



World Business Newspaper

## City vs the Wharf Location, location, location: where would you want to work?

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**Back to petroleum**  
Having led the renewables charge, BP is leading the retreat  
**Analysis Page 11**

### News Briefing

**UK lambasts EU plans for hedge fund reform**  
European countries seeking a regulatory clampdown on hedge funds were accused by the City minister of seeking to make political capital out of "woefully short-sighted" actions. Lord Myners said a draft EU law needed "major surgery" before Britain could support it. **Page 17**

**Rose relaxed on revolt**  
Sir Stuart Rose, executive chairman of Marks and Spencer, dismissed a looming showdown with shareholders at the high street chain's annual meeting today as "just a re-run" of past issues. **Page 17**

**Factory upturn stalls**  
Incipient recovery in the UK's manufacturing sector stalled in May after the largest monthly fall in output since the start of the year, prompting a leading thinktank to predict that the economy shrunk again in the second quarter. **Page 4**

**Rover claims denied**  
Allegations by four former MG Rover directors that Gordon Brown "pulled the plug" on it were denied by the government amid tension over the referral of the collapse of the carmaker to the Serious Fraud Office. **Page 2**

**Putin meets Obama**  
Vladimir Putin, Russia's prime minister, seized the initiative in his first meeting with Barack Obama to give a forthright "presentation" of Moscow's view of the world to the US president. **Page 8; Editorial Comment, Page 12**

**EU relents on deficits**  
Five central and east European countries have been given more time to reduce budget deficits in a sign the EU considers the fight against recession a higher priority than fiscal consolidation. **Page 7**

**Bank revamp backed**  
EU finance ministers backed proposals for reforms to lessen the impact of economic cycles on banks. They agreed changes were needed to encourage banks to build up bigger capital cushions in good times, which could be drawn on in a downturn. **Page 7; Lex, Page 16**

**Turk dam plan pull-out**  
European export credit guarantee agencies pulled out of Turkey's planned Hsu dam, saying the project failed to meet international standards. **Page 10**

**Indonesia vote doubts**  
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**Somalia role for PwC**  
PwC is making a move into the world's worst failed state. Somalia's interim government has asked it to bring bookkeeping discipline to a country where lawlessness has reigned for two decades. **Page 10**

**US eyes oil trade curbs**  
New trading curbs to clamp down on speculation in oil and other commodities are being examined by US regulators. **Report and The Short View, Page 17; Lex, Page 16**

### Inside

**G8 Summit**  
Important questions will be aired at the G8 summit in Italy - but will there be answers? **Special report, Pages 24 & 25**

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## Darling in clampdown on riskiest banks

White paper on how to avert future crises  
FSA told to impose stricter rules

By Chris Giles and George Parker

Alistair Darling will today outline a tough regulatory regime for the financial services industry that would impose heavier capital and liquidity standards on banks that pose the greatest risk to the financial system. Presenting a keenly awaited paper on how to avert future financial crises, the chancellor will instruct the Financial Services Authority to draw up stricter rules for the riskiest banks and financial institutions. This implicit regulatory "tax" could encourage them to split themselves into smaller and less risky entities or shift their operations abroad to more lax regulatory regimes.

The Treasury expects that big international banks may oppose the restrictions, although the chancellor is not seeking to weaken London's specialisation in financial services.

However, many banks will be relieved that Mr Darling is not contemplating more drastic action to break up the biggest banks. It is also unlikely that all of the recommendations will come into force before the next general election, due to be held by May 2010.

Mr Darling does not believe the financial sector is too large or poses too great a threat to the health of the economy, in spite of the government's heavy reliance on tax revenues from

uncertain financial profits in recent years.

But the chancellor will insist that retail and investment banks must be run simply enough for the authorities to wind them down over a weekend in any future crisis, rather than have to nationalise them or suffer the uncertainties of bankruptcy.

Although Mr Darling will give the FSA a new statutory responsibility for financial stability in a new banking act this autumn, his reforms will leave the existing tripartite regulatory system - FSA, Bank of England and Treasury - intact.

The chancellor will tip-toe around the turf war between the Bank and FSA over who should take the lead in so-called macro-prudential regulation, under which the authorities would rein in lending if they believed asset bubbles were forming.

Mr Darling will say that the thinking on how such regulation would work and what would be the pitfalls is not sufficiently advanced for specific policies before the next election. Some bankers in the City think these proposed reforms could be ripped up by an incoming Conservative government.

George Osborne, shadow chancellor, believes the tripartite system is discredited.

The chancellor will also require the banks to fund new measures to restore confidence in the sector, including providing more education on financial services in schools and in the community.

**Treasury sees the devil, Page 2**  
**John Kay, Page 13**  
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## Anger erupts in Xinjiang province as mobs seek revenge for Uighur riots



Mob rule: Han Chinese roam the streets of Urumqi seeking revenge for the weekend's violence, which they blame on Uighur residents

By Kathrin Hille in Urumqi

There are sounds the Uighur residents of Urumqi will not easily forget. The streets around their homes were silent in the midday heat yesterday as the city remained in lockdown following the Uighur-led riot on Sunday. But suddenly, the scrape of metal or bump of wood on the pavement would pierce the eerie silence, sending anyone outside scurrying for refuge.

Yesterday - two days after the worst ethnic unrest in China since the Cultural Revolution - their Han Chinese neighbours got angry.

Across the capital of China's northwestern province of Xinjiang, Han Chinese men and women armed with wooden poles, iron bars, axes, hoes and butcher knives sought revenge for the weekend clashes, which state officials say killed more than 150 people, many of them believed to be Han. With many

more losing their shops and cars to a destructive mob, a backlash, even if delayed, was not surprising.

"We started understanding what had happened... only on Monday night when we first saw it on the television news," said a man who asked to be identified only by his surname, He. Carrying wooden sticks, Mr He and his girlfriend were taking a walk in the evening breeze and, like most of their neighbours, watched security forces try to disperse a group of about 1,000 Han Chinese marching towards Uighur neighbourhoods in the south-eastern part of the city. Such mobs had started forming around noon.

"Uighurs are beasts," shouted a group of several hundred young men who marched down a boulevard towards the Great Bazaar, the traditional Uighur trading district.

The men were led by a group of young Han in a convertible

who resembled hoodlums and were being cheered on by onlookers. At the next intersection, they were joined by another group, chanting "unite, unite", and "Down with Rebiya, long live China!"

Chinese authorities have accused Rebiya Kadeer, a Uighur political activist exiled in the US, of inciting last weekend's unrest. Speaking in Washington yesterday, Mr Kadeer denied having any role in inciting violence. One young man screamed: "Let's go beat up Uighurs!"

When the sound of gunshots and tear gas explosions was heard from the direction of the

"Uighurs are beasts," shouted a group of several hundred young men who marched down a boulevard

Great Bazaar, the Han crowd roared triumphantly.

In the shadow of the People's Theatre in the city, Han and Uighur theatre staff presented a rare example of ethnic harmony. One Han man sat outside the theatre and waved two Uighur women back, telling them to keep safe.

But feelings of harmony are not shared by many of Urumqi's Han ethnic majority, most of whom are recent "immigrants" to Xinjiang from other parts of the country. Even those Han who were not calling for revenge yesterday expressed no understanding of their Uighur compatriots.

"What kind of a people are they, that they cannot just take this good life of we're bringing to them?" said one man.

"We Han are really good to the Uighurs, we take good care of them."

**China unrest, Page 6**  
[www.ft.com/worldwide](http://www.ft.com/worldwide)

### Stem-cell sperm



Scientists have created human sperm for the first time from stem cells. The research, at Newcastle university, may enable infertile men to have children, while provoking ethical debates about the progress of reproductive biology. Karim Nayernia, project leader, said the sperm looked functional, though more research would be needed before "in vitro designed" sperm could fertilise human eggs.

Report, Page 2

## China detains Rio Tinto workers as tensions over iron ore talks rise

No explanation given for staff being held

By Ed Crooks in London and Patti Waldmeir in Shanghai

Four employees of the Anglo-Australian mining group Rio Tinto, including, reportedly, an Australian passport holder, have been detained in China without explanation, stoking tension amid tough talks between the company and Beijing over iron ore prices.

An official at the Australian embassy in Washington last night said diplomats in Beijing and Shanghai were trying to confirm reports of the detention of the employee, said by Australian newspapers to be Stern Hu, and to secure consular access to him.

Rio is among a group of the world's largest miners that are in the middle of tense negotiations over long-term iron ore

contracts with Chinese steelmakers, which have yet to be resolved even after many of the contracts expired last week.

The miner has been heavily criticised in China following its withdrawal from a planned \$19.5bn (£12.1bn) investment by Chinalco, the state-owned aluminium company.

The Sydney Morning Herald reported that Mr Hu, an Australian passport holder, was among those detained. The other three employees were Chinese passport holders, it said.

It is highly unusual for staff of a large foreign company to be detained in China. The four workers, said by the Herald to be members of Rio's iron ore sales team, were held for questioning on Sunday. The company said in a statement that it was "concerned about the employees' wellbeing and is doing everything possible to help them and support their families".

Rio said it "intends to cooperate fully with any investigation the Chinese authorities may wish to undertake and has sought clarification on what has occurred".

The mining group gave no details of the employees' nationality or of their positions at the company.

The four worked in Rio's Shanghai office, one of the company's main centres in China and its chief base in the country for iron ore sales and marketing.

But a spokesman for the Australian government in Washington said: "Our embassy in Beijing and the consulate-general in Shanghai are seeking to confirm the reports of the detention of an Australian man by Chinese authorities in Shanghai on July 5 2009 and are seeking urgent consular access to him."

Additional reporting by Richard McGregor in Beijing and Daniel Dombey in Washington

### World Markets

STOCK MARKETS	Jul 7	prev	%chg
S&P 500	888.64	898.72	-1.12
Nasdaq Comp	1765.77	1787.4	-1.21
Dow Jones Ind	8233.43	8324.87	-1.10
FTSEurofirst 300	826.36	833.03	-0.80
EU Euro Stoxx 50	2320.9	2343.88	-0.98
FTSE 100	4187.0	4194.91	-0.19
FTSE All-Share UK	2140.62	2144.34	-0.17
CAC 40	3048.57	3082.16	-1.09
Nikkei 225	4598.19	4651.82	-1.15
Hang Seng	9647.79	9680.87	-0.34
Hong Kong	17862.27	17979.41	-0.62
FTSE All World	(a)	157.56	-

CURRENCIES	Jul 7	prev	%chg
\$ per €	1.400	1.392	0.58
£ per €	1.619	1.620	-0.06
¥ per €	96.85	96.89	-0.04
¥ per \$	95.1	94.8	0.32
€ per \$	153.9	153.5	0.26
€ index	86.6	86.8	-0.22
\$/¥ per €	1.517	1.517	0.00
\$/£ per €	1.754	1.765	-0.62

INTEREST RATES	price	yield	chg
US Gov 10 yr	97.22	3.46	-0.05
UK Gov 10 yr	106.56	3.69	-0.02
Ger Gov 10 yr	101.61	3.31	0.00
Japan 10 yr	100.79	1.31	0.01
US Gov 30 yr	98.97	4.31	-0.04
Ger Gov 2 yr	100.52	1.22	0.00

COMMODITIES	Jul 7	prev	chg
Oil WTI \$/barrel	62.93	64.05	-1.12
Oil Brent \$/barrel	63.23	64.05	-0.82
Gold \$/ounce	925.00	932.80	-7.80

### On FT.com today

**Loan dilemma**  
Blog: Can ministers promote lending yet be tough on banks?

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World news

Somalia hires PwC to monitor delivery of aid

Failed state seeks accounts discipline

Donors want eye kept on \$67m

By Barney Jopson in Nairobi

PwC, the world's biggest accountancy firm, is making a move into the world's worst failed state...

and Sudan. It declined to discuss details of the Somalia project, citing client confidentiality and security issues.

Abdusalam Omer, a senior adviser at Somalia's finance ministry, said PwC would set up and act as the trustee of an account in Mogadishu...

Coastal targets

Somalia's interim government plans to use a portion of funds pledged by foreign donors for a pirate-hunting coastguard service...

Abdulkarim Adan Ibrahim, Somalia's first deputy prime minister, said his government's efforts to tackle the Islamists and piracy had been constrained by the slow delivery of funds from donors nervous about their money going astray...

"We want to be different from other African countries. We want to show the world that the money given to us will be going to where they want it, to be used in a transparent way," he said.

trust fund or the central bank of Djibouti are considered by some donors as too slow or too leaky.

Mr Omer said he expected PwC to send staff to Mogadishu from Nairobi, capital of neighbouring Kenya. But it is likely that the only people on the project to be based permanently in Somalia will be local agents who deliver small cash payments and record them in electronic ledgers.

The process will begin with PwC informing the relevant ministries when funds arrive. It will verify that their spending plans match donor objectives, release funds and ensure they get into the hands of intended recipients.

"If the money is for salaries it will be transferred to the Somali employees and PwC will get receipts and signatures to show they got it," Mr Omer said. Money flows will be recorded in a new computer system and reports sent back to donors every 15 days.

PwC is not being paid a commission of 2 per cent to 4 per cent on all funds that reach their intended destination, Mr Omer said.

PwC is renowned for its extreme aversion to litigation risk in developed markets. In Somalia it will face physical risk. Many non-Somali diplomats and aid workers who go to the country restrict their visits to a day or two and travel in armoured vehicles with Somali guards carrying machineguns.

"We need to make people confident the money will not be used to buy a house in the UK," said Ahmedou Ould Abdullah, UN envoy to Somalia, alluding to the UK connections of many senior Somali officials.

Fans mourn Jackson LA memorial



A fan signs a poster of Michael Jackson outside the public memorial service for the singer held at the Staples Center in Los Angeles yesterday.

Europe pulls plug on Ilisu dam insurance

By Delphine Strauss in Ankara and Chris Bryant in Berlin

Three European export credit guarantee agencies yesterday pulled out of Turkey's planned Ilisu dam on the Tigris river...

The dam is intended to provide 3.8bn kilowatt hours of electricity a year, helping to meet rising energy needs and spur development in Turkey's mainly Kurdish south-east.

"Our critical view towards Ilisu was correct from the beginning. If the protection of people, the environment and cultural assets cannot be guaranteed, then the delivery of credit guarantees for the dam must be stopped," Heidiemarie Wieczorek-Zeul, a German minister, said yesterday.

Turkey's environment ministry issued a statement criticising the decision as "political", claiming it had no legal basis.

The decision to cancel €450m (\$627m, £388m) in state export loan guarantees ends an unprecedented collaboration between the Austrian, German and Swiss agencies, which had argued that their involvement would help ensure the project met World Bank standards.

however, they ordered suppliers to halt work, giving Turkey 180 days to meet detailed criteria on resettlement, culture and the environment.

The contractually stipulated requirements... were not sufficiently fulfilled," the agencies said yesterday.

Euler Hermes Kreditversicherungs, which manages export guarantees for the German government, admitted it was the first time it had been forced to withdraw from such a contract.

ECFA Watch, an alliance of non-governmental groups that campaigns to reform export credit agencies, hailed the withdrawal of the three European governments as an "enormous success" but said: "There are also lots of other projects that are just as bad as Ilisu that remain in the dark."

Andritz Hydro, the Austrian-based machinery supplier leading the European consortium, said the decision would have no material financial impact as only a small amount of its €235m order value had been booked so far.

Timeline of a troubled project

- 1950s Plans to build a dam are mooted but do not gain momentum for several decades
1982 The final design for the dam is approved but the project remains on the drawing board until the late 1990s...
1996 The Turkish government offers Ilisu to the private sector...
2002 ABB and other companies withdraw from the project and the Swiss agency becomes a subcontractor.

Chaos at polls looms as Indonesia axes voter list

By John Aglionby in Jakarta

Indonesia's 176m eligible voters face potential confusion in today's presidential election after a last-minute court decision to throw out the official voter roll because of complaints of missed or dead voters and double registrations.

Officials said they would allow anyone with valid identity papers to cast ballots and cautioned that could cause some logistical problems as voters tried to figure out where to vote and what documents to

present. Election authorities in the world's third-largest democracy dismissed concerns about having insufficient ballot papers, as they were expecting turnout of about 75 per cent, down significantly from the last presidential poll in 2004.

Some voters were ecstatic at Monday's ruling by the Constitutional Court, which threw out the official voter rolls after complaints that up to 45m people might have been disenfranchised by the General Election Commission's incomplete

registration programme. "I wasn't able to vote in the [April] legislative election because my name was not on the list, even though I thought I registered," Bondan, a cold-drinks seller, said yesterday. "But now I will be able to vote. This is the real meaning of democracy, giving power to the people. I just hope they have enough ballot papers."

The sudden change is not expected to affect what most analysts anticipate will be President Susilo Bambang Yudhoyono's likely re-election.

In April's legislative election, Mr Yudhoyono's Democrat party won a leading 20.6 per cent of the vote. Most polls put his own popularity at several times that, thanks in part to the relatively robust state of south-east Asia's largest economy. Growth is slowing but remains above 4 per cent, while the government has mitigated the impact of the crisis through cash hand-outs, cheap rice and free education for the poor. Mr Yudhoyono is also seen to have been more successful

than his predecessors in tackling the country's endemic corruption. To secure victory, a candidate must win 50 per cent of the nationwide vote and at least 20 per cent of the vote in at least 17 of the country's 33 provinces. If no one fulfils the criteria, the top two will participate in a run-off in September. Most opinion polls predict Mr Yudhoyono will win a second and final five-year term without any need for the run-off. His two challengers are his predecessor, Megawati Sukarnoputri,

and the current vice-president, Jusuf Kalla. Neither challenger has used the campaign to attack the incumbent, with Mrs Megawati, the daughter of Indonesia's founding father, Sukarno, declaring last week it was "not the eastern way" to launch direct attacks on a political rival. The benign atmosphere has enabled Mr Yudhoyono to run a safe campaign around the unappealing slogan "Continue on!". Official results will not be announced for more than a fortnight.

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