-1.72	-3.28
Investor Ab Ser. A	16.81	-0.55	-3.18
Schneider Electric	118.74	-3.86	-3.15

Based on the constituents of the FTSEurofirst 300 Eurozone index

TOKYO

ACTIVE STOCKS	stock traded m's	close price	Day's change
Mitsubishi Ufj Fin,.	685.5	721.10	-7.20
Nippon Yusen Kabushiki Kaisha	671.3	10690.00	-70.00
Softbank .	653.1	5562.00	-26.00
Sony	603.5	11135.00	-190.00
Tokyo Electron	585.8	44160.00	-90.00
Mitsui O.s.k.lines,	561.8	3655.00	-70.00
Keyence	508.0	52840.00	-350.00
Toyota Motor	468.1	2101.50	-3.50
Fast Retailing Co.,	442.9	81950.00	-840.00
Shin-etsu Chemical Co.,	439.9	16315.00	-175.00

BIGGEST MOVERS	Close price	Day's change	Day's chng%
Ups			
Keisei Electric Railway Co.,	3900.00	140.00	3.72
Isetan Mitsukoshi Holdings	1102.00	32.00	2.99
Mitsubishi Motors	559.00	16.00	2.95
T&d Holdings, .	1521.00	43.00	2.91
Hino Motors,	638.00	15.00	2.41
Downs			
Inpex	1604.00	-59.00	-3.55
Eneos Holdings, .	523.60	-16.70	-3.09
Unitika	260.00	-8.00	-2.99
Thb Japan Steel Works,	2993.00	-92.00	-2.98
Mitsui & Co.,	3266.00	-94.00	-2.80

Based on the constituents of the Nikkei 225 index

UK MARKET WINNERS AND LOSERS

CURRENCIES

FTSE ACTUARIES SHARE INDICES

FT 30 INDEX

FT WILSHIRE 5000 INDEX SERIES

FTSE GLOBAL EQUITY INDEX SERIES

FTSE SECTORS: LEADERS & LAGGARDS

FTSE 100 SUMMARY

UK STOCK MARKET TRADING DATA

Data provided by Morningstar | www.morningstar.co.uk

UK RIGHTS OFFERS

There are currently no rights offers by any companies listed on the LSE.

UK COMPANY RESULTS

UK RECENT EQUITY ISSUES

Thursday 1 September 2022 ★ FINANCIAL TIMES 11

MARKET DATA

FT500: THE WORLD'S LARGEST COMPANIES

[illegible]

FT 500: TOP 20

[illegible]

Based on the FT Global 500 companies in local currency

FT 500: BOTTOM 20

[illegible]

Based on the FT Global 500 companies in local currency

BONDS: HIGH YIELD & EMERGING MARKET

[illegible]

Interactive Data Pricing and Reference Data LLC, an ICE Data Services company. US $ denominated bonds NY close; all other London close. *S - Standard & Poor's, M - Moody's, F - Fitch.

BONDS: GLOBAL INVESTMENT GRADE

[illegible]

Interactive Data Pricing and Reference Data LLC, an ICE Data Services company. US $ denominated bonds NY close; all other London close. *S - Standard & Poor's, M - Moody's, F - Fitch.

INTEREST RATES: OFFICIAL

[illegible]

INTEREST RATES: MARKET

[illegible]

BOND INDICES

[illegible]

Websites: markit.com, ftse.com. All indices shown are unhedged. Currencies are shown in brackets after the index names.

VOLATILITY INDICES

[illegible]

BONDS: BENCHMARK GOVERNMENT

[illegible]

Interactive Data Pricing and Reference Data LLC, an ICE Data Services company.

GILTS: UK CASH MARKET

[illegible]

Gilts benchmarks & non-rump undated stocks. Closing mid-price in pounds per £100 nominal of stock.

GILTS: UK FTSE ACTUARIES INDICES

[illegible]

COMMODITIES

www.ft.com/commodities

[illegible]

BONDS: INDEX-LINKED

[illegible]

BONDS: TEN YEAR GOVT SPREADS

[illegible]

Interactive Data Pricing and Reference Data LLC, an ICE Data Services company.

Tradeweb

Data provided by Morningstar | www.morningstar.co.uk

ARTS

'Is art an industry? I'm not so sure'

Art dealer Daniella Luxembourg talks to

Joan Miró's 'Peinture (Le Soleil)' (1927)

Melanie Gerlis about her new gallery in New York — and the need for action in trying times

In half a century at the top of the international art world, London-based art dealer Daniella Luxembourg has combined the boldness to think big with the steel to make things happen. It's true again in her latest venture — a major new gallery in New York's Fuller Building, which opens this week with a show dedicated to the early works of another determined dreamer, Joan Miró. The exhibition (opening on September 7) is an example of Luxembourg's ability to show the world's best-known artists in a new light, while its subtitle — *Feet on the Ground, Eyes on the Stars* — could easily apply to the 72-year-old dealer herself.

The New York opening is as much the vision of Luxembourg's daughter and business partner, Alma Luxembourg, and cements the latest shape of their New York and London gallery, now called Luxembourg + Co. The business has shrunk from being run by three partners to two after co-founder Amalia Dayan left in 2020, a split that Luxembourg says was natural and amicable. "We worked so well for more than 10 years together, and in many ways still do," she says. Dayan has since joined forces with three other dealers to form LGDR gallery.

The daughter of Holocaust survivors, Luxembourg grew up in a suburb in Haifa in the then recently formed Israel and uses the past to motor her very active present. "There is no doubt that the second world war is a seminal moment of life," she says when we meet in her roomy London apartment.

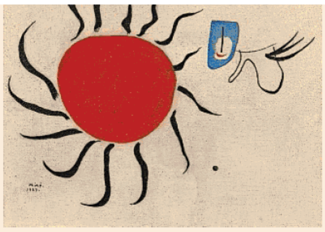
She has dedicated time during her art-dealing career to the restitution of Nazi-looted art and is said to have been instrumental in brokering the sale of Gustav Klimt's "Portrait of Adele Bloch-Bauer" (1903-07) to the billionaire Ronald Lauder and his Neue Galerie for a reported $135mn in 2006. But her "claim to fame", she says, is that, in her role as the founding director of the Jewish Museum in Vienna between 1989 and 1991, she persuaded the authorities to organise an archaeological dig that unearthed the medieval synagogue on the city's Judenplatz. "Visiting is now part of the school curriculum so students can see how much the Jewish community was a part of the fabric of Austria's culture," Luxembourg says.

Above: Daniella Luxembourg in the Fuller Building, New York, the location of her new gallery. Below right: her daughter and business partner Alma Luxembourg — Weston Wells

She herself came to art through reading. "I didn't see much art growing up. But the idea of a painting as a structure was easier to understand from the point of view of literature, where you can see the patterns. Learning about art is a language, knowing art is a language, selling art is a language," she says. It's a favourite analogy, which she links back to her university studies of Surrealist poems — "the language of language" — and their accompanying illustrations — "the language of images".

Luxembourg's first language is Hebrew — she didn't move to Europe full time until 1993 — and although she has an accomplished and nuanced command of English, she describes speaking it as an "obstacle". But she finds the obstruction "instructive", she says, and likens the mental process to an appreciation of art.

As well as running museums in Israel and Austria, she launched Sotheby's in Israel in 1984, was deputy chairman of Sotheby's Switzerland and has part-owned her own auction house, in collaboration with Simon de Pury, which merged with Phillips under its LVMH backing in 2001. She has also done plenty of private dealing, the role she says she most enjoys. In her spare time, Luxembourg has established the Bauhaus Foundation in 2008, a private museum in Tel Aviv dedicated to the design school, and was on the governing board of London's Courtauld Institute of Art between 2009 and 2019.



features in a show at Daniella Luxembourg's new gallery Successió Miró/Artists Rights Society (ARS), New York/ADAGP, Paris

Relationships built along the way have helped Luxembourg present a stellar cast of artists, including Paul Cézanne, Alberto Giacometti, Alberto Burri, René Magritte and — Luxembourg's sweet spot — the Viennese artists Gustav Klimt and Egon Schiele. In an ideal world — and Luxembourg has an idealist verve about her — "We work with the private collectors and museums whom we have known for many years, and we develop our dreams together," she says. Alma Luxembourg describes it as "giving a twist on the 20th century's known masters" and sees the Miró show in New York as a natural extension of this approach.

Their scholarly exhibitions have helped move the market. "Our aim is not to make our clients rich — though they have become it," Luxembourg says. She too has benefited and now has homes around the world, though she is not comfortable with the price levels that 20th-century art now commands: "When the market gets so high, the best works seem to evaporate. Suddenly everything is expensive, whether it is great or not." Unlike most art dealers, she takes some responsibility for today's seemingly indiscriminate market. "It's our fault. We've made art what it is not. Is it an industry? I'm not so sure. There are brand names, sure, but each work of art is a unique phenomenon, from one year, from particular surroundings, and with its own authenticity."

Famously forthright, Luxembourg says she has softened with age, but expresses concern about today's right-leaning political environment around the world, including in Israel. She senses a reactionary stasis that is potentially damaging to the positivity on which culture thrives. "We shouldn't give up

'Our aim is not to make our clients rich — though they have become it'

because of Brexit or Covid. People have become frightened but we shouldn't succumb to collective fear and be unable to cope. We should use this as a time to develop, rethink, study, do things differently. Look what our parents did after the second world war."

She must have been quite a powerhouse parent, I suggest to Alma, her only child. "Nobody really thinks that way growing up. But she certainly wasn't a sleepy mother. She was always doing things, going places and dragging me around with her. There was action and interest," Alma says with warmth. They have worked together officially since Alma left Christie's in 2011 to join the partnership.

There is no talk of the future shape of the gallery beyond their current partnership. Both seem happy to enjoy the latest ride. Daniella says this has always been her mindset. "I strongly believe that it is not about achieving or making a sale. It's about what we read and the quality of the people we are in contact with that makes the road to achievement richer."

luxembourgco.com

New fantasy series has a familiar ring

TELEVISION

The Lord of the Rings: The Rings of Power
Amazon Prime Video
★★★☆☆

John Bleasdale

Welcome back to Middle-earth, and by that I mean thousands of years back. It is the Second Age of JRR Tolkien's mythical land (*The Hobbit* and *The Lord of the Rings* were set in the Third Age) and Frodo Baggins is but a glint in his distant ancestor's eye. In fact, hobbits are here still a tribe of nomadic creatures called Harfoots.

Luckily, elves being immortal means there are at least some familiar names from the past films, though they have different faces. Robert Aramayo takes over from Hugo Weaving as Elrond, an aspiring young politician and not yet the master of Rivendell; Cate Blanchett is succeeded by the luminous Morfydd Clark as Galadriel, now a young commander in the elven army. New characters include an elf warrior, Arondir, played by Ismael Cruz Córdova, and an intrepid young Harfoot called Nori (Markella Kavenagh).

Billed as being based on "*The Lord of the Rings* and its appendices", Amazon's $1bn new series (five seasons are planned) begins with a prologue about an ancient war between good — the elves — and evil — the ancient foe Morgoth. But, as we begin, the war has seemingly been won, the enemy vanquished. A reluctant Galadriel faces the prospect of relinquishing her quest to avenge her brother's death. Meanwhile, Elrond is recruited by master craftsman Celebrimbor (Charles Edwards) in an ambitious scheme to forge powerful magical rings. What could possibly go wrong? Sure enough, dark forces are already stirring. A cow oozes black goo instead of milk and a comet delivers a lanky bearded stranger into the care of Nori.

It's more than 20 years since Peter Jackson (who had no role in the new series) single-handedly rejuvenated the fantasy film genre with *The Fellowship of the Ring*. Since then we've had two *Lord of the Rings* sequels and his *Hobbit* trilogy as well as the paradigm-shifting TV series *Game of Thrones*. So the first question will be: how does *The Rings of Power* compare?

It's immediately evident that showrunners JD Payne and Patrick McKay's Middle-earth is far more inclusive than Jackson's, with a diverse cast across the species of humans, dwarves, elves and halflings and a more active role played by women than simply waiting to get married to Viggo Mortensen. Galadriel here climbs frozen waterfalls and battles snow trolls and sea monsters while Nori takes on the Frodo role of the halfling with an eye for adventure. But in almost every other way the first two episodes feel like old hat. The Harfoots' broad comedy is family-friendly but unfunny. The po-facedness of the elves, on the other hand, veers into the silly, everyone speaking in an otherworldly Royal Shakespeare Company accent.

The visuals are pity-it's-not-on-at-the-cinema dazzling. The world has an astonishing beauty, blending the natural splendour of the New Zealand locations with state-of-the-art visual effects. But the epic can quickly become monotonous: every line whispered or gasped, every entrance heroic and every panorama filled with glittering waterfalls. We could do with a few less crescendos and teary-eyed speeches, especially so early on in the saga when we don't quite yet know who anyone is or what the stakes actually are.

No doubt a quest will arise over the full eight episodes, but so far *The Rings of Power* has yet to find its large, furry feet.

On Amazon Prime Video from September 2

Markella Kavenagh as the young Harfoot Nori Brandyfoot

FT BIG READ. SPORTS

The new Chelsea owners have spent freely during the summer transfer window, hoping that success on the pitch will unlock greater revenues from media rights and commercial deals.

By Samuel Agini

Boehly and Clearlake bet on a booming Premier League

Clockwise from left, Todd Boehly, one of the new owners, footballer Kalidou Koulibaly, Thomas Tuchel, the club's manager, and players Marc Cucurella and Raheem Sterling
FT montage: Reuters/Getty Images

Raheem Sterling strikes a pose that captures the ambition every football player wants to convey when joining a new club. Only the California palm trees behind him suggest this isn't just any transfer in the English Premier League.

The Beverly Hills photo shoot for Chelsea FC's £50mn signing underscores how things have changed at the club since a consortium led by US financier Todd Boehly and California-based investment firm Clearlake Capital acquired it from Russian oligarch Roman Abramovich, who is under sanctions. It might also reflect its global ambitions.

The site is only a 20-minute drive from the Los Angeles Dodgers, the baseball franchise where Boehly and co-owner Mark Walter, Guggenheim Partners' chief executive, made their names as sports investors. The Crypto.com Arena, home of the LA Lakers basketball team, another of their investments, is nearby.

After winning a hurried auction of the club in May, the owners — Boehly, Walter, Clearlake and Swiss billionaire Hansjörg Wyss — are now beginning to reveal how they might run, and grow, a business that was financially dependent on Abramovich for two decades.

Under the Russian's ownership, Chelsea won the Premier League five times and the Champions League twice, cementing the team in the upper tier of English and European football. But the club also lost about £900mn over the 19 years he was in charge, typically ending the year in the red as the billionaire splashed cash on buying and paying the salaries of world-class talent.

By the time the oligarch put the club up for sale after Russia's invasion of Ukraine shone a spotlight on his relationship with Vladimir Putin, it owed him about £1.5bn, debt written off as the UK ratcheted up sanctions.

Far from tightening the purse strings, the new owners have rivalled Abramovich's spending during the summer transfer window when Europe's clubs shape and bolster their squads. Chelsea has a net spend of more than £200mn on six confirmed signings, even before the transfer window closes today.

The hefty spending, aided by roughly £800mn of debt financing, comes after the consortium paid £2.5bn to acquire Chelsea, with a further £1.75bn committed to investment in players and infrastructure. It's the biggest sum ever paid for a football club.

For Chelsea fans, it is an astonishing turnround from six months ago when the club's future seemed in doubt. With Abramovich under sanctions, only a special government licence allowed Chelsea to continue playing football matches. The club couldn't sell merchandise or new tickets. With the government adamant that the oligarch should not benefit from the sale, people close to the talks feared the worst for Chelsea until assurances had been provided.

Now, some in the Premier League are questioning the wisdom of the owners' largesse. "Their first problem is justifying the price," says an executive at a rival team. "They've paid a lot of money for a club that loses money [. . .] it was constantly subsidised by Roman." Chelsea, Boehly and Clearlake declined to comment on this story.

'Effectively, [Chelsea] was a distressed sale in a content and media heavy asset where you own your global rights. If you put a dispassionate investor hat on, it's a good investment'

However, in committing hundreds of millions to building a team capable of sustaining top-flight success, the owners are signalling their belief that the team and the league it plays within are yet to reach their true economic potential. It is a bet that the global fan base for football, and for Chelsea in particular, is untapped enough to reap even bigger returns.

Central to the thesis is that Chelsea is a global brand and asset with the ability to exploit its own intellectual property. The consortium, which has shared control between by Boehly and Clearlake, also sees opportunities for the Premier League to generate more revenue from selling the rights to screen live matches to broadcasters.

"Effectively, [Chelsea] was a distressed sale in a content and media heavy asset where you own your global rights," says a person with direct knowledge of the owners' thinking. "If you put a dispassionate investor hat on, it's a good investment.

"I know the bright lights of sports and Chelsea take that away, but it is a media and technology investment."

LA Story

The purchase of Chelsea wasn't the first time Boehly had swooped in unusual circumstances, based on a belief in the unrealised potential of a famous sports team. Boehly and Walter were part of a consortium fronted by basketball legend Magic Johnson that paid $2.15bn in 2012 to snap up the Los Angeles Dodgers baseball franchise out of another special situation: bankruptcy.

"People thought it was extreme risk," junk bond pioneer Michael Milken told Boehly in a podcast dated September 2020, "but once again, risk is an understanding of what the assets are, what the structure is, and you and your partners divided the company into two parts: one a media company and one the baseball team itself."

The new owners realised that the forthcoming renewal of the Major League Baseball team's media contract was an opportunity. According to the Wall Street Journal, Fox had offered about $3bn to extend the deal by 17 years, while the LA Times reported at the time that the contract would be worth at least $4bn. To Boehly, Fox's bid was "very much a floor".

A familiar tale in sport played out as another broadcaster, Time Warner Cable, was willing to pay more. "We ended up with approximately $9bn paid out over 25 years from an investment-grade credit, right, which therefore made us very comfortable [with] the value that we were paying, which was at that time the highest price ever paid," Boehly told Milken on the podcast.

But the media rights were only part of the equation. The Dodgers owners also splashed out on star players in a bet that a winning roster — and "really good energy" in the stadium — would benefit the media contract negotiations, highlighting the commercial rationale behind squad spending.

It paid off. The Dodgers are now worth more than $4bn, according to Forbes, second only to the New York Yankees in the MLB rankings, and the team won the World Series in 2020 for the first time in 32 years. "Our timing was impeccable," Boehly said.

Although the Dodgers are an American team in another sport altogether, the investment case appears to be strikingly similar to how Boehly sees the prospects of Chelsea.

Chelsea FC was financially dependent on oligarch Roman Abramovich for the past two decades

At the SuperReturn International private equity event in Berlin this June, Boehly said Premier League clubs "don't realise how big their opportunity is", according to Bloomberg. "Let's get a hold of our destiny and think about how to optimise this," he said in a keynote speech covering private investments and sport.

With the aim of driving global commercial strategy, Chelsea hired Tom Glick as "president of business" in July. Glick, formerly chief commercial officer of the parent group of Manchester City and ex-president of business operations at the US National Football League's Carolina Panthers, is responsible for increasing revenue, spending on the men's and women's teams, and investing in infrastructure.

A person close to the team says Boehly and Clearlake's co-founder Behdad Eghbali plan to work with the league and other clubs to increase the value of those rights.

The Premier League expects its broadcast deals to generate more than £10bn in the next three seasons, with international contracts now surpassing the value of domestic rights. But based on one key measure, Chelsea's new owners think that figure falls short. While the Premier League's 20 clubs are set to generate total revenue of £6bn this season, the NFL's annual revenue with 32 teams totalled $18bn in 2021, according to Sportico. This despite the fact the NFL plays to a largely domestic audience over only an 18-week regular season period.

By contrast, the Premier League is a global product watched in 190 countries with a season that lasts nine months. So the owners believe there are significant avenues yet to be explored. "There is a huge spread in media revenue," says another person close to the Chelsea consortium. "That's the opportunity."

Raine Group banker Joe Ravitch, who advised on the sale of the club, has predicted Chelsea and other top-flight rivals could be worth "in excess of $10bn in five years".

Boehly's Blues

The new owners face a very different challenge to the one Abramovich took on in 2003, when he used his fortune to break the duopoly held by Manchester United and Arsenal.

The price of success is rising in the Premier League, where clubs are fresh from breaking summer transfer spending records and continue to expand capacity or build modern stadiums.

Today, the competition is steeper and more entrenched. Billionaires and state-linked investors control the other so-called Big Six clubs that typically compete for the top four finishing positions, which grant qualification for the prestigious and lucrative Uefa Champions League.

Under the ownership of Abu Dhabi royal Sheikh Mansour bin Zayed al-Nahyan since 2008, Manchester City has transformed from mid-table underdog to six-times winner of the Premier League.

The Glazer family, which bought Manchester United in a £790mn leveraged buyout in 2005, has increased revenues from just short of £117mn to more than £600mn in 2018/19, the last campaign before the pandemic. US billionaire John Henry's Fenway Sports Group controls Liverpool FC. Another US sports mogul, Stan Kroenke, owns London-based Arsenal. Tottenham Hotspur, the only member of the traditional Big Six not to have won the Premier League since its inception in 1992, is majority-owned by London-born Joe Lewis, who resides in the Bahamas.

Chelsea's new owners aren't the only wealthy investors to join the world's richest football league in recent times. In October last year, a consortium led by Saudi Arabia's $620bn Public Investment Fund acquired Newcastle United for £305mn.

That takeover, which suffered long delays because of the oil-rich country's alleged connections to pirating live sport and questions over state influence, will add another club to the ranks of the Big Six, Boehly has predicted.

The emergence of a Big Seven means competition for Champions League qualification will only grow steeper. Missing out is costly: Uefa distributes €2bn a year to participating clubs, and Chelsea earned €120mn for winning the cup in May 2021, a valuable windfall.

'Unless they're really very lucky there'll be a period where they'll lose football matches. That'll be the test. What do you do then? You've got to decide on the manager, the pressure is unbearable'

Chelsea's Big Six rivals are also better placed to make revenue the old-fashioned way: by selling tickets to punters. With a capacity of about 40,000 people, the club's Stamford Bridge stadium lags behind rival home grounds such as Manchester United's Old Trafford, the largest ground in the Premier League at 75,000. United's match day revenues came to £112mn in 2018/19, versus Chelsea's £67mn.

If the new owners hope to increase stadium capacity, it will not be easy. Leaving Stamford Bridge for an entirely new stadium, as north London rivals Tottenham did, would need approval from a fan-led non-profit, Chelsea Pitch Owners, which owns the freehold of Stamford Bridge.

Abramovich made an unsuccessful bid to buy the freehold from CPO in 2011, and opted instead to pursue redevelopment of Stamford Bridge. But he withdrew plans to build a new 60,000-capacity stadium on the site in 2018, after withdrawing his application to obtain a UK visa. Planning permission has since lapsed. "The stadium needs a lot of investment," says one rival. "That's got to be done."

On completing the takeover, Boehly and Clearlake committed to "redevelopment of Stamford Bridge", and there is no indication of any plans to depart, says a person close to them.

For now, Boehly and his partners will be hoping that the millions spent in the transfer market begin to make a difference to Chelsea's so-far patchy season. After two wins, a draw and losses against Leeds and Southampton, how would a downturn in form affect Boehly, Clearlake, Wyss and Walter?

"Unless they're really very lucky there'll be a period where they'll lose football matches," says the co-owner of another team. "That'll be the test. What do you do then? You've got to decide on the manager, the pressure is unbearable. Roman just used to fire them."

Prolonged lapses in performance risk angering the fan base, which other American buyers have found to be hazardous. At struggling Manchester United, fans have joined enormous protests against the Glazer family. A fixture against Liverpool in May 2021 had to be postponed after anti-Glazer demonstrators staged a pitch invasion.

But Boehly's decision to take a hands-on approach to building the team by acting as interim sports director as well as chair might buy him and his co-owners some goodwill, says Marlon Fleischman, an agent at Unique Sports Group, which represents players including Chelsea's Reece James.

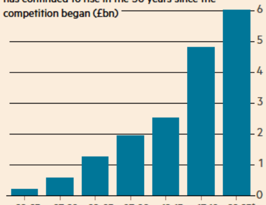
"They know how to negotiate, they know what represents good value, and I think they want to show that they want to be part of it," he says. "They don't want to be owners that don't have a face and don't have a feel with the fan group. That's a good thing."

Not everything will go right in Chelsea's new era. But, says Italian football agent Giovanni Branchini, the owners' experience in other sports will serve them well in the Premier League. "They know how to run sport franchises," he says. "It's not their first rodeo."

Additional reporting by Antoine Gara and Sara Germano. Data research and analysis by Daniel Clark

England's top football league keeps growing

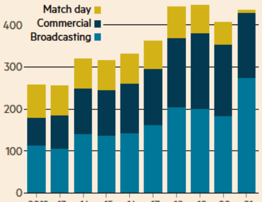
The total revenue generated by Premier League teams has continued to rise in the 30 years since the competition began (£bn)



Source: Deloitte analaysis • * Projected

How does Chelsea make its money?

Annual revenue by source (£mn)



Source: Chelsea FC

The FT View

FINANCIAL TIMES
'Without fear and without favour'

ft.com/opinion

Gorbachev's legacy lives on despite Putin's repression

Hopes for Russia seem to lie in ruins but achievements of last Soviet leader were real

To survey western-Russian relations and the internal condition of Russia today is to appreciate the immensity of Mikhail Gorbachev's achievements. The last leader of the Soviet Union, who died on Tuesday, made a decisive contribution to ending the cold war, which divided Europe for four decades and kept tensions high in the age of nuclear weapons. He also relaxed domestic political repression and presided over a degree of individual liberty not seen in Russia since the 1920s, if not earlier still.

Now, under Vladimir Putin, Russia is waging a war of conquest in Ukraine that has raised tensions with western countries to a level that recalls the cold war's most dangerous moments. Putin's ruthless clampdown on internal dissent and branding of critics as traitors evoke dark chapters of the Soviet past. Official manipulation of history is a shameful betrayal of Gorbachev's glasnost, which broke decades of silence about the crimes of Stalinism.

As long as Putin remains in power, it seems implausible either that political pluralism will regain a footing in Russia or that trust will return to the Kremlin's relationship with the west. Improvements might be delayed even longer, for there are no guarantees that the next leader in Moscow will embrace reform. The hopes for a freer Russia and a safer world that Gorbachev embodied seem to lie in ruins.

However, it is too bleak an assessment to suggest that Gorbachev's 1985-91 rule left no positive legacy at all. Without his determination to not use violence to hold on to the Soviet empire in eastern Europe, it is impossible to imagine the region's one-party dictatorships falling almost entirely without bloodshed in 1989 and Germany's unification in 1990. True, the Kremlin applied force at times in the Baltic states and Georgia as they struggled to break free from Soviet rule, but the blame rests more with communist hardliners in Moscow than with Gorbachev.

His aversion to violence made Gorbachev truly different, both as a communist — a label that became increasingly irrelevant as his reforms proceeded — and as a Russian leader. No better illustration occurred than in 1989, when the Chinese communist authorities massacred pro-democracy protesters around Tiananmen Square barely a month after Gorbachev visited Beijing. His Kremlin predecessors had similarly used force in East Berlin in 1953, Budapest in 1956 and Prague in 1968.

> His aversion to violence made him truly different, both as a communist — a label that became increasingly irrelevant as his reforms proceeded — and as a Kremlin leader

In stark contrast to Gorbachev, who pulled Soviet forces out of Afghanistan as well as countenancing the self-liberation of eastern Europe, Putin believes force and the establishment of spheres of influence, indeed outright annexations of territory, are the measure of Russia's greatness. In Russia's age-old debate about the balance between order and liberty at home, Putin comes down unequivocally on the side of reaction.

Yet Gorbachev's domestic policies left a legacy, too. If he failed as an economic reformer, that was to a great extent because the over-centralised Soviet system was simply unreformable. His political reforms are a different matter. Just as his generation was inspired by the partial liberalisation of Nikita Khrushchev's post-Stalin rule, so one day — even if not soon — a new generation of Russians will surely strive to restore the freedoms of the eras of Gorbachev and Boris Yeltsin.

A more democratic Russia would in turn offer hope for an improved relationship with Moscow's European neighbours and the US. Western countries must firmly resist Putin's aggressions. But they should also remember that it once seemed unthinkable that a humane, far-sighted leader like Gorbachev would come to power in Moscow. He did, to the benefit of the world.

Opinion Psychology

Why having intellectual humility matters

Ben Hickey

Jemima Kelly

What makes some people believe in conspiracy theories and false news reports more than others? Is it their political or religious perspective? Is it a lack of formal education? Or is it more about their age, gender or socio-economic background?

A recently published study suggests that more important than any of these factors is another characteristic: the extent to which someone has — or does not have — intellectual humility.

Intellectual humility can be thought of as a willingness to recognise our own cognitive limitations and biases, to admit when we're wrong and to be more interested in understanding the truth of an issue than in being right. Its spirit is captured nicely by the quote often attributed (probably wrongly) to John Maynard Keynes: "When the facts change, I change my mind — what do you do, sir?"

> It means being more interested in the truth of an issue than in being right

In their study, Marco Meyer and Mark Alfano — academics who specialise in social epistemology, a field at the intersection of philosophy and psychology — found those who possess this virtue are much better at differentiating between accurate news reports and false ones. They suggest that having intellectual humility was a better predictor of someone's ability to resist fake news than any of the other factors they looked at.

In another study published last year, Meyer and Alfano found a strong correlation between "epistemic vice" (the lack of intellectual humility) and belief in false information about Covid-19, with a coefficient of 0.76. The next strongest link was with religiosity, with a moderate coefficient of 0.46. And while they did find a weak correlation between intelligence — measured by exam results, education level, and performance on a cognitive reflection test — and belief in false information. Intellectual humility is, he suggests "super-important . . . as a counterweight, almost, against intelligence."

You might think such a virtue would be almost impossible to measure, but Meyer and Alfano's work suggests that self-reported intellectual humility — based on asking respondents to rate the extent to which they agree with statements such as "I often have strong opinions about issues I don't know much about" — is quite effective. And other studies have shown positive correlations between self-reported and peer-reported intellectual humility, with the former generally seen as a more accurate gauge.

You might also worry that, given the liberal over-representation in academia, the examples used in these studies would skew towards rightwing falsehoods or conspiracies. But the researchers say they were careful to ensure balance. In the case of Covid misinformation, they asked participants about their beliefs in widely disputed areas, such as hand dryers being effective in killing the virus, rather than more contested ones such as the effectiveness of masks and lockdowns, or the origins of the virus.

Intellectual humility is important not just in preventing the spread of misinformation. Other studies have found that it is associated with so-called "mastery behaviours" such as seeking out challenging work and persisting after failures, and it is also linked to less political "myside bias".

But this quality is not easy to cultivate. A recent study suggests repeatedly exposing students to their own errors, such as by getting them involved in forecasting tournaments, could be effective. I've argued before that social media platforms such as Twitter should institute a "challenger mode" that exposes us to beliefs we don't normally come across; another trick might be to implement a practice of "steelmanning", a term that appears to have been coined by the blogger Chana Messinger. She describes it as "the art of addressing the best form of the other person's argument, even if it's not the one they presented"; the opposite of a straw man, in other words.

Of course, there are limits to intellectual humility: beyond a certain point it becomes self-indulgent and can render us indecisive. Running a country — writing a column, even — requires a level of conviction, and sometimes that means faking it a bit and hoping for the best. So we should cultivate other virtues too, such as courage and the ability to take action.

Letters

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Red tape risks holding back Europe's green hydrogen boom

The prospect of a green hydrogen boom in Europe is too tempting for those seeking generous subsidies ("Europe warned against losing green hydrogen funding to US", Report, August 23). But with new investments yet to be locked in, the EU is now turning to developers with one question: do you want turbines or solar with that?

Policymakers are planning to introduce a new rule that poses a great risk to Europe's hydrogen industry today. From 2027, if companies want to produce green hydrogen, they better know how to build a wind or solar farm too, or find someone who does. The rule is designed to prevent hydrogen diverting existing clean electricity away from the grid.

In principle, encouraging electrolysers and renewable generators to pair up is the right play from a cost, security, and carbon perspective as it shields producers and consumers from market volatility. True, it will slow the rollout of new hydrogen projects dramatically as bureaucracy bites. But the alternatives come with pitfalls too.

Some hydrogen proponents advocate taking electricity from the grid. Today that would make little economic sense and with a looming coal renaissance in Europe, it won't be long before the green hydrogen wilts into brown.

Others say the cheap solution is to use power from wind and solar that would otherwise go to waste when electricity demand is low, known as curtailment.

The challenge of directly pairing green hydrogen with wind and solar is not around technology or economics, it's red tape. Offshore wind is the ideal dance partner for hydrogen given its higher efficiency and Europe's abundance of expertise. Yet, from consent to construction, it can take almost a decade to get the turbines spinning in the water. By then, the hydrogen has gone cold, and investors have lost their appetite.

Oliver Joy
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Energy crisis demands a political intervention

In a market economy we are told a shortage of a given product will lead to a price rise ("Europe gas prices hit record as crisis threatens to trigger recession", Report, FT.com, August 26). Prices reflect demand.

The equilibrium price — sometimes called the market-clearing price, where the consumer cost assigned to some product or service is such that supply and demand are equal, or close to equal — is as simple as it is ingenious. No ministry, however efficient, has managed to allocate goods and set prices with anything close to the effectiveness of the market.

But the market engine needs a driver to avoid major collisions — to protect our social and natural environment. In difficult times, the market mechanism alone is not sufficient. It is an optimisational tool, not a magic wand that inflates supplies. Price hikes may attract new producers in the long run, but short-term suffering is not mitigated by long-term investments.

The current energy crisis is therefore not a situation that primarily calls for "market corrections".

To alleviate immediate human suffering, we need immediate political intervention — by the rationing of supplies and/or by governments setting prices.

A political intervention into the electricity market is needed to allow governments in liberal, free-market democracies to put the market mechanism to one side temporarily, when grave supply disturbances occur.

What is the threshold that triggers this is something that should be decided on and put in place soon.

Professor Thomas Laudal
University of Stavanger, Norway

A disconnect between Scandinavian neighbours

Norway stands accused by its neighbours Finland and Sweden of failing to export as much electricity from hydro as hitherto ("Norway accused of 'selfish' energy plans", Report, August 29).

Denmark is a key element in Norwegian hydro as Danes export their surplus electricity from wind power, allowing Norway to pump water to keep its reservoirs full up. The reservoirs in effect act as storage batteries for the Danish excess.

At current fossil fuel energy prices, Denmark can now profitably use all the wind electricity it generates and is less willing to export it cheaply to support

"HE USED TO BE AS HOPEFUL AS MIKHAIL GORBACHEV"

How brothers and partners in trade become enemies

In arguing in your editorial that "Europe should not shut its doors to Russian tourists" (FT View, August 29), you reminded your readers that an EU-wide ban on visas for Russian tourists would "specifically target civilians".

Alas, the zeitgeist seems to have turned. The western response to the invasion of Ukraine seems designed to target Russian civilians, fostering a sense of popular enmity if not hatred.

In the debate about whether ordinary Russians should be held culpable for the war that the Russian president Vladimir Putin has inflicted on the people of Ukraine, it is good to recall the example of the great English radical Richard Cobden who devoted himself to the cause of international peace, after the repeal of the Corn Laws.

Cobden dared not imagine a world without war, but he thought progress meant reducing the injuries inflicted by belligerent powers on the community of civilians.

Today we too cannot hope to eliminate war, but we can try to make it more like a duel between armed forces. This is the essence of whatever "progress" we have made thanks to international humanitarian law.

Cobden's successes were limited. Public opinion turned another way. Nationalists insinuated that people speaking another language were potential enemies, not partners in trade, let alone brothers. We know how it ended, in the trenches of the first world war.

In the time of Cobden, no less than in ours, the great argument against

Would Proust's baron have quizzed Kyiv's war aims?

When I hear advisers to the otherwise admirable President Volodymyr Zelenskyy include the return of Crimea in Ukraine's war aims (Report, August 17) I am reminded of a question posed by Marcel Proust's great fictional creation, the mercurial Baron de Charlus.

Proust redeems his scandalous (but, we are told, always "intelligent") character in the final volume of his monumental novel *À la recherche du temps perdu* by making him the lone voice of reason in wartime Parisian society. "Why is it" the Baron asks in 1916, "that the recovery of Alsace-Lorraine seemed to France an insufficient motive for embarking on a war, yet a sufficient one for continuing one?"

Charles Mercey
Tellisford, Somerset, UK

Forget water, it's private equity that needs reform

Your call for a "proper accounting" at Thames Water and its peers ("Thames Water/hosepipe ban: it's raining cash", Lex, August 24) resonates loudly. You are right to observe that it is now hard for anyone but a financial expert to work out something as basic as how much cash shareholders have extracted from this key piece of British national infrastructure.

When the financial newspaper of record points this out, policymakers should be asking themselves serious questions about what they have allowed to happen. Among other things they have clearly forgotten how much trust matters in a market economy. It is hard for people to trust something they do not understand.

Yet while your call resonates loudly, it is also too narrow. That is because what you say about the water sector applies more broadly to the entire private equity sector. Private equity is so opaque that it makes the water sector look like a model of clarity and transparency.

Private equity has grown exponentially over the past 40 years. Policymakers have stood by and allowed an ever-increasing proportion of the economy to become essentially invisible and unaccountable, except to a very small circle of private equity insiders. Private equity is the water sector writ (very) large.

Private equity performs a useful function in the economy, but that does not mean policymakers have to allow it to operate essentially in secret. Being

I reject the idea you must be a narcissist to succeed

I was struck by Stefan Stern's piece on "The stark truth about management and power" and the observations of Jeffrey Pfeffer, professor of organisational behaviour at Stanford University's graduate school of business, about what it takes to get to the top. Pfeffer's message is, in essence: be an overt narcissist (Work & Careers, August 29).

It's this formula that has resulted in the destruction of our natural resources and the struggle by most humans on our planet for a daily life where basic needs are met without a constant fear of impending economic doom.

I have tilted at the windmill of multilateral development banks for most of my career where I decided that a powerful end wasn't worth the nefarious means. I am now more interested in those experts who can instruct the "good people" on how to hack the system and take back power from the bad guys.

Emily Brearley
Washington, DC, US

Ricardo's theories may have had their day

In his latest column "The enemies of globalisation are circling" (Opinion, August 30) Gideon Rachman describes the pushback that is threatening international trade.

Economists should not be surprised by this development. In 1817 David Ricardo explained the comparative advantage theory as the driver of gains from international trade.

If England specialises in the production of cloth and Portugal in wine, and they trade with each other, both would be better off. This example used by Ricardo is still the fundamental basis for globalisation.

Now, replace wine with food in the example and you see the crux. Under which assumptions would England abandon its entire food production for the sake of achieving some efficiency gains?

As Rachman's article makes clear, the prerequisites for globalisation are eroding.

Mind you the gains from trade will erode too.

Stefan Legge
Department of Economics
University of St Gallen
St Gallen, Switzerland

Short and sweet

tion, they say there is no link between intelligence and intellectual humility.

"When you're intelligent, you can actually be more susceptible to certain kinds of disinformation, because you're more likely to be able to rationalise your beliefs," says Meyer, who is based at the University of Hamburg.

Yet fostering an environment in which we reward uncertainty and praise those who acknowledge their errors is vital. Saying "I was wrong", and explaining why, is often far more valuable than insisting "I was right".

jemima.kelly@ft.com

Norwegian hydro.

In order to export electricity to its neighbours, Norway would have to generate it from fossil fuels, which can be more profitably sold abroad at today's prices.

Craig Sams
Hastings, East Sussex, UK

optimism remains the same: we never learn from our past, and not even from our most blatant mistakes.

Alberto Mingardi
Associate Professor of History of Political Thought, University Institute for Modern Languages (IULM)
Milan, Italy

more open and more accountable would not stop private equity doing the useful things it does. Policymakers need to recognise that private equity is in even greater need of a "proper accounting" than the water sector is.

Peter Morris
London N5, UK

Rana Foroohar's article ("Everyone pays the cost as rich keep spending", Opinion, August 29) can be summed up in one sentence: "If you're rich, what are you doing about it?"

Ian MacKillop
Ilminster, Somerset, UK

Opinion

China is on a mission to ensure its food security

ASIA
Leo Lewis

At a briefing in May, Japan's agriculture minister quantified the illicit Chinese farming of Shine Muscat grapes — a preposterously expensive fruit engineered by Japanese breeders over 18 years. The rights holders, he said, were losing more than $70mn a year to grape bootlegging; China, as the prime villain of viticulture, had 30 times more of the fruit under illicit cultivation than Japan's legally grown acreage.

Tokyo's immediate chances of redress are slim. The greater question is how assertive Beijing will be in treating these grapes as a bigger long-term strategic crisis for China than for Japan. President Xi Jinping has deliberately conflated food security with national security and his government has pointedly labelled seeds the "chips of agriculture".

China's issue, framed in the rhetoric of self-reliance, is its increasing need for a food revolution. The seed industry will be central: the potential for efficiency gains is vast but the incentives for innovators are weak. China has a history of offering questionable protection on intellectual property — living it down is urgent. Now that the Swiss seed giant Syngenta is Chinese owned, Beijing must convince both its own industry and the outside world that it now supports the interests of the innovator alongside those of the farmer.

Climate change, extreme weather, urbanisation, demographics and shifting diets have long cast a shadow over China's food system: food security has been a stated policy priority for years. But the focus, along with the recognition of the role that corporations will have to play in this revolution, has intensified since 2020.

Trade war with the US, Russia's invasion of Ukraine, the narrative of economic nationalism and other factors remind China how much it relies on imports and how much more efficient its food production — from grain fields to pig farms — needs to be. China, said Xi in March, must rely on itself to feed its people. "We will fall under others' control if we don't hold our rice bowl steady," he said, echoing the thinking that is propelling the country's broader "Made in China" push for industrial self-sufficiency.

> Trade war with the US and Russia's invasion of Ukraine remind Beijing how much it relies on imports

The obstacles are significant. Corn output per hectare in China, according to a new Goldman Sachs report, is 40 per cent lower than in the US, and it takes Chinese farmers between 6 and 26 per cent more grain to produce a kilo of pork or chicken than their US counterparts. Low yields, rising land prices and high use of pesticides and herbicides now put China's grain production costs about twice as high as America's, though roughly similar in 2007.

The offset, in the face of China's rising demand for meat and other foods, has been a structural increase in imports of grains, soyabeans and animal proteins. Goldman Sachs estimates that if current imports are translated into arable Chinese land equivalent, they represent 71mn hectares, or 68 per cent of the country's total arable land.

The involvement of state-owned and private Chinese companies has been substantial. Overseas purchases — of farmland, food production, agritech and other parts of the supply chain — have targeted the expected long-term profitability of food production and security of available supply to China. But Xi's language suggests that acquired supply lines are being discounted from Beijing's evolving definition of self-sufficiency.

If so, the corporate role envisaged for both domestic and foreign companies in realising China's food revolution becomes even more critical. Much of the necessary boosts to efficiency — consolidated farms, precision farming methods, greater use of autonomous drones, planters and harvesters, animal vaccination programmes and more — are known but still some way off. But the "seeds as chips" rhetoric has a more urgent ring.

In March, a revised Seeds Law came into effect. It aims to toughen protections for crop and plant-related intellectual property. Expanding the commercial claims of the plant breeders — and extending rights to harvested material as well as the original propagating material — is designed to incentivise anyone breeding higher yield, climate-change-proof varieties for a Chinese market that has frustrated both foreign and domestic players for decades.

The value of the law lies in the deeply tricky issue of enforcement. On the face of it, the law implies a higher seed price for Chinese farmers; the offset comes when the seeds deliver the much higher productivity or market value their engineers promise. The test of Xi's stridency on food security will be in the fields and the IP courts.

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Tories fall prey to disastrous betrayal myths

BRITAIN
Robert Shrimsley

Contrary to the popular notion, history is not always written by the winners. Sometimes the losers craft myths so powerful that they distort politics for years to come. Few wins are absolute, so while the victorious move on, the defeated can reframe the narrative for the next push.

The most pernicious modern manifestation of this has been Donald Trump's claim of a stolen election, a lie so successful that the majority of Republican voters are sure it is true.

A less malevolent example of losers seizing the initiative came after the 2014 Scottish independence vote. Having held off the nationalists, the government of David Cameron parked Scotland in the tray marked "solved". Chalk up another win for Lucky Dave. Within days nationalists were rebuilding momentum with stories of unionist chicanery and broken promises.

An increasingly insecure Conservative party has also succumbed to myths, the gravest being that of a great liberal conspiracy under which key pillars of society, from the judiciary and the media to the entire "leftist" civil service is conniving to obstruct the elected government. This alibi for administrative ineffectiveness is used to legitimise attacks on those institutions.

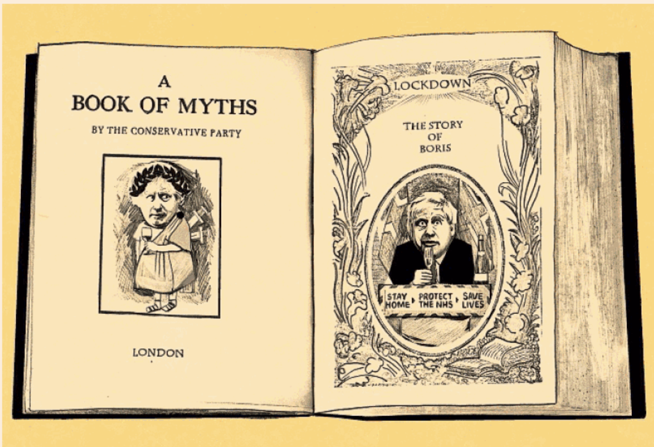
Alongside this belief in the Protocols of the Elders of Liberalism, two new betrayal myths are abroad among Tories. The first is of the lost leader; the second is the "lockdown lie". Neither can be allowed to pass by default.

The former, championed by Boris Johnson's cheerleaders, tells of a Brexit-delivering, Moscow-defying titan unjustly ousted. The myth of the undefeated leader is potent and friends say he believes Tories will soon regret the absence of his "winning touch" once a probable Liz Truss premiership unravels. Some allies demand a rule change to let party members block a leader's removal — broadly the system which worked so well for Labour under Jeremy Corbyn. Others seek to sabotage a Commons inquiry into whether Johnson lied to parliament over partygate, an investigation which could lead to a recall by-election.

Some of this is just filling the news vacuum. With a new leader in place, the caravan can move on. His quest to make money may well diminish his standing out of office. But there is no doubt that a Johnson committed to a return could spell trouble for his successor.

This is why, despite cravenly signalling otherwise, Truss should seek a clean break, neither fighting the inquiry nor resiling from the truth: in his dishonesty, rule-breaking and vacillations, Johnson alone was the architect of his fall. This message must be consistent. The price for parties of pretending it is OK to ignore the rule of law can be seen across the Atlantic.

Ellie Foreman-Peck



The second dangerous myth bubbled up again when Rishi Sunak restated his well-known misgivings over the Covid lockdowns. Cue an attempt by consistent lockdown opponents to rerun the argument, with many jumping on new figures for excess deaths as proof the policy will cause more casualties than it prevented through delays in treatment for other illnesses. Yet the figures, as my colleague John Burn-Murdoch has shown, do not prove their case but rather highlight the pressure on and chronic under-resourcing of the NHS.

Lockdown was a contentious policy and there are legitimate arguments about its duration, the closure of schools and some draconian rules. But its opponents' screeches about a sinister statist, health establishment plot against a frightened nation, do not bear scrutiny.

> The first is of the lost leader; the second is the 'lockdown lie'. Neither can be allowed to pass by default

Mistakes were made and if the decision-making machinery can be improved, that is a good thing (though better processes would not really have assuaged diehard opponents). A fairer appraisal would be that lockdowns saved lives but had major consequences, some serious and adverse. The public inquiry will offer a more nuanced view, possibly criticising both the processes of and the delays introducing lockdown.

More dishonest is to discount the deaths that would have come both from failing to lock down and the consequent overwhelming of the NHS. How many deaths would have been acceptable and what level of chaos in hospitals tolerable? On this, funnily enough, there is no answer.

Why does it matter? Because the narrative of the last crisis will determine the approach to the next. Those fighting rearguard actions are doing so for many reasons, including their own sense of victimhood. But a part of the argument goes beyond defensible anger at government over-reach into denial of the scale of the crisis and an ideological fight against those who see an active state as a force for good. Around all this is spun the meta-demand for a return to "proper" small-state conservatism.

Again, then, it is concerning that so few ministers from the Covid crisis, Truss included, are prepared to take on the mythmakers. Pandemic fantasies have already fuelled anti-vax attitudes and — as with the "war on Whitehall" — lockdown fables are underpinned by adherence to deep state conspiracy theories which sit poorly with the supposedly natural party of government. Sadly there are few signs the next leader is likely to rise to the challenge.

There is one final problem for the Tories here. These myths tell of monumental incompetence. To accept them is to see the pandemic response as one of disastrous blundering, and the toppling of Johnson as damaging, gutless treachery. Neither screams "re-elect us".

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Too little change in 50 years of Cambridge co-ed colleges

Stella Hughes

Exactly 50 years ago, three previously all-male Cambridge colleges admitted a handful of female undergraduates, thus ending centuries of exclusion.

The university is poised to commemorate this landmark in gender equality and rightly so. After all, Oxford did not follow suit for another seven years. (Both Yale and Princeton, by contrast, voted to formally accept female students in 1969). Expect celebratory accounts of barriers falling, glass ceilings broken, and history being made.

But, as one of that tiny group admitted to male domains back in 1972, I am struck by the dogged resistance to change at both universities. While women now account for half the student intake, and half the heads of Cambridge colleges, the dominant culture has hardly changed. Then, as now, opportunities for women — and those from ethnic minorities and working-class families — come at the price of accepting the institutional culture. To enter the inner circle, assimilation is non-negotiable.

Today's eminent female heads of college have met every challenge, yet still tolerate being called Masters. This point is usually met with donnish chortles about the impossibility of calling them Mistresses, or for emotive appeals to "respect tradition".

Words matter. Changing the title of "Master" to "Principal" when we were admitted 50 years ago would have been a hugely important signal of intent on institutional change. That presumably is why it has still not happened.

Arriving as 1972 freshers, we girls were admitted as an experiment. Our numbers were restricted to some 30 first-year girls apiece at King's, Clare and Churchill colleges. However brilliant our academic results, we were not allowed to be awarded a scholarship or exhibition. A tutor told me this was because the college needed more time to ensure awarding women did not infringe the terms of its endowments.

> Opportunities for gender, race or social equality come at the price of accepting the institutional culture

The conditions of our admission had a built-in methodology: institutional norms were preserved; cultural change resisted absolutely. I arrived to find that Clare College had fitted out a sewing room for us. The college also decided that rather than reducing the number of male undergraduates to accommodate women students, "the size of the student body as a whole should be somewhat increased".

This decision is blithely recalled in a 50th anniversary article in the Clare alumni magazine. It is cited not to highlight the protection of privilege but to explain the need for extra beds. The author also explains that benches had to be unscrewed from the walls in hall to let female students leave without climbing across the table. Cue sniggers about skirts and knickers.

Earlier this year, Oxbridge's first black 'Master', Sonita Alleyne, battled in vain to remove a memorial to a benefactor linked to the slave trade from the chapel of Jesus college, Cambridge. Controversy flared over the £120,000 in college funds she used for the church court challenge, yet no one questioned the Anglican hold on college life.

Each small breach of tradition, each institutional adaptation, has come in response to pressure. Social pressure for women's rights in 1972, the Black Lives Matter movement in 2020, all inched things forward. Barriers were partially breached, and began to teeter. The won-

We should stop bashing share buybacks

Michael Mauboussin

President Joe Biden recently signed the Inflation Reduction Act into law in the United

invest in their businesses. This argument is based on a decline in tangible investments such as capital expenditures, measured as a percentage of corporate sales, and neglects a sharp rise in intangible investments, including R&D. When all investments are considered, there is little evidence that companies are starving their businesses in order to buy back shares.

buys back undervalued stock, the sellers lose and the holders win. When a company buys back overvalued stock, the holders lose and the sellers win. The research shows that companies are in fact good at buying low and even better at selling high.

A third myth is that buybacks are good because they add to earnings per

Second, academics have shown that the simple belief that buybacks that add to EPS automatically create value is flawed. The findings are similar with mergers and acquisitions. Executives and investors have to look beyond EPS to the drivers of value to assess the potential merits of a buyback.

None of this is to say executives may not use buybacks as a means to boost

which the company is buying. They will be left with cash and the same percentage ownership in the company.

Taxes are different not because of the rate (they are identical in the US) but because of the timing. Investors who own shares in a taxable account must pay taxes on the full dividend amount. Investors who sell shares to a company in a buyback must pay only the capital

States. Part of the legislation is a one per cent excise tax on share buybacks. The tax itself can be considered more of a pest than a problem, but the rationale for targeting buybacks displays a profound lack of understanding of how they work and their role in a healthy economy.

Let's look at common buyback myths and what the research, rather than the rhetoric, says about them. Companies in the S&P 500, a leading index that encompasses approximately 80 per cent of the US stock market, paid dividends of $511bn and bought back $882bn of stock in 2021. Buybacks net of equity issuance were lower.

The first myth is that companies use funds to buy back stock rather than to

An essential role of an efficient economic system is the reallocation of capital away from businesses with limited prospects to those with more potential. Buybacks facilitate this process, and nearly all of the proceeds are reinvested in the shares of other companies.

Another myth is that buybacks create a "sugar high" for the stock price in the short run. Financial economists have documented that buybacks on average can create short- and long-term value for ongoing shareholders. Further, in 1982 the SEC adopted Rule 10b-18, which established specific rules to keep a company from manipulating its stock.

Buybacks do not add or subtract from corporate value. But they can transfer wealth. For example, when a company

> The system reallocates capital from businesses with limited prospects to those with more potential

share, or EPS. The premise is the stock will go up if the market applies the same multiple to higher EPS. There are two issues here. First, there is no assurance that a buyback is accretive to EPS. In fact, the relationship between after-tax interest, either foregone income or the cost of debt assumed, and the price-earnings multiple determines a buyback's impact on EPS.

EPS in an effort to lift their pay. But a study by PwC and Alex Edmans, a professor of finance at the London Business School, found that no companies in the FTSE 350 buying back stock from 2007-17 hit a target they would have missed otherwise.

While buybacks provoke rancour, dividends are viewed much more favourably. In both cases the company is returning cash to shareholders. But buybacks differ because of sorting, taxes and attitude.

Sorting means that, with buybacks, only shareholders who choose to sell get cash, whereas all holders are treated the same with a dividend. A shareholder can create a homemade dividend by selling shares in the same proportion at

gains tax, and those who don't sell can defer their tax bill until they do.

Executives and investors have different attitudes about dividends and buybacks. They consider dividends sacrosanct, to be maintained and ideally increased. And they view buybacks as discretionary, a way to disburse capital after all of the other bills have been paid.

Bashing buybacks may have political appeal, but financial literacy demands that their role, backed by substantial empirical research, be better understood.

The writer is head of consilient research at Counterpoint Global, Morgan Stanley Investment Management

der is they never fell. The demographic of applicants has utterly changed. But inside the institution, the solidly male, upper class, Anglican culture persists.

This autumn's commemoration of the anniversary could be a watershed moment. Let the female Masters refer to themselves as Principals. Let the three pioneering colleges of 1972 publish the names of the women whose entrance examination results attained scholarship level. They never even knew, so let them be told and honoured now. If the release of this information breaks rules, then let us celebrate the anniversary with disobedience.

The writer is a former journalist and speechwriter for Unesco

Lex.

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Food prices: the conquest of bread

Food prices are soaring. In Britain they are rising at the highest rate since 2008, the British Retail Consortium says. Yet there is some good news from an unpromising source. A bumper Russian harvest has made wheat cheaper. The price of Chicago wheat futures is back where it was in January, at $8.03 a bushel, having fallen by two-fifths from its March peak.

High yields from the Russian breadbasket — along with a partial resumption of Ukrainian exports — have relieved what threatened to be a devastating squeeze.

Russia and Ukraine typically account for a fifth and a tenth of global exports, respectively.

The disruption threatened countries such as Egypt, which depends on the combatants for the vast majority of its imports. It has built up seven months of wheat reserves, albeit at higher prices — exacerbated by the strength of the dollar — than budgeted for.

War is not the only factor playing havoc with prices. Drought is reducing the yields of many crops. France, the EU's top grain producer, is set for its worst maize harvest this century, says consultancy Agritel. Hot, dry weather is also afflicting the US Midwest.

High gas costs are curbing fertiliser production. That is exacerbating food shortages in Africa.

Wheat normally accounts for just a tenth of the price of a loaf of bread. Other spiralling costs are bigger factors behind food price rises. In April, Associated British Foods said that it had recovered "huge" input price inflation with a 25p rise in the shelf price of its Kingsmill bread to £1.10. The baker warned that further post-invasion increases were on the cards.

Food price inflation normally lags behind global agricultural commodity prices by about nine months, says Capital Economics. A portion of the blame for the rise in CPI food inflation from below zero in 2021 to 12.6 per cent in July can be pinned on last year's commodity price surge. The consultancy forecasts a further rise in food price inflation to more than 13 per cent. That would be the highest rate since at least 1989.

Global food prices will begin to drop in 2023, says Morgan Stanley. The impact of the Ukraine war on energy and fertiliser prices will persist.

Even so, the world should be thankful to hard-working farmers in warring Russia and Ukraine for a rare piece of good news.

Klarna: fairweather lend

Klarna has promised investors to slow its breakneck expansion. A supply-side recession and cost of living crisis should help with that.

The Swedish buy now, pay later group will find it harder to fulfil a second pledge: to return to profitability. Results yesterday highlighted the difficulty; operating losses in the first half of the year widened from SKr1.7bn ($160mn) last year to SKr6.3bn ($602mn).

BNPL groups rose to prominence thanks to the pandemic-era boom in ecommerce. The going is now far tougher. Competition and regulatory scrutiny have intensified. Higher interest rates make funding more expensive. A cost of living crisis means bad debts are rising. At Klarna net credit losses rose from $175mn in the first half of last year to $276mn. While the allowance for loan losses ballooned to $376mn, it remained the same proportionately as last year at 5.5 per cent of outstanding loans.

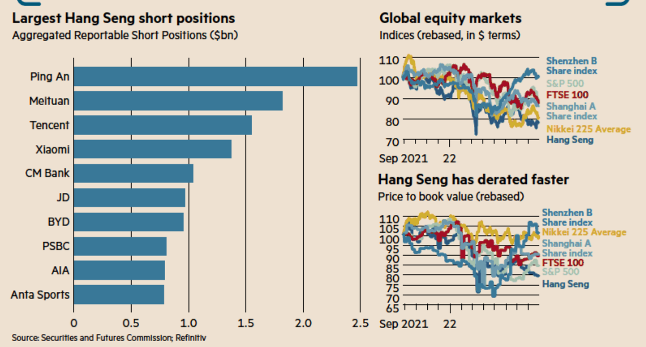
That is well above the 1.8 per cent delinquency rate reported for all US credit cards in the second quarter of the year. But credit losses across western economies have remained historically low since peaking after the financial crisis at 7 per cent. Those modest costs were a function of the low-rate environment we are now leaving behind.

Privately held Klarna commanded a valuation of $46bn last year. The figure had fallen to $6.7bn post-money at a funding round this July. Shares for listed peers have followed the same pattern. US-listed Affirm is off almost 80 per cent since the start of the year.

Klarna has been a big marketing success. But the financial credentials of any fast-expanding lender are always questionable. Management claims to superior credit judgment are so much hot air until tested by a few tough years of trading. Unless performance is at least as good as incumbent banks, they will be entitled to say "told you so". In the meanwhile, profits will remain elusive for Klarna.

Hong Kong stocks: shorts tempered

Short sellers have placed record bets against Hong Kong-listed Chinese stocks. Names such as insurer Ping An and computer games group Tencent top the list. The Hang Seng index has underperformed international peers this year. Valuations have fallen faster.



Source: Securities and Futures Commission; Refinitiv

Short bets on Hong Kong stocks have hit a historic high. The trade has been a profitable one so far. The city's benchmark Hang Seng index has tumbled nearly a quarter in the past year. That has made short selling Hong Kong stocks look a surer bet than it is in reality.

Short selling trades as a proportion of the total turnover on the Hong Kong's stock market this week climbed to a record 23 per cent this week, according to Bloomberg data.

Much of the bearishness is justified. Regulatory risks remain high for the Chinese tech groups that dominate the city's benchmark index. Their prices have also been dragged down by the fear that their American depositary receipts will be compulsorily delisted. Big investors have been reducing their exposure.

Berkshire Hathaway, the business of legendary US investor Warren Buffett, has just trimmed its stake in Hong Kong-listed Chinese electric-car maker BYD. The move triggered a disproportionate drop in the shares.

Still, the large volumes of shorts are surprising. Hong Kong restricts the activity. Naked shorting — selling shares that traders do not own or have not borrowed — is banned. This means that short sellers have to pay up to borrow the stock.

Returns on successful short sales are correspondingly lower than in markets such as the US. An uptick requirement means short sales must be made at a higher price than the previous trade.

Hong Kong's short sellers are now vulnerable to short squeezes. Trading volumes in Hong Kong have fallen in recent months, increasing the potential for sharp, hair-trigger price movements.

The main targets of the short bets have been big Chinese blue-chips. These popular names, which include giants such as Tencent and Alibaba, have large, loyal, long-term retail investor bases. That makes covering short positions pricey.

The Hang Seng index, which now trades at just 0.8 times book value, looks dirt-cheap compared with regional peers.

The lower the valuation of Hong Kong stocks fall, the higher the risk of a short squeeze in coming weeks.

Chewy/pet food: dog daze

In the dog-eat-dog world of pet-supply retailing, Chewy is no longer the alpha.

Squeezed by inflation, pet owners are cutting back on spending. Households are focusing on essentials like food and buying fewer toys and accessories. So much for $440 orthopaedic dog beds. This is taking a bite out of sales growth.

Having emerged as a pandemic winner thanks to households adding more furry friends, Chewy has to contend with slowing momentum. It expects sales for this year to come in at $9.9bn-$10bn, down from previous guidance of $10.2bn-$10.4bn.

Shares in the online retailer have fallen 35 per cent this year and are 70 per cent below their 2021 peak. It is not the only pet retailer in the doghouse. Rival Petco has lost a quarter of its value since January. Compared with rivals, Chewy has an edge in its ability to retain customers. Subscription service Autoship includes an auto-reordering service that gives Chewy good visibility of future stock needs and likely cash flow.

Autoship customer sales, which rose 17.3 per cent during its most recent quarter, accounts for 73 per cent of group total. And while the number of new active customers has slowed, net sales per average customer are higher and spending on customer acquisition has come down. Yet despite the drop in its share price, Chewy still trades on 1.7 times trailing revenue.

That is high for a company that has yet to turn an annual profit.

Pet-food makers are a better defensive play. In the US, JM Smucker, the maker of Meow Mix, and General Mills, the owner of Blue Buffalo, have both reported a sharp rise in pet-food sales thanks to higher prices and demand. In Europe, Nestlé, which owns the Purina brand, said that petcare was the biggest contributor to organic growth during the first half.

Pooches and kitties do not need new toys. They will happily play with old shoes and balls of wool. However, companion animals need to eat as much as their owners do.

Psychedelics/VC: trip hazard

Denizens of Silicon Valley have long hailed microdoses of psychedelic drugs as a means of unlocking creativity. Where tech leads, the US follows. NFL star Aaron Rodgers this week credited the South American drug ayahuasca with improving his wellbeing. Mind-expanding treatments are a burgeoning area of medical research and venture capital investment.

Psychedelics inspired writer Aldous Huxley, psychologist Timothy Leary and some garish album-cover art in the '70s. The drugs supposedly induce "neuroplasticity" — a rewiring of thought processes to reduce negativity and increase connectedness.

Critics counter that psychedelics can cause irreparable damage. These drugs include LSD, psilocybin (magic mushrooms), ayahuasca and ketamine.

Venture capitalists have put $236mn into the sector in the 12 months to July, say Crunchbase data. Two groups have already listed. Compass Pathways is testing psychedelics in combination with talking therapy; Mind Medicine's clinical trials focus on LSD.

The illegality of most psychedelics is an obstacle. Ketamine has nevertheless been approved for some patients with depression. In 2020, Health Canada allowed four terminally ill patients to take psilocybin to relieve anxiety. The Multidisciplinary Association for Psychedelic Studies, a non-profit group, wants MDMA to be prescribed for patients suffering post-traumatic stress disorder. Supporters include hedge fund billionaire Steve Cohen.

The legalisation of cannabis in some states paves the way for greater use of psychedelics. Denver has already decriminalised psilocybin. The success of start-ups will depend on clinical trials and the record of any drugs approved for medical use. Psychedelics offer hope to sufferers from intractable depression. But previous "miracle" treatments, from electric-shock therapy to Prozac, all had big drawbacks.

Investors beware — psychedelics always bring the risk of a bad trip.

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CROSSWORD

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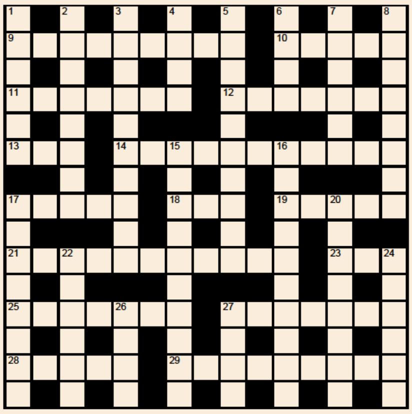

ACROSS

9 Girl to chatter idly about love and vanish (9)
10 Volatile chemical bonds without shell (5)
11 Kiss with reclusive star ingesting ecstasy? It makes a change (7)
12 Musical nun sustaining note brings complaint (7)
13 Fish skin showing no sign of phosphorus (3)
14 Old court to stiffen caution for motorists (4,7)
17 Maryland city where there's no more curry? (5)
18 One swoops near ground, moving left to right (3)
19 Nature god banking silver for his devotee? (5)
21 One new insult with people causing resentment (11)
23 Men from the east caught enormous bird (3)
25 Unidentified illness keeps Italian in service (7)
27 Choking smoke beginning to burn Basil? (7)
28 Any number stay drunk and abusive (5)
29 Pole ground contains where Henry's buried (9)

DOWN

1 Bravo! Keen-eyed bird sees dog (6)
2 Corresponding but never meeting (8)

JOTTER PAD

Solution 17,187

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3 Sculpture in future going up (10)
4 Person unknown from a Crown Dependency (4)
5 Strangely evil crime pinching pound for food (10)
6 Buzz from live lines (4)
7 Church leader out in Peru, bishop finds winged child (6)
8 Function after hearing test (5,3)
15 Revelation in a curtailed ballad Poe's penned (10)
16 Staff writer's time in a secure environment (10)
17 Swimmer appearing angry when losing time (8)
20 Bush in suitable place one assumed originally (8)
22 Temperature in river good man can't stand (6)
24 Copper bars – they're surely found in Havana (6)
26 Fish in streams (4)
27 It's a fool that covers king in some butter (4)