

FT WEEKEND

FINANCIAL TIMES | Saturday December 13 / Sunday December 14 2008 | £2.30



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News Briefing

EU urges world to follow its climate lead

EU leaders urged the world to follow their example and adopt

US signals rescue of Detroit carmakers

Scramble after Senate rejects bail-out loans

White House prepares ground for U-turn

By Daniel Dombey in Washington, John Reed in London and Bernard Simon in Toronto

The US administration was last night scrambling to save Detroit's troubled car industry, as General Motors said that it was closing most of its North American manufacturing plants for the month of January in the wake of the Senate's failure to agree to a \$14bn (£9.3bn) loan for

about 5,000 people in the UK, is close to running out of the cash necessary to keep its operations going.

GM's bonds fell to a new low of 9-10 cents on the dollar on fears of a bankruptcy, before recovering to 15 cents on the news that the Bush administration was looking for other financing.

Markets in Hong Kong and Tokyo fell by more than 5 per cent, while London was down 2.47 per cent.

For weeks George W. Bush, the US president, has resisted using the \$700bn troubled asset relief programme to provide aid to the carmakers, arguing that such an interventionist step would be a



Horlick fund faces losses in Madoff 'big lie'

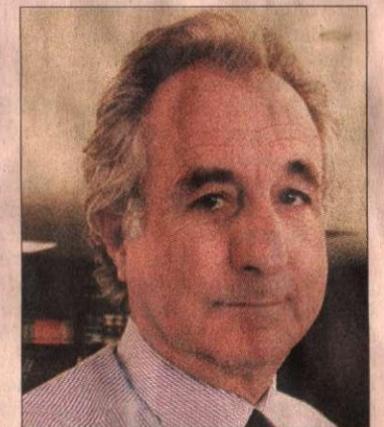
By James Mackintosh in London and Joanna Chung in New York

Some of the biggest-name fund managers in the world, including Nicola Horlick, Man Group, Santander and Union Bancaire Privée, have been caught up in an alleged \$50bn (£33bn) fraud after trusting Bernard Madoff, the Wall Street trader arrested this week.

Many wealthy investors in Switzerland, Spain, Israel and Austria, in particular, were tempted to invest in funds which produced such steady returns that sceptics believed them too good to be true and in what could potentially be the biggest fraud in corporate history.

The case now threatens to create panic among investors and exacerbate withdrawals from hedge fund managers already struggling to raise enough cash to meet redemptions.

Mr Madoff, who was released on Thursday on \$10m bail, told senior employees - including his sons - that his operations were "all just one big lie" and "basi-



Bernard Madoff was arrested this week and released on \$10m bail

hedge funds, has more than \$1bn invested with Mr Madoff, while the biggest single exposure appears to be Fairfield Greenwich Group, a US asset manager which runs a \$7.28bn fund managed by Mr Madoff.

Two funds from Pioneer Investments, an arm of Italy's UniCredit, had "substantially all" of \$835m invested with Madoff.

Many hedge fund experts were

said their plan conceded too much to big polluters. **Page 9**

Shell's pension dip

Investments in Royal Dutch Shell's Dutch pension fund have dropped 40 per cent since the start of the year and the scheme has fallen far short of the regulatory minimum requirement. **Page 15**

'Hostile' Schaeffler

Schaeffler's takeover of German car-parts supplier Continental looked set to turn hostile after news it was prepared to back out of an investor deal. **Page 21**

Russia recession fear

Russia is facing a recession that could last more than two quarters, the deputy economy minister said, the first time a senior official has said the economy is contracting. **Page 8**

China 3G movement

China will issue licences for third-generation mobile telecoms services by the start of 2009 and expects this will generate Rmb200bn (£19.6bn) in investments from the groups, the regulator said. **Page 21**

WTO talks stalemate

The WTO has dropped plans to convene ministers to push for an outline deal in the ailing global trade talks, another blow to world leaders' promises to fight protectionism. **Page 10**

Estate agents act

Estate agents are learning from retailers with a Christmas sale in which as much as a third has been knocked off some homes to stimulate the stalling market. **Page 15**

'Failed' German rescue

Germany's banking rescue has failed and should be modified if damage to the economy is to be avoided, the MPs who oversee the €500bn (£449bn) of funds warned. **Page 9**

was ready to step in with funds intended to prop up the financial system to prevent the biggest industrial failure in US history.

"Because Congress failed to act, we will stand ready to prevent an imminent failure until Congress reconvenes and acts to address the long-term viability of the industry," the Treasury said.

In Britain, ministers were considering extending a lifeline to Vauxhall, a GM subsidiary, after it offered staff at its Ellesmere Port plant in north-west England sabbaticals of up to nine months at 30 per cent of their salary.

GM, America's largest domestic carmaker, which employs

the collapse of one or more of the Detroit companies, the White House indicated it had few other options.

"A precipitous collapse of this industry would have a severe impact on our economy," said Dana Perino, White House spokeswoman.

Car industry lobbyists said up to 3m jobs and 1m pensioners could be affected by the collapse of the US domestic motor industry.

Additional reporting by Michael Mackenzie in New York

**Crisis in Detroit, Pages 6&7
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Nicola Horlick had three funds invested in Mr Madoff's firm *Charlie Bibby*

Ms Horlick, dubbed "super-woman" while running Société Générale's asset manager, reported three funds amounting to 9.5 per cent, or about \$25m, of her listed Bramdean Alternatives were invested with Mr Madoff's securities firm. Shares in Bramdean, in which property tycoon Vincent Tchenguiz is an anchor investor, tumbled more than a third to 42½p.

Man Group's RMF division has about \$350m invested in funds which outsourced their management to Madoff securities, although this is a tiny fraction of the division's \$25bn of assets. Tremont, a large US fund of

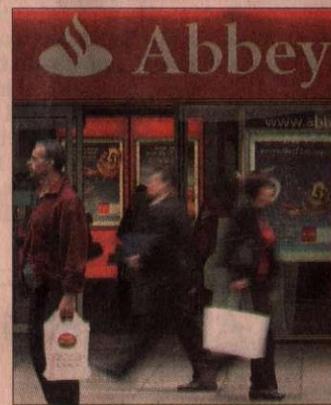
tancy Aksia, said in a client letter there were a "host of red flags" which had led him to recommend avoiding the dozen or more funds linked to Mr Madoff.

According to regulatory filings in January, his investment advisory business served between 11 and 25 clients and had about \$17.1bn in assets under management. It was unclear yesterday whether the \$50bn loss estimated by Mr Madoff was correct.

Mr Madoff could face up to 20 years in prison and a \$5m fine on the securities fraud charge.

**Reports and analysis, Page 20
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Santander cuts



Spanish bank Santander is to cut 1,900 jobs in the UK next year as it integrates the acquisitions that have made it one of the largest lenders in the country. The job losses, about 8 per cent of UK staff, come after Santander this year bought Alliance & Leicester and the branches and deposits of Bradford & Bingley, the failed mortgage lender, to add to its acquisition of Abbey.

Report, Page 15

Competition watchdog to stand firm on sale of airports by BAA

Disposal of three sites set to be confirmed

By Michael Peel and Kevin Done

BAA, the embattled owner of Heathrow, faces a firesale of two of its leading British airports after failing to persuade competition investigators that disposing of Gatwick alone would curb its allegedly harmful dominance of the sector.

The Competition Commission is next week due to reject lobbying by the company against a plan to make it sell at least two of its three London airports and one of either Glasgow and Edinburgh, people familiar with the investigation say.

The demands on BAA, which has already begun an auction of Gatwick, will put it on a collision course with the commission ahead of publication of the final results of the probe by March.

The commission's latest

interim report will echo its earlier criticism of BAA – a subsidiary of Ferrovial, the Spanish construction and infrastructure group – as dominating an airport network that has hurt airline and passenger interests.

The watchdog will confirm its recommendation for BAA to sell the three airports in Scotland and London, where it also owns Stansted. The company is estimated to enjoy 84 per cent of passenger traffic in Scotland and 90 per cent in the south-east of England.

The commission's proposed order would leave BAA with the unwelcome choice of launching an expensive appeal or else selling British airports just as passenger numbers fall steeply.

The company said yesterday that overall passenger traffic at its seven British airports fell last month by 8.9 per cent year-on-year, the biggest decline since just after the September 11 2001 terrorist attacks. Numbers at

both Gatwick and Stansted fell more than 13 per cent.

Ferrovial is seeking indicative bids for Gatwick by next month in an ambitious sales schedule that aims to bring the deal to an advanced stage before the company's room to manoeuvre can be curbed by the commission's final ruling.

At least five consortia – which include infrastructure funds, pension funds and rival international airports – are considering bids in an auction that analysts say could raise £2bn.

BAA has attacked the commission's plans as "flawed" and likely to create "uncertainty, delay and confusion at exactly the wrong time". The company has argued that the break-up proposal would undermine efforts to add more runway capacity in the highly congested south-east of England.

Both BAA and the Competition Commission declined to comment.

World Markets

STOCK MARKETS

	Dec 12	prev	%chg
Dow Jones Ind	8629.68	8565.09	+0.75
Nasdaq Comp	1540.72	1507.88	+2.18
S&P 500	879.73	873.59	+0.70
FTSEurofirst 300	829.65	853.81	-2.83
DJ Euro Stoxx 50	2418.91	2485.39	-2.67
FTSE 100	4280.4	4388.7	-2.47
FTSE All-Share UK	2132.98	2186.58	-2.45
CAC40	3213.60	3306.13	-2.80
Xetra Dax	4663.37	4767.20	-2.18
Nikkei	8235.87	8720.55	-5.56
Hang Seng	14758.39	15613.90	-5.48
FTSE All World \$	143.8	145.3	-1.0

CURRENCIES

	Dec 12	prev	Dec 12	prev	
\$ per €	1.331	1.325	€ per \$	0.751	0.755
\$ per £	1.482	1.489	£ per \$	0.675	0.672
£ per €	0.896	0.886	€ per £	1.116	1.129
¥ per \$	91.2	91.6	¥ per €	122.1	121.5
¥ per £	136.3	137.2	£ index	78.8	79.3
\$ index	89.3	89.4	€ index	101.8	100.9
SFr per €	1.575	1.575	SFr per £	1.758	1.779

COMMODITIES

	Dec 12	prev	chg
Oil Brent \$Jan	46.41	47.39	-0.98
Oil WTI \$Jan	46.28	47.98	-1.70
Gold \$	823.90	825.50	-1.60

INTEREST RATES

	price	yield	chg
US Gov 10 yr	110.13	2.59	-0.06
UK Gov 10 yr	110.90	3.60	-
Ger Gov 10 yr	103.81	3.30	+0.08
Jpn Gov 10 yr	100.04	1.40	-0.03
US Gov 30 yr	127.72	3.06	-0.03
Ger Gov 2 yr	100.05	2.22	+0.01
	Dec 12	prev	chg
Fed Funds Eff	0.14	0.11	+0.03
US 3m Bills	0.03	0.01	+0.02
Euro Libor 3m	3.29	3.33	-0.04
UK 3m	3.09	3.06	+0.03

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COMPANIES & MARKETS

Santander to cut 1,900 jobs in UK

ry's largest lenders. Job losses, which represent about 8 per cent of the bank's 23,000 UK employees, come after Santander last year bought Alliance & Leicester and the branches and deposits of Bradford & Bingley, the failed mortgage lender, to add to its earlier acquisition of Abbey. Although widely expected, the cuts will add to the gloomy outlook for jobs in the UK, which is already fac-

ing rising unemployment as a result of the financial crisis and sharp economic slowdown.

Thousands of jobs are also expected to go as a result of the merger of Lloyds TSB and HBOS, which HBOS approved yesterday.

Most of the job losses would arise from transferring A&L and B&B's systems on to Santander's proprietary computer platform, called Partenon. It will also

eliminate back office and support jobs across the three banks.

Santander said there would be "minimal" impact on employees who deal with customers through branches and call centres.

The bank has almost 1,300 branches across the UK and is expecting to maintain that network.

When it bought A&L in July, Santander promised cost savings of

£180m by the end of 2011.

António Horta-Osório, chief executive of Santander's UK operations, said: "Santander is committed to continuing the growth of its UK businesses profitably and has already shown through Abbey that it can drive efficiencies in operational areas in order to grow its retail business and provide customers with greater value-for-money products."

Santander has taken advantage of the credit crisis and the withdrawal of competitors to expand its UK mortgage lending.

The bank yesterday said it was also accelerating its growth plans in lending to small and medium-sized enterprises.

The combined business has already increased lending by 25 per cent so far this year, and is planning to extend its product range and recruit up to 100 small busi-

ness advisers for the Abbey branch network.

Santander transferred its operations to the Partenon system following the acquisition of Abbey.

The platform, developed in Spain and deployed across large parts of Santander's network, allows bank employees to view the bank's entire relationship with a particular customer, helping them to sell a broader range of products.

Shell pension scheme value falls 40%

By Ed Crooks and Norma Cohen

Investments in Royal Dutch Shell's Netherlands pension fund have dropped by 40 per cent since the start of the year and the scheme has fallen far short of the regulatory minimum requirement, the company has told employees.

It said in a letter that contributions from some employees and the employer would have to rise. It could need increased investment of billions of pounds to comply with Dutch regulations, which demand that schemes in deficit are brought back to asset levels of 105 per cent of liabilities within three years.

Shell will increase its contribution from 5 per cent to 23.6 per cent of pensionable salary.

Although the measures will only affect Dutch pension scheme members, the financing will have an effect on Shell, which is listed in London.

The scheme is now only 85 per cent-funded compared with 180 per cent at the end of last year. The Netherlands has one of the toughest pension funding regimes in the world but does not have a pension insurance fund to guarantee benefits for workers whose employer has become insolvent without a fully funded scheme.

The letter was published by royaldutchshell.com, a website used to air complaints against Shell. The letter said that its assets were 70 per cent invested in equities and there was "an above average allocation to emerging markets", both sectors that have suffered badly in the downturn.

Shell confirmed that the fund had fallen into deficit, but would not say how much more it expected to have to pay in. It is reviewing its investment strategy and has shifted some assets into government bonds.

Shell's UK pension fund shifted out of equities and into bonds in 2007, and remains in surplus.

The company said the deficit would have no effect on current pension payments, but could affect whether workers' pensions kept pace with future inflation.

Shareholders take over

argues and I do not recommend the transaction that we are here to discuss today. I should say I am worried about what happened and in particular the impact first on shareholders."

Lord Stevenson reminded shareholders that he himself put £1m into HBOS in the past year. "You must ask what kind of impact is that?" he said.

The merged group will have a balance sheet of £1,000bn and be the largest provider of current mortgages and business banking in the UK. A well-known figure at

the meeting who was greeted by a number of shareholders was Mike Blackburn, the former chief executive of Halifax, who demutualised the building society in the 1990s.

Speaking before the meeting, Mr Blackburn said that this was not what he envisaged when Halifax floated, although he pointed out that a number of banks had faced similar difficult positions.

"I don't think you can put all the blame on what has happened in the US," he said. "HSBC, for example, has not had recourse to government money. There is a benefit to banking being boring. Banking is as much about saying no as saying yes."

HBOS said the bank's exposure to commercial property and retail had caused the impairment charge in its corporate loan book to rise a further £1.6bn from the £1.7bn figure given at the end of September.

HBOS as a group is expected to take writedowns of £8bn through its profit and loss account in 2008. Alex Potter, analyst at Colliers Stewart, said the performance had been worse than expected, particularly given the fact that HBOS had updated the market in early November.

He added that it had reduced confidence in the UK bank sector.

Sandy Chen, analyst at Panmure Gordon, said HBOS could now report a £2bn loss in 2008 and bigger losses in 2009. "This is a large crisis.



Protest: members of the Unite union hand out leaflets outside the HBOS meeting yesterday

This can be read across not only to HBOS's likely acquirer Lloyds but to all the UK banks, in our view," he said.

Lord Stevenson told investors who gathered at Birmingham's NEC that HBOS had little alternative but to accept the all-share takeover from Lloyds TSB given the "recessionary gale" raging in the UK.

He dismissed suggestions that it would have been better for HBOS to remain as an independent company.

A group of prominent Scottish business people, including Sir Peter Burt, former chief executive of Bank of Scotland, had pushed for this, fearing large job losses in Scotland after the merger.

Lord Stevenson said that it

was by no means certain that the government money would have been available to a standalone HBOS.

"We do not lightly concede our independence," he said, adding that HBOS had received no other approaches apart from Lloyds'.

Shareholders pressed the HBOS board on why the bank had been brought to its knees.

One investor, Peter Hackworth, said he was "appalled" the board had "turned a £50bn company into a basket case in 12 months". He called on the board to return bonuses they had received in previous years.

Mr Hornby told investors he had lost substantial amounts of money because

he had ploughed back bonuses into HBOS shares that had fallen in value by more than 90 per cent.

Lord Stevenson added: "Andy Hornby has put every single cent of his bonuses into the company's shares - not into yachts and grand houses."

● Trustees to the HBOS pension scheme are to meet next week to consider whether to call for a full valuation of the £7bn scheme, a move that could force Lloyds TSB to pay much higher contributions after it acquires the HBOS business, writes Norma Cohen.

This is because the valuation would use much more conservative assumptions about investment returns and risks.

Trustees decided to meet

after Lloyds TSB refused to provide a full guarantee of all retirement liabilities once the HBOS business is acquired. Trustees are concerned that the scheme, which has 74,000 members, will be left without any corporate sponsor if Lloyds TSB reorganises the business.

Lloyds TSB pointed out that the bank's own schemes were not guaranteed by the parent company, but by group subsidiaries, which were financially stronger than HBOS.

"HBOS pension trustees and members of the HBOS Scheme can expect to see a strengthening of the supporting covenant when the proposed acquisition of HBOS completes," it said.

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