

## This endless war

Obama plan is a campaign only in name, says Edward Luce [PAGE 13](#)

## Looking into the future

Lucy Kellaway predicts that McKinsey's predictions will come to nothing [PAGE 14](#)

## Rainmakers cash in

Advisory bankers match traders' pay for first time [PAGE 17](#)

## Queen urges Scots to take 'care' over vote

JIM PICKARD - LONDON

The Queen has urged Scots to "think very carefully" before they vote in Thursday's referendum in a rare intervention into the political arena.

Speaking after a Sunday service near Balmoral, she was careful not to endorse either side but told bystanders outside the church she hoped "people will think very carefully about the future".

Buckingham Palace insisted the queen was constitutionally impartial but the No campaign privately welcomed the comment.

**Future of the union** pages 2&3

**Editorial Comment** page 12

**Chris Cummings** page 13



Independence supporters march towards the BBC's Scottish headquarters in Glasgow to protest against perceived bias — Getty Images

# Contrite Silicon Valley failed to judge force of anti-tech backlash

### Google and Facebook concede action is needed to prevent more damage to their image

RICHARD WATERS - SAN FRANCISCO

The US tech industry has failed to appreciate the mounting global concern over its record on online privacy and security and must act fast to prevent deeper damage to its image, Silicon Valley's top executives and investors have conceded.

The self-criticism, much of it aimed at consumer internet companies groups such as Google and Facebook, comes as some of the tech sector's best-known names have been battered by a backlash over revelations of widespread US internet surveillance and concerns about their cultural dominance.

Peter Thiel, a start-up investor and Facebook director, said: "Silicon Valley is quite oblivious to the degree to which this crescendo of concern is building up

in Europe. It's an extremely important thing and Silicon Valley is underestimating it badly."

Google has been most in the line of fire, with the European Commission turning up the heat in a competition case last week and a recent "right to be forgotten" legal ruling forcing it to remove some links from its European search services.

"I was surprised it turned this quickly," Eric Schmidt, chairman of Google, said of the change in the political mood over US tech.

However, he denied that Silicon Valley had failed to anticipate the concerns. "It's easy to blame the tech companies for being insufficiently sensitive - we are way sensitive, trust me."

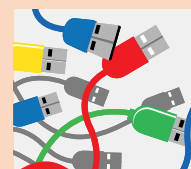
Mr Thiel conceded that Facebook had

work to do on its approach to Europe: "We certainly don't think there's a one-size-fits-all. Facebook would like to be more sensitive to more local concerns."

Marc Benioff, chief executive of Salesforce.com, one of the biggest sellers of internet-based services to businesses, said consumer internet companies had "paid a terrible price" for imposing a US-centric view of their technology.

Jim Breyer, an early investor and former board member of Facebook, said the US government and tech companies had to "step up significantly if they want to regain the world's trust".

The backlash over privacy and security has started to ripple more widely through Silicon Valley, where young companies have raced to launch new technologies without making these



**Big Tech at bay**  
The era of untrammelled global expansion is over for Silicon Valley [Page 10](#)

issues an overriding priority. The tensions have exposed rifts inside the technology industry.

While companies such as Facebook and Google claim to have seen little damage to their business, those selling cloud services are expected to lose \$22bn - \$45bn over the next three years as a result of the Snowden backlash, according to the Information Technology and Innovation Foundation.

"Some in our industry have underestimated the degree to which people care about privacy," said Brad Smith, general counsel of Microsoft, which is trying to refocus its business on cloud services. "I'm not sure across Silicon Valley people have completely woken up to this."

## Ex-BP chief warns of danger Russian sanctions will choke world oil supplies

GUY CHAZAN - ENERGY EDITOR

US and EU sanctions against Moscow are in danger of turning round and biting the west by constraining global oil supply and pushing up prices, the former chief executive of BP has warned.

Tony Hayward said that cutting Russia's energy groups off from capital markets and restricting their access to western oil technology would eventually lead to less investment in Russian oil production and damage long-term supply. He said the US shale boom had obscured the growing risks to the world's supply but its effect would wear off, leaving the global economy dangerously exposed to potential disruptions in the flow of oil.

He spoke as the US and Europe expanded sanctions against Russia on Friday, with the US adding Gazprom,

Europe's leading energy provider, and Lukoil, the privately owned oil group, to the companies deprived of US goods, technology and services for deep water, Arctic offshore and shale projects. The EU and US have also imposed restrictions on financing for some state-owned Russian energy groups.

"The world has been lulled into a false sense of security because of what's going on in the US," Mr Hayward said in an interview with the Financial Times, referring to the shale boom that has driven a 60 per cent rise in US crude output since 2008. But he asked: "When US supply peaks, where will the new supply come from?"

As output from mature basins declines, the world has banked on new barrels from places such as Canada, Iraq and Russia. But Russian production from untapped resources in the Arctic

and shale reserves in Siberia are threatened by sanctions, he said. "Because of financial sanctions, the big gorillas are going to start cutting their activities."

Mr Hayward, who runs oil explorer Genel Energy and is chairman of commodities group Glencore, also questioned projections for a big increase in oil production from Iraq. He said the country would struggle to reach targets to double production by 2020.

Sanctions could endanger joint ventures that Rosneft, the state-controlled Russian oil group, has set up with western majors such as ExxonMobil to explore in Russia's Arctic seas. Michael Cohen, an analyst at Barclays, said they could also make it harder for European oil groups and service companies to provide support for their current operations in Russia.

**Monday Interview** page 14



## Shard owner sued over US embassy contract

The Qatari owner of the Shard skyscraper is being sued for £10m by its partner on the redevelopment of the US embassy in London, which has ground to a halt. Chelsfield Partners has lodged a claim in the High Court against Qatari Diar. The developer alleges that it is owed the money under the contract to redevelop the building in Grosvenor Square.

**Report** [PAGE 18](#)

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## World Markets

STOCK MARKETS			
	Sep 12	prev	%chg
S&P 500	1985.54	1997.45	-0.60
Nasdaq Composite	4567.60	4591.81	-0.53
Dow Jones Ind	16987.51	17049.00	-0.36
FTSEurofirst 300	1382.98	1383.94	-0.07
Euro Stoxx 50	3235.07	3237.76	-0.08
FTSE 100	6806.96	6799.62	0.11
FTSE All-Share	3627.85	3621.17	0.18
CAC 40	4441.70	4440.90	0.02
Xetra Dax	9651.13	9691.28	-0.41
Nikkei	15948.29	15909.20	0.25
Hang Seng	24595.32	24662.64	-0.27
FTSE All World \$	280.83	282.14	-0.46

CURRENCIES					
	Sep 12	prev			
\$ per €	1.294	1.294	€ per \$	0.773	0.773
\$ per £	1.623	1.623	£ per \$	0.616	0.616
€ per €	0.797	0.797	€ per £	1.254	1.254
¥ per \$	107.365	106.825	¥ per €	138.908	138.242
¥ per £	174.243	173.414	£ index	86.944	86.536
€ index	94.018	93.985	\$ index	90.122	90.085
SFr per €	1.210	1.210	SFr per £	1.518	1.518

COMMODITIES			
	Sep 12	prev	%chg
Oil WTI \$ Sep	92.23	92.83	-0.65
Oil Brent \$ Sep	96.98	98.08	-1.12
Gold \$	1229.36	1240.40	-0.89

INTEREST RATES			
	price	yield	chg
US Gov 10 yr	140.73	2.54	-0.45
UK Gov 10 yr	102.02	2.50	-0.19
Ger Gov 10 yr	99.36	1.04	-0.26
Jpn Gov 10 yr	114.36	0.64	-0.01
US Gov 30 yr	91.98	3.28	-0.56
Ger Gov 2 yr	101.45	4.49	-0.03

	price	prev	chg
Fed Funds Eff	0.09	0.10	-0.01
US 3m Bills	0.02	0.02	0.00
Euro Libor 3m	0.05	0.05	0.00
UK 3m	0.56	0.56	0.00

Prices are latest for edition Data provided by Morningstar

## Briefing

► **New look for the Financial Times**  
The Financial Times today has a new look. It has a new typeface (called Financier), a wider column measure, redesigned graphics and smarter navigation. The refreshed FT will highlight the accurate, authoritative content that is our hallmark. —LIONEL BARBER, EDITOR

► **Ukraine stands firm on EU deal**  
Kiev has vowed not to "change a word" of the EU deal that sparked the turmoil leading to a Russian-backed separatist rising. —PAGE 7; SERGEY KARAGANOV, PAGE 13

► **Search to fill top job at Whitehall goes on**  
Sir Ian Cheshire has rejected an offer to head the civil service, underlining the dearth of business figures willing to take on government roles. —PAGE 4

► **Fears of Modi failing his mandate**  
Indian and foreign business leaders backed Narendra Modi because he offered an end to corruption and indecision. Many fear he is squandering his mandate. —PAGE 8



► **Cameron resolve on jihadis**  
Prime minister David Cameron warned that Isis's first killing of a British captive would only strengthen the UK's resolve against the jihadis. —PAGE 4; QATAR'S ASSAD FOCUS, PAGE 7; EDWARD LUCE, PAGE 13

► **US tax inversion hopes fade**  
While both Republicans and Democrats have criticised foreign takeovers to cut tax, the discord between the two parties over how to tackle them has grown. —PAGE 6

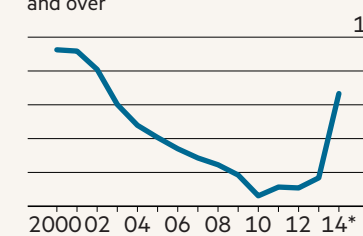
► **Netflix floods into Europe**  
With its push this week into France, Germany, Austria, Switzerland, Belgium and Luxembourg, Netflix aims to be the new black for European consumers. —PAGE 18

► **Sweden heads for hung parliament**  
Sweden was braced for a hung parliament as the Sweden Democrats - a party with neo-Nazi roots - looked set to deprive mainstream parties of a clear victory. —PAGE 6

## Datawatch

### Scottish electorate

Registered voters for Westminster elections as % of population aged 18 and over

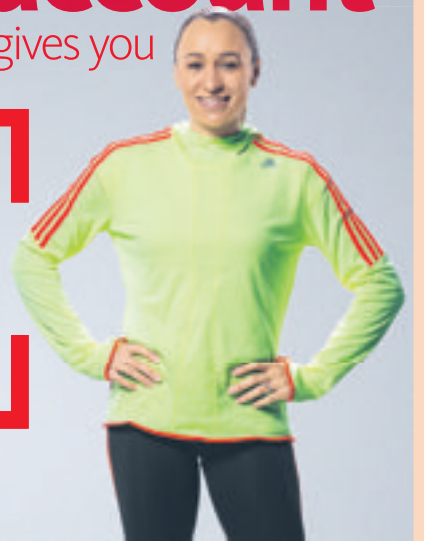


\* Registered voters for independence referendum as a % of population aged 16 and over  
Source: General Register Office for Scotland

After years of not bothering to register for parliamentary elections let alone vote, Scots have rushed to register for the referendum. The electorate for Thursday is a record 4.29m, helped by lowering the voting age to 16.

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## THE BIG READ. TECHNOLOGY

## Big Tech at bay

In the first part of a series on the backlash against the power and reach of US technology companies, *Richard Waters* reports that Silicon Valley's era of untrammelled global expansion is over

For two decades, they have been celebrated as the rock stars of an emerging digital culture. Unconventional and driven, America's technology entrepreneurs won the world's admiration as they rode the internet wave, remaking swaths of personal, social and business life with each innovation.

But in the past year, the world has grown uneasy with the bargain it has struck with the giants of US technology. In much of the world today, the companies are no longer seen as the optimistic agents of a better future, but as overpowerful, prying and ruthless.

The indictments against the biggest tech companies have been piling up. These have included accusations that some were complicit in widespread US internet surveillance – a claim that has fanned the smouldering worries about how Big Tech handles mountains of personal data.

Their incursion into more areas of economic activity has also stirred a backlash. This month, the European Commission walked away from a deal with Google to resolve a competition complaint, while a German court banned American taxi service Uber, instigator of the raucous taxi app wars spreading around the world.

And their huge personal and corporate wealth has attracted the kind of envy and resentment previously reserved for that most resented of social cliques, bankers. Even if entirely legal, the avoidance schemes that have left companies such as Apple and Amazon paying little in taxes in many countries has engendered widespread resentment and led to investigations by the EU.

The message has started to hit home. An industry that has made a virtue of ignoring the accepted principles on which much of the world runs, boasting about the "disruption" it has brought to the business practices of the less enlightened, is learning a different language.

The spread of US-dominated tech "can't become an exercise where one

'The US made a huge mistake. It's naive to think you can spy at this level and not be discovered.'

Eric Schmidt

culture and country imposes its values on the world", says Brad Smith, the chief lawyer and main international ambassador for Microsoft – a company that has earned its fair share of criticism for throwing its weight around over the years. Particularly on issues such as privacy, some American internet companies have not stopped to think about the impact their technology is having around the world, he says. "The trouble is people who take an American view of the technology."

Some of the very people who helped to finance and build the current generation of world-beating technology that emanated from Silicon Valley now seem to be having second thoughts when it comes to considering what will follow.

"We're starting to enter a very new era when it comes to privacy and security, and how all these internet services are designed," says Jim Breyer, an early investor in Facebook and, until last year, a member of its board.

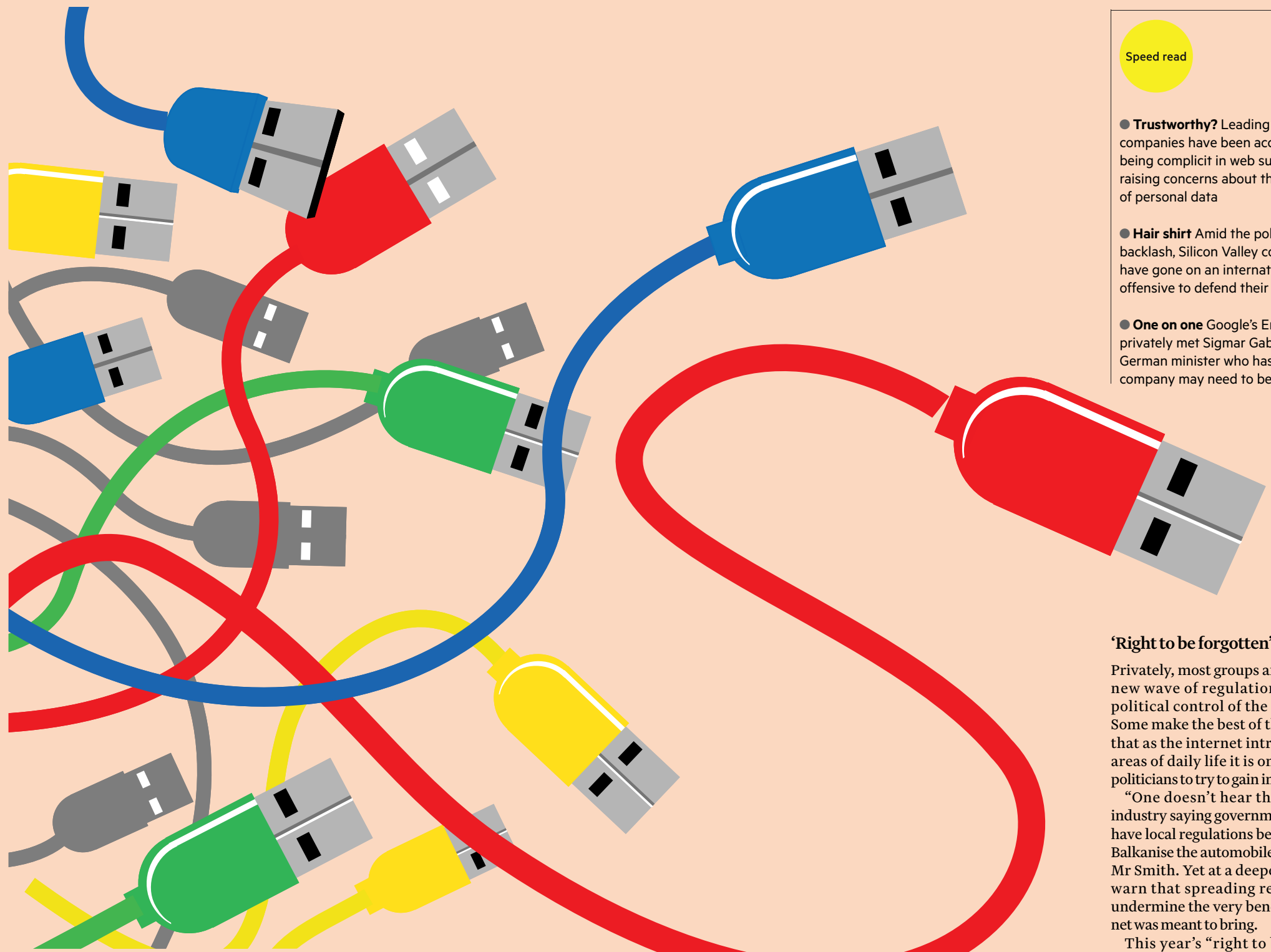
Apple's launch last week of mobile services that handle sensitive personal information in fields such as healthcare records and payments is a sign of the next markets Silicon Valley is targeting, accentuating the need for more secure technology.

The next generation of start-ups is being designed from the beginning with privacy and security in mind, Mr Breyer says, in what amounts to a put-down of the practices of groups such as Facebook. "It's a different mindset from the companies we saw being started five or seven years ago. I don't think the scale of the opportunity worldwide is becoming any less real for US tech companies."

#### Charm offensive

Changes in the political climate have brought on an international charm offensive in which a parade of US tech executives have traversed the globe in desperate attempts to defend their industry's fraying reputation.

Eric Schmidt, chairman of Google, says he spent June working on the search engine company's problems in Germany, hoping he could stem a spreading political crisis in Europe's biggest economy. That included a private meeting with Sigmar Gabriel, the German economy minister who this year suggested



#### Speed read

● **Trustworthy?** Leading US tech companies have been accused of being complicit in web surveillance, raising concerns about their handling of personal data

● **Hair shirt** Amid the political backlash, Silicon Valley companies have gone on an international charm offensive to defend their reputation

● **One on one** Google's Eric Schmidt privately met Sigmar Gabriel, the German minister who has said the company may need to be broken up

that Google may have become too powerful and needs to be broken up.

The idea, coming from such a senior politician, was nothing short of "astounding", the Google chairman says now. "There's no need for Google to be broken up," he says. Instead, Europe needs to do more to build a competitive tech industry of its own.

But in countries tired of being lectured by Americans about innovation, the message is in danger of wearing thin. Marc Benioff, founder of Salesforce.com, a pioneer in cloud services for businesses, found himself squirming during one such meeting in France.

"One of the leaders of our industry began lecturing the French that the word 'entrepreneur' is French and they need to support entrepreneurs," he says. The subtext was not lost on the hosts, he adds.

#### Out of the bubble

For Silicon Valley, the era of untrammelled global expansion is over. As the revelations of illicit surveillance by the US National Security Agency have curdled, the tech industry has been forced to defend itself to its customers around the world. Suddenly, the insularity of the tech companies centred around the San Francisco Bay area – long considered to be a vital feature of the region's successful hothouse culture – has come to be seen as a serious liability.

"If you live in Silicon Valley, you live in a bubble," says Pat Gelsinger, chief executive of VMware, one of the region's leading cloud technology companies. "You get a very jaded view of how the world views things."

The outrage that followed last year's disclosures about surveillance by Edward Snowden, the former intelligence contractor, has changed all that. The NSA scandal crystallised wider anxieties about the spreading power of a handful of US companies that dominate the tech industry.

"It's a black eye for US tech," Mr Gelsinger says of the Snowden leaks. "It was

the starting point for the many fissures that are spreading across the [tech] world. Every company in the Valley is trying to position themselves to understand how they play in that world."

The anxieties have risen as new digital platforms such as the Apple and Google mobile ecosystems and Facebook's social network extend their reach into more corners of social and business life. While it is facing a backlash on the international stage, Silicon Valley is in a period of a creative frenzy at home, as new cloud technologies open a wider range of markets to disruption from the tech industry.

It is no longer just music labels or newspapers whose businesses are threatened: from the taxi drivers riled by Uber to the banks nervous that internet companies are now targeting finance, few feel safe.

"It's bringing a lot of anxiety in industries that didn't have to interface with the technology industry," says Evgeny Morozov, one of the internet industry's fiercest critics. "Right now, everything is up for grabs."

The winner-takes-all effect of many online markets has added to the fears.

'One person's 'right to be forgotten' is another person's Orwellian memory hole.'

Marc Andreessen

There is a risk that large parts of digital life "will be replaced by one big company that serves everything up", says Mr Morozov. "You can question how many domains you want Google and Apple to have power in."

In the wake of the surveillance scandal, countries such as China and Russia have accelerated their efforts to take more direct control of internet activity and build local technology industries likely to be more susceptible to political pressure. And in countries such as Germany and France, the worries over privacy, fears about a possible loss of cultural identity and unease about the economic might of the digital titans have combined to provoke a sharp backlash.

#### A new normal

From Silicon Valley's vantage point, this has led to a wearied acceptance that the US tech companies are facing a "new normal" in which the digital markets they created and dominated will no longer be as free.

In defending themselves, US tech

executives have resorted to some common tactics. The first has been to bend over backwards to distance themselves from their own country's political leaders in the handling of the spying scandal.

In response to the lacerating attacks he says he heard in Germany, Mr Schmidt replies: "I have an easy answer: I was not responsible, and I am opposed to it."

He believes the US government "made a huge, huge mistake. It's naive to think you can spy on this level and not have it discovered."

Mr Smith boasts about the three lawsuits Microsoft has filed against its own government over issues related to government access to data the company holds – the kind of confrontation that would have been unthinkable before the Snowden disclosures.

#### An uneasy distance

But with questions remaining about whether they went beyond strict legal requirements in aiding the US intelligence services, the tech groups have struggled to distance themselves from the scandal as much as they would like.

Microsoft may be making much of its stand against US data over-reach now, but documents released by Mr Snowden showed it helped US intelligence services with ways to listen to conversations passing over Skype and other communications services it owns. Like other tech companies, it has said it was legally required to comply.

The companies in most cases had no choice but to go along with US intelligence demands, says Mr Gelsinger, though he adds that "at the margin" there are valid questions about whether some should have "pushed back harder on the [government] requests that were coming in".

A second common response from US tech companies has been to paint themselves as being squarely on the side of economic growth. Feeding Europe's inferiority complex about its failure to nurture a stronger regional tech industry has been part of the formula – leading to the sort of wearying lectures about innovation and entrepreneurialism witnessed by Mr Benioff.

"Germany has been a leader for decades but has missed this software revolution," says Mr Schmidt.

According to this view, this is just the moment that Europe needs to open up its digital markets, not retreat into protectionism – and US companies are on hand to teach the skills and the entrepreneurial mindset that are needed.

#### 'Right to be forgotten'

Privately, most groups are braced for a new wave of regulation and greater political control of the online world. Some make the best of this, admitting that as the internet intrudes on more areas of daily life it is only natural for politicians to try to gain influence.

"One doesn't hear the automobile industry saying governments shouldn't have local regulations because it would Balkanise the automobile market," says Mr Smith. Yet at a deeper level, many warn that spreading regulation will undermine the very benefits the internet was meant to bring.

This year's "right to be forgotten" ruling allowing Europeans in some circumstances to have links to information about them removed from search engines has drawn scathing criticism in Silicon Valley. "One person's right to be forgotten is another person's Orwellian memory hole," says Marc Andreessen, a prominent Silicon Valley investor.

Regulation that places more national-level rules on networks in Europe also

'There's a lot of anxiety in other industries. How many domains do you want Google and Apple to have power in?'

Evgeny Morozov

draws warnings that it will put paid to any hopes the region has of building a significant internet industry of its own.

"Networks are about scale," says Saul Klein, a partner at Index Ventures, one of London's leading start-up investors. "Europe as a federated network has scale. Europe Balkanised looks puny compared to the US, China, Russia, India, Brazil or even Nigeria."

Another fear is that as privacy laws are strengthened, existing restrictions on the flow of data will become more pronounced, preventing the efficiencies promised by cross-border business.

"You'll create tremendous friction in the flow of information between companies that work together globally," says Aaron Levie, chief executive of Box Inc, a cloud storage company. "The industries that have the tightest controls on data generally have the least innovation."

Critics say these arguments are self-serving, and that the tech companies are masters at conflating the idealistic values on which the internet was founded with their commercial interests.

The argument that information should always be allowed to flow freely is as simplistic as the market fundamentalism that is sometimes used to justify unfettered capitalism, says Mr Morozov – that "if you interfere with the market, the market will collapse."

Whatever the rights or wrongs of these arguments, Silicon Valley realists are preparing for a new and more difficult period as countries around the world take stock of their own place in the digital revolution.

"There was this vision that we were moving to one global economy, and it has broken down," says Peter Schwartz, head of strategy at Salesforce.com. "What we have is fragmentation, and the internet is a big part of that fragmentation."

Speak no evil: Google chairman Eric Schmidt in Madrid to discuss the 'right to be forgotten' ruling

Getty



#### Tomorrow Europe strikes back

Silicon Valley faces a backlash across the continent, but especially in Germany



## THE BIG READ. TECHNOLOGY

## Europe strikes back

While the backlash against US technology dominance is spreading across the continent, nowhere is it stronger than in Germany, write *Jeevan Vasagar, Richard Waters and James Fontanella-Khan*

Just two weeks after the first disclosures about the National Security Agency's vast surveillance programme, US President Barack Obama flew to Berlin, where he gave a speech on the eastern side of the Brandenburg Gate. The choice of venue was ironic in light of the scandal: it was on this side of the Berlin Wall where the Stasi, communist East Germany's secret police, spied on its citizens for decades.

This legacy gave the US spying revelations a particularly forceful impact in Germany – and on the nation's chancellor, who grew up in East Germany. Ms Merkel pressed Mr Obama on the programme that day in June last year, still months before the revelation that the US had listened to her private phone calls.

In a joint press conference with Mr Obama, Ms Merkel caused a stir by referring to the internet as “Neuland” – uncharted territory – and suggested it was a potential threat to liberty. “The internet is uncharted territory for us all,” she declared. “And it makes it possible for enemies and opponents of our democratic order to endanger our way of life with entirely new means and entirely new approaches.”

Her stark comments laid bare the gulf emerging between some of Europe's policy makers and the prevailing view in the US, not least with the Silicon Valley entrepreneurs who see an unfettered web as a tool for spreading liberty.

Fifteen months later Silicon Valley is facing a powerful backlash across Europe. Nowhere is the resentment fiercer than in Europe's biggest economy. Taxi drivers have protested against Uber, the US ride-sharing service, from London to Milan, but it is in Germany that a militant taxi industry has won a countrywide injunction against the company. A senior German politician has called for a break-up of Google, fearing the company has abused its dominance of search. And German media groups are pressing politicians in Brussels to take a harder line on Google and other US internet groups.

It took the leaks about NSA surveillance to bring the issue into the open, but the strong emotions that have been stirred up point to far deeper anxieties about Germany's place in the digital world. For many years Germany “has totally misunderstood the importance and relevance” of the internet, says Stefan Heumann of the Stiftung Neue Verantwortung, a think-tank.

“With [Edward] Snowden, they've come to realise it's at the centre of geostrategic influence and they are in a very weak position,” Mr Heumann says. “Most of the software and the innovative business models in the internet come from the US.”

Germany's reaction has been the most pronounced, but it reflects an unease across continental Europe about the growing power of digital platforms controlled from across the Atlantic. Germany – along with France, with which it is closely aligned on internet issues – is working to define the digital agenda that will shape the next European Commission, which takes office later this year.

This looks set to involve actions to curtail the dominance of the big US technology groups, as well as a crackdown on how they handle personal data. Tech entrepreneurs are braced for a wave of regulation that they warn could squash the very innovation that Europe needs to inject life into its sluggish economies.

#### A breakdown in trust

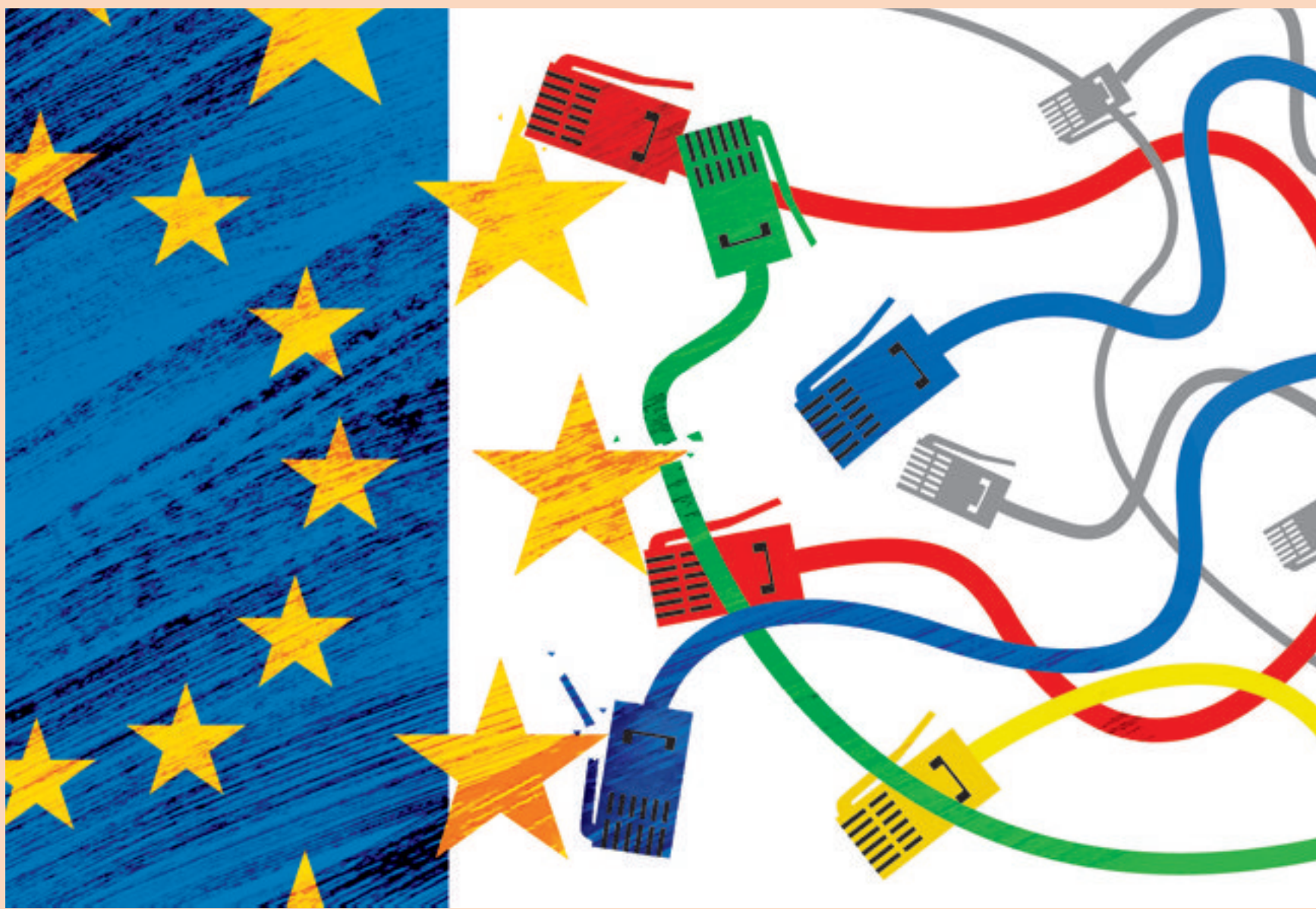
The backlash has been marked by a visceral anger among some of Europe's political leaders, leaving US tech executives worried that the repercussions will be difficult to predict or control, and the potential damage all the greater.

“It's emotional and personal,” says Eric Schmidt, chairman of Google, of the way that politicians such as Ms Merkel have recoiled at the NSA revelations.

He recounts how, at a recent dinner in Germany, the German chancellor lashed out at the way US intelligence services had bugged her personal phone, asking sarcastically: “Were they trying to listen to the calls with my mother?”

The result, says Mr Schmidt, has been a fundamental breakdown in trust on the part of Germany's leaders: “They perceive that this special bond they have with the US is broken.”

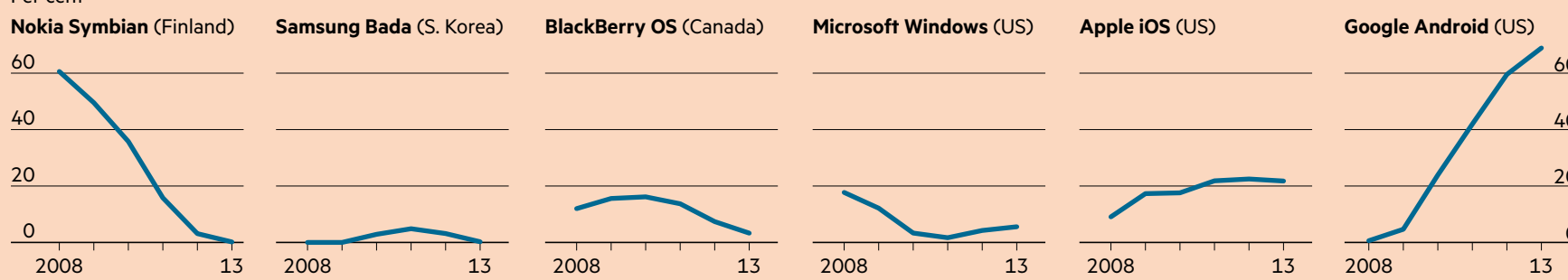
This has brought to the fore growing anxieties over the country's poor competitiveness in digital services and a possible erosion of cultural identity. “There is technology angst,” says Peter Thiel, one of Silicon Valley's most successful tech investors and himself a German. “It's about European decline. There is a sense in Silicon Valley that it is on the right side of history, and Europe is on the



FT illustration: Lloyd Thatcher

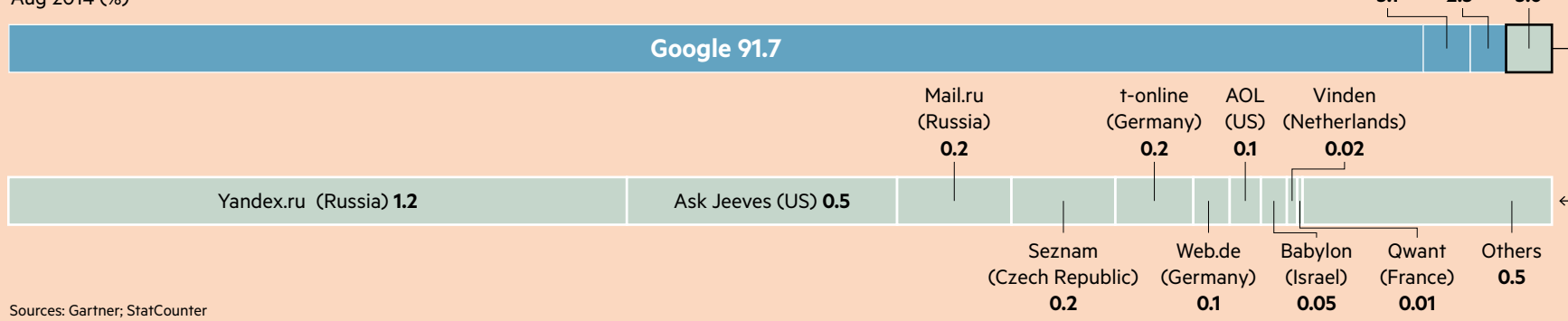
#### European smartphone market share

Per cent



#### European search market share

Aug 2014 (%)



Sources: Gartner, StatCounter

wrong side of history.” While sharing the belief himself, Mr Thiel warns that it is a “dangerous view” and that it will bring an even greater backlash in Europe.

It is Google, however, that has become the focus of much of the anxiety. Brussels last week threw out a compromise that would have resolved a long-running competition investigation, raising the risk of a formal indictment. The company's vaunting ambition has fanned the worries, as it sets its eyes on markets as varied as electric cars and health.

#### A new airbus

Google is seen as the archetype of the overreaching US tech company, even as it tries to be seen as international in its outlook, says Mr Thiel, a director of rival Facebook. “Don't be evil” as a corporate slogan . . . sounds to Europe incredibly American, dividing the world into good and evil,” he says.

The search for ways to counter Google echoes earlier transatlantic battles over control of strategically important industries, says Evgeny Morozov, a critic of the unfettered power of internet companies. At “exclusive gatherings” across the continent, there is frequent talk of “the need to follow the example of Airbus” and create an alternative to Google, he says.

Stitching together a new industrial champion is harder to achieve, however, when Europe lacks a base of successful smaller companies. A previous attempt to launch a “European Google” – the Quero search project, announced by the French and German political leaders nine years ago – quickly flopped.

Some European entrepreneurs hope that worries about privacy and security following the NSA scandal will give initiatives such as this a new lease of life. They include Qwant, a French search engine start-up that has an emphasis on privacy for users. It recently attracted an investment from Axel Springer, the Ger-

man media group whose chief executive, Mathias Döpfner, has led the charge against Google, which he has accused of seeking a digital “superstate”.

Qwant remains a tiny player in a market driven by network effects, however. Though it processed more than half a billion search requests last year, the number is dwarfed by the more than 100bn a month handled by Google.

With attempts to counter Google flagging, Brussels has faced a stream of complaints about the US company's tactics.

“Start-up companies in Europe can do well, until they are medium-sized – but when they get bigger, when they try to go global, they become a threat,” says Paulo Trezentos, a Portuguese tech entrepreneur who accuses Google of anti-competitive behaviour.

Aptoido, the Portuguese mobile app store company he runs, is one of more than a dozen companies that have protested to Brussels about Google's Android mobile operating system. In a complaint that closely echoes the earlier European case against Microsoft's Windows, the EU is expected to look at whether Google abuses the dominance of Android to favour its own services, such as maps or its app store. Google declined to comment.

#### ‘Glasses will be broken’

Undeterred, Google has been trying to paint itself as the champion of innovation in Europe. In June, announcing the company's investment in a Berlin start-up venue called The Factory, Mr Schmidt declared that Germany was becoming a “start-up nation”.

The pitch was carefully calibrated to “appeal to European anxiety”, says Mr Morozov, by playing on the insecurities local politicians feel over the far greater success of US tech entrepreneurs.

Google's campaign to keep Europe's digital markets open is echoed by

some homegrown tech entrepreneurs.

Jan Rezac, chief executive of Socialbakers, a Prague-based company that monitors social networks for leading brands, warns that attacks by European regulators on Silicon Valley business models would be counter-productive.

“This will only lead to destruction, not innovation,” he says. “We need to spend less time wondering if this should or should not be allowed. Yes, glasses will be broken, taxi drivers will lose jobs. That's the world, that's the market.”

Supporters of the German start-up scene hope for a breakthrough with the pending IPO of Rocket Internet, an internet incubator with investments in companies in developing countries. Rocket's mission to become the largest internet platform outside the US and China demonstrates the ambition of European tech entrepreneurs, says Saul Klein, a London-based investor.

The number of European start-ups achieving valuations of €1bn has been growing rapidly, he adds. That may be much less than the \$18bn valuation recently given to Uber, but it still represents a progression that hints at more continent-wide companies to come.

#### European standards

The fear of digital domination by the US raises questions that reach deeper than industrial competitiveness, as the instinctive distrust that Ms Merkel expressed for the open internet suggests. Writing this year in the Frankfurter Allgemeine Zeitung, Sigmar Gabriel, the German economy minister, laid out the scale of the conflict: “It is the future of democracy in the digital age that is at stake here.”

The concerns in Europe have converged on the question of how personal data are handled. Supporters of stronger privacy rules have been emboldened by this year's “right to be forgotten” ruling,

#### Speed read

● **Resistance movement** Germany is leading the European pushback against big US tech groups, with a top politician calling for a Google break-up

● **Private matters** Along with France, Germany is working to define the digital agenda that will shape the next European Commission. Protection of personal data will be a top priority

● **Lobby line** Tech executives warn that digital regulation could squash the innovation that Europe needs to inject life into its sluggish economies

which lets European citizens ask for links to information about them to be removed from Google.

According to Mr Gabriel, the case has “re-established the sovereignty of law by ruling that Google can no longer simply bypass European standards”, making it a call to action for European politicians to push for more.

Berlin has shown its hand since the surveillance scandal, giving its backing to the reinstatement of a measure that would limit the ability of US intelligence agencies to spy on EU citizens. The provision, contained in article 42 of the EU's proposed data protection regulation, would bar the disclosure of an EU citizen's data to a third party abroad without authorisation by a European data protection authority. That would put US companies in a bind when served with a US court order requiring them to hand over the same data – a conflict they say would make the system unworkable.

Silicon Valley is already braced for a hostile reception from the incoming administration in Brussels. European political circles have been rife with talk that incoming European Commission president Jean-Claude Juncker owes a debt to Axel Springer's Mr Döpfner, who publicly backed him while Ms Merkel was hesitating over the choice.

Martin Selmayr, head of Mr Juncker's cabinet, is regarded by US tech industry lobbyists with concern, since he has worked with EU justice commissioner Viviane Reding, a strong supporter of tougher privacy rules.

“Obviously for him to see a tough data protection regulation going through is a priority – it's personal to him,” says a lobbyist for the tech industry.

#### ‘We will not change these laws’

The change of tone in Brussels is evident from the EU's new digital policy chief Günther Oettinger, who warned Google last week that it faced curbs on its market power. The German commissioner replaces Neelie Kroes, who had sided with Uber in its fight.

Even as the climate changes in Brussels, national regulators have already been growing more hostile. President François Hollande's government in France has introduced legislation to curb free delivery of books by Amazon in a bid to protect the country's network of traditional independent booksellers. It has also forced Google to pay €60m to aid struggling French newspapers after threatening laws to force it to share revenues from links to online stories.

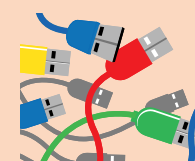
Local regulators and courts in Europe are starting to cast a wary eye on the social consequences that stem from the sort of digital disruption championed by Silicon Valley. The latest test will come as Uber appears in court in Frankfurt today over a nationwide ban imposed on its Uber Pop service. By ignoring rules applied to other taxi services, it is gaining an unfair advantage, critics say.

“We will most certainly not change these laws, and if Uber does not fully comply then they will have to take a closer look at their business model,” Heiko Maas, Germany's justice minister, told the FT.

The political pressure in Europe for greater controls on the internet economy is mounting, particularly when it comes to the data-handling regulations that set the basic rules of the road.

“This is the conundrum Europeans are in, if they decide to implement a very high data-protection standard,” says Mr Heumann of the Stiftung Neue Verantwortung think-tank. “It would make it hard for US companies to operate here – but it would also undermine the European tech industry.”

Additional reporting by Murad Ahmed and Hugh Carnegie



#### Tomorrow Closing the net

The NSA scandal has led to a crackdown on online freedoms, threatening to fracture the internet



THE BIG READ. TECHNOLOGY

# On a tighter leash

Advocates of a free and open internet warn that efforts to curb data and protect people from surveillance will Balkanise the digital world. But is it possible to 'break' the net? *By FT reporters*

In January some users of Bookmate, a Moscow internet start-up, had an unpleasant surprise. When they tried to access the monthly book subscription service - a Netflix for the Russian literary world - they received a pop-up message instead from their local internet service provider: Bookmate had been blocked "on the grounds of Russian law".

In theory only child pornography and copyright violations are legal reasons for blocking websites in Russia. After complaints to the ISP and the removal of what seemed to be the offending title - a book that dealt with Russian nationalism - the block was eventually lifted.

But the episode was enough to convince Samat Galimov, a Bookmate web developer, of the arbitrariness of Russia's internet rules. "It's no secret that internet businesses are massively fleeing the country," he wrote on a Russian news site. "Hosting, domains, legal entities are all moving to more favourable and predictable jurisdictions."

Among them was Pavel Durov, founder of Russia's answer to Facebook, who left the country for Berlin this spring after complaining about government control over the internet.

Since then Russia's challenge to the free workings of the internet has reached new levels. In July it became the first nation to pass a law requiring internet companies to keep all personal information about its citizens on servers located inside the country. Like Brazil and other countries that have weighed similar rules in the wake of leaks about online surveillance by the US National Security Agency, the aim is ostensibly to protect the privacy of internet users.

But critics say there is a more sinister motive: to make it easier for intelligence services to spy on their own citizens.

Blocking websites, bottling up information so it cannot flow freely around the world and ramping up the monitoring of people who are online are becoming increasingly common ways to manage the internet - and not just in authoritarian countries.

Democracies have also turned to greater controls to protect their citizens from prying by foreign governments. Nationalism and regional ambition have added to the pressures as the forces of globalisation have come up against the new realities of a more fractious world.

As the common communication platform for connecting the globe, the internet has inevitably frayed as tensions have risen. The risk now, according to the alarmists, is that it will start to come apart at the seams: that after 20 years of connecting the world ever more tightly, the internet is about to be Balkanised.

Eric Schmidt, Google chairman, is among those warning that the steady erosion of online freedoms will end badly. "You can end up in a situation where you break the internet," he says.

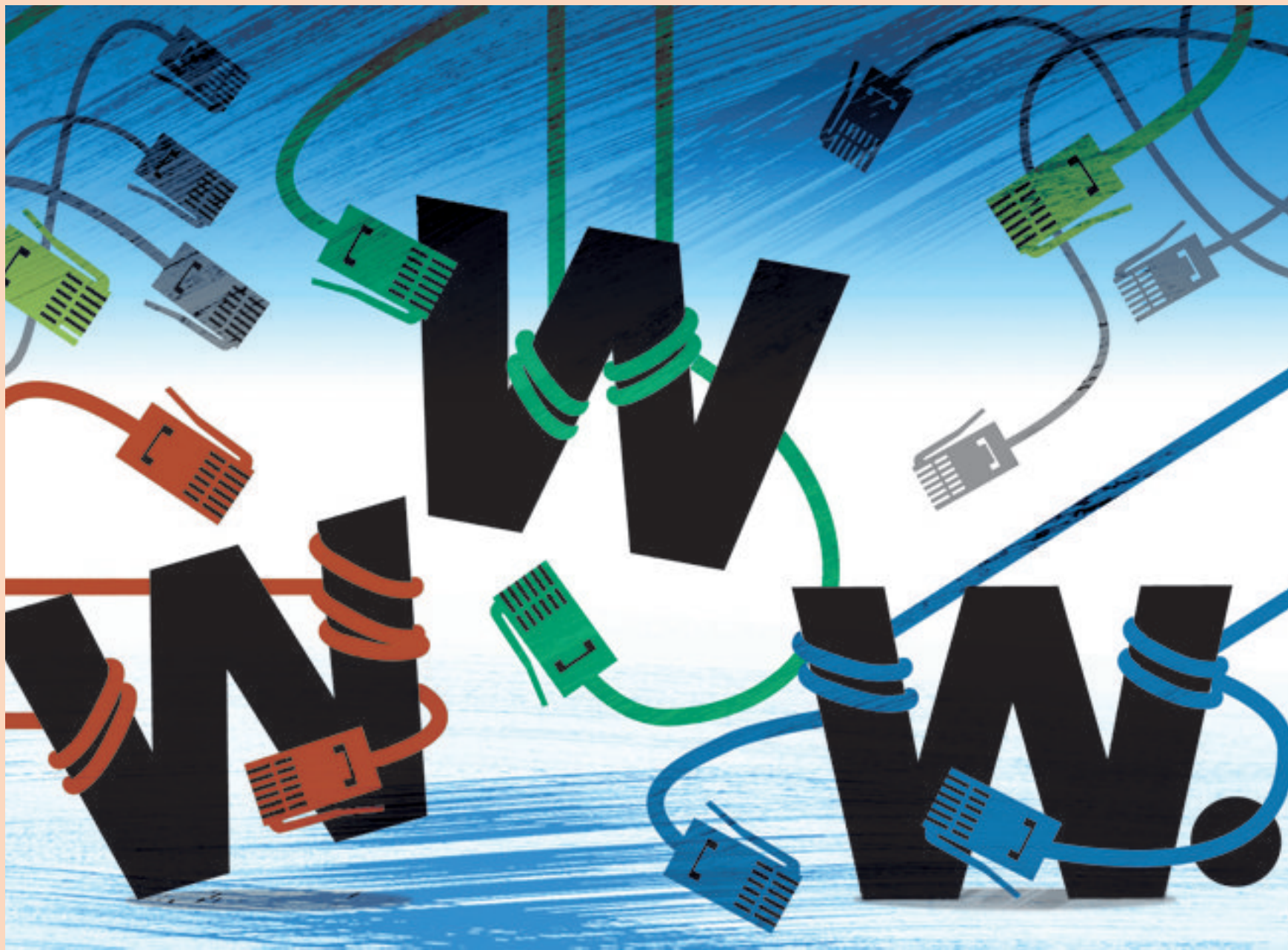
Security may have been advanced as the reason for the new laws, but Mr Schmidt and other advocates of an open internet argue that should not detract from the real forces at work. "Of course politicians would like to shape the internet," he says. "It's a battle for power."

## Turkey sends a message

This struggle between politicians and technocrats for control of the internet was vividly on display this month in Turkey. Supporters of an open online world had gathered in Istanbul for the annual meeting of the Internet Governance Forum, which promotes an open dialogue on these issues.

But days after the delegates packed their bags, President Recep Tayyip Erdogan's administration presented a different view of how the internet should be run. Under a new law, the country's telecommunications agency - run by a former spy - was given the power to shut down websites with only four hours' notice, subject to later court review.

The government says it wants to protect privacy and ensure the internet is



FT illustration: Lloyd Thatcher

China	
2013	
<b>Internet freedom status</b>	<b>Not free</b>
Obstacles to access (0-25)	19
Limits on content (0-35)	29
Violations of user rights (0-40)	38
<b>Total (100 = least free)</b>	<b>86</b>
Population	1.35bn
Social media/ICT apps blocked	Yes
Bloggers/ICT users arrested	Yes
Internet penetration 2012	42%
Political/social content blocked	Yes
Press freedom 2013 status	Not free

could backfire, according to critics. For instance, Europe's recent "right to be forgotten" court ruling, which lets European citizens apply to have some types of information about them removed from search engines, encourages others to pursue more sinister forms of censorship, warns Mr Schmidt. "It sets a precedent that others can use to resist the political evolution of their countries."

The acceleration of moves such as these has led to warnings of online fragmentation, as more countries try to carve out corners of the internet that they can control. Ultimately, it will turn back the clock to a time before the birth of the cyber world, industry executives warn.

Yet experts say that the internet's fundamental architecture makes it hard to break. "There isn't some coherent utility called the internet where if you tinker with one part of it the whole thing falls apart," counters Evgeny Morozov, a writer on internet issues and frequent critic of what he terms the US-led "internet freedom agenda".

At heart, the internet consists of a common protocol that lets different networks exchange data, and an agreed addressing system that all ISPs follow so their users can find their way to sites.

Even the most onerous controls will not destroy this architecture, says Ron Deibert, an expert on internet censorship and other controls at the University of Toronto. "It's not breaking the internet, as long as the basic mechanics are in place," he says.

The internet's basic design was also intended to ensure that information could continue to flow, even when parts of the network are damaged or blocked. As internet pioneer John Gilmore put it: "The net interprets censorship as damage and routes around it."

## International accord

Yet the international accord that has allowed this loose arrangement to thrive may still be at risk in important ways.

The US has ultimate control of the internet's naming organisation - an arrangement that, at least in theory, could even give it the power to "turn off"

Turkey	
2013	
<b>Internet freedom status</b>	<b>Partly free</b>
Obstacles to access (0-25)	12
Limits on content (0-35)	18
Violations of user rights (0-40)	19
<b>Total (100 = least free)</b>	<b>49</b>
Population	74.9m
Social media/ICT apps blocked	Yes
Bloggers/ICT users arrested	Yes
Internet penetration 2012	45%
Political/social content blocked	Yes
Press freedom 2013 status	Partly free

the internet for whole countries. After the leaks about US internet surveillance by former intelligence contractor Edward Snowden, Washington sought to calm the global outcry by promising to hand the internet naming job to a new international body operating outside the control of governments.

It is unclear if the rest of the world will accept the compromise. Many countries - including some who have tended to side with the US on such issues - argue that more government oversight is needed. Axelle Lemaire, the minister in charge of the digital economy in France, recently wrote to departing European Commission president José Manuel Barroso urging more state control of Icann, the body that ultimately oversees internet addressing. The issue had become "an indicator of the problems concerning the global governance of the internet and the different approaches of the EU and the US", she said.

The fissures are expected to be exposed next month at a meeting of the International Telecoms Union, an arm of the UN that has made efforts before to take more control over the internet. If successful, that could lead to a more "homogenous set of rules" over the way the network-of-networks operates, warns Mr Mayer-Schönberger.

While these debates over who controls the internet can seem arcane, the real-world experience of being online for the 3bn people who use it is being refashioned in the here and now.

## What's happening now

Internet companies, which benefit from a borderless cyber world, often argue that almost any limitation is a retreat from the ideals on which it depends. These companies have a habit of identifying their own self-interest with that of the internet at large, says Mr Morozov.

Yet even those who concede that the experience of the internet for people in different countries around the world will inevitably become more distinct admit that there is a significant risk from the trend: that online innovation will grind to a halt.

The availability of a common, accessi-

**Reporting team**  
Richard Waters in San Francisco, Courtney Weaver in Moscow, Daniel Dombey in Istanbul and Najmeh Bozorgmehr in Tehran

Iran	
2013	
<b>Internet freedom status</b>	<b>Not free</b>
Obstacles to access (0-25)	22
Limits on content (0-35)	32
Violations of user rights (0-40)	37
<b>Total (100 = least free)</b>	<b>91</b>
Population	78.9m
Social media/ICT apps blocked	Yes
Bloggers/ICT users arrested	Yes
Internet penetration 2012	26%
Political/social content blocked	Yes
Press freedom 2013 status	Not free

Source: Freedom House

Russia	
2013	
<b>Internet freedom status</b>	<b>Partly free</b>
Obstacles to access (0-25)	10
Limits on content (0-35)	19
Violations of user rights (0-40)	25
<b>Total (100 = least free)</b>	<b>54</b>
Population	143.2m
Social media/ICT apps blocked	No
Bloggers/ICT users arrested	Yes
Internet penetration 2012	53%
Political/social content blocked	Yes
Press freedom 2013 status	Not free

One danger, however, is that the cause of defending a nation's citizens is being used as a pretext for repressive political action. This year Turkey banned YouTube and Twitter for carrying allegations of political corruption, though the bans were overturned in the country's constitutional court.

"The law used to be about protecting children from harmful content," says Yaman Akdeniz, a law professor at Istanbul's Bilgi university. "Now it is all about protecting government from content they deem undesirable."

Even actions taken with the genuine aim of protecting a country's citizens

**Speed read**

● **Cracking up** Tech industry executives warn if countries begin to block websites and bottle up data it could lead to a Balkanised internet

● **Think local** Russia in July became the first nation to require internet companies to keep its citizens' personal information on servers located inside the country

● **Not a delicate web** But other technology experts say that the internet's fundamental architecture makes it hard to 'break', even if some countries erect barriers

ble platform has made it remarkably cheap and easy for start-ups based anywhere to find an instant global market, says Pat Gelsinger, chief executive of VMware, a US technology company.

"You could be a team of engineers working in the backwaters of northern India and have a global market," he says. "That mammoth beauty is starting to be carved up."

High on the list of regulations that most directly threaten start-ups are those governing where data are held. Russia may be the first country to pass a law requiring personal information to be kept inside the country but rules covering specific types of information, such as healthcare or financial details, often prevent its free flow outside many countries.

Internet executives also claim that the spreading rules over data location are ultimately ineffective. "It's just technically a mistake," says Mr Schmidt. Holding data locally would not have prevented NSA surveillance, he says: the only answer is to encrypt data so they cannot be read by unauthorised eyes, no matter where it is located.

## Can censorship work?

But there are questions about whether online censorship can ever be truly effective - unless censors can mount the kind of sustained technical barriers and political control of a country such as China.

The economic forces driving companies to remain part of the online world are too great, says Milton Mueller, an expert in internet policy at Syracuse University. "The value of connectivity is so huge that no one - other than North Korea - cuts themselves off from the internet entirely," he says.

For many countries, social and democratic pressures are also becoming hard to resist. Officially, Iran is pushing ahead with the launch, 18 months from now, of a "clean internet" that provides a filtered view of the global medium.

Yet many analysts believe the launch is increasingly unlikely given a young, educated population - 70 per cent are under the age of 35, many of them with university degrees - that has come to see the internet as an important window on the world and a way of pushing back against strict rules governing social interaction in daily life.

The extent of those expectations was evident last month when Ayatollah Naser Makarem Shirazi issued a religious decree denouncing high-speed internet access as un-Islamic. The senior cleric in the holy city of Qom warned of the dangers of "easy access of the youth to polluted texts, videos and images . . . which are against morality and Islamic ideas".

But when his message drew a wave of anger on social networks, even hardliners in the judiciary, parliament and the Revolutionary Guards did not back his argument. The Ayatollah eventually backtracked and insisted that his comments had been misinterpreted.

Iran's centrist president, Hassan Rouhani - a Twitter user who has failed to deliver on promises to relax censorship on social networks - weighed in with his own views on a high-speed internet. "It is below our nation's dignity to wait for hours to have access to information," he said. "Sometimes you fall asleep when using the internet."

In an increasingly fractious world, the dreams of a borderless medium capable of connecting humanity in a frictionless way are on the retreat. But it is still far too early to declare the era of the open internet over.

See the results of our online survey of how online habits have changed due to privacy concerns at [www.ft.com/ftdata](http://www.ft.com/ftdata)

**Tomorrow Soft power machine**  
How Google makes friends and influences people within Europe's elite



## COMPANIES

## Media

# Google adopts 'soft power' Europe lobbying

Less aggressive approach to EU regulators taken after Microsoft's travails

MURAD AHMED — LONDON  
DUNCAN ROBINSON — BRUSSELS

Google has not had an easy recent run in Brussels.

In early September, the competition commission threw back the search engine's proposals to settle its long-running antitrust case. Then, the EU's incoming digital commissioner warned the company of increased scrutiny from regulators.

Before that, the EU's "right to be forgotten" left Google with the onerous task of removing search results if someone requested it.

These setbacks have come despite Google increasing its lobbying efforts and launching a charm offensive in Brussels and national capitals across Europe, as the US technology group wrestles with the reality of life as a \$400bn company in an increasingly strictly regulated sector.

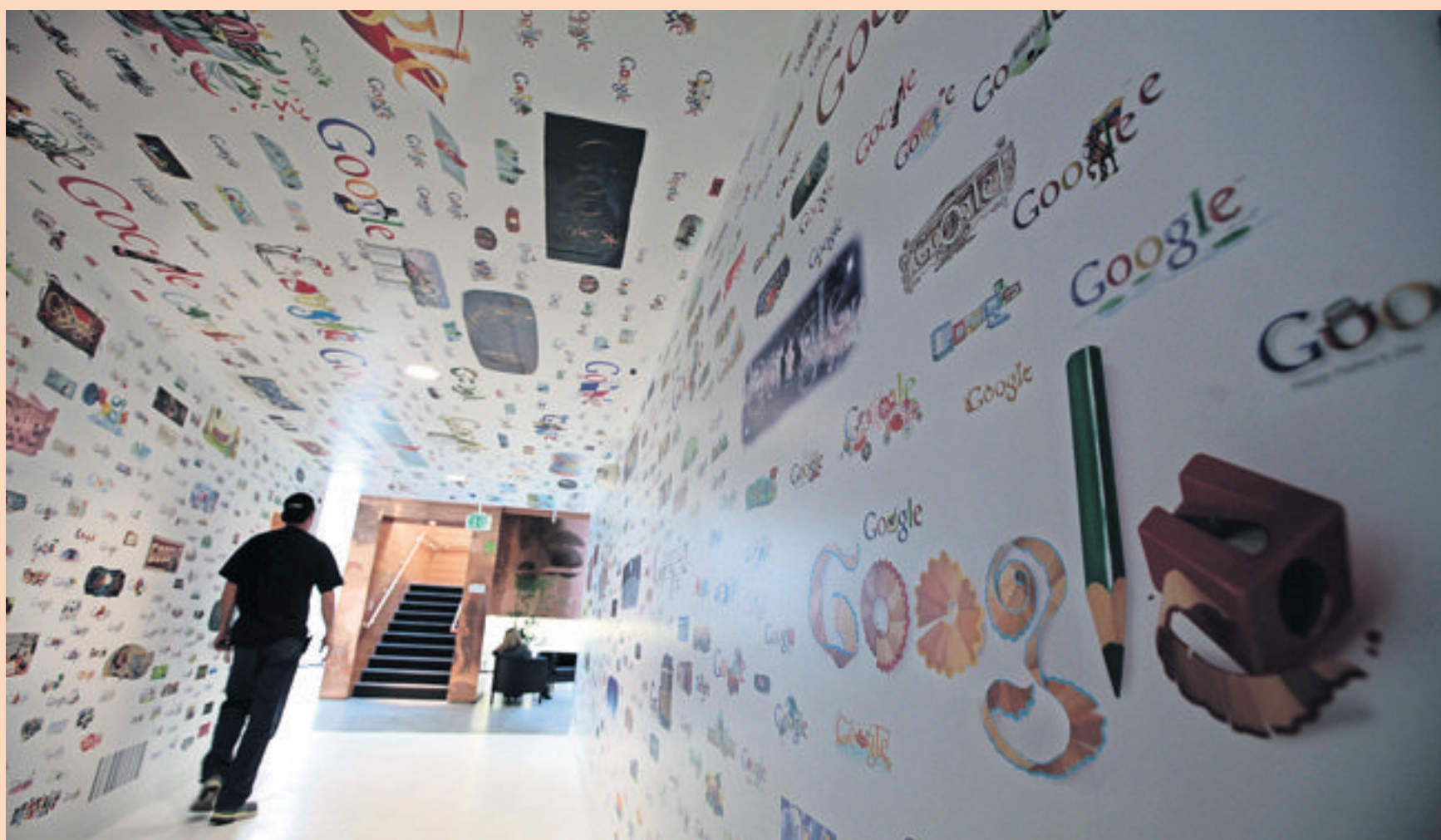
The group is believed to have more than doubled the amount it spends on EU lobbying since 2011. It spent roughly €1.5m lobbying EU institutions in 2013, according to the European Transparency Register, a voluntary register that tracks what businesses spend on lobbying European institutions, an increase from the €600,000 it spent in 2011.

In the US, where rules on the disclosure of lobbying are stricter, technology groups report far higher spending on lobbying. Google, for example, spent \$8.85m in the first half of 2014 alone in the US — nearly four times what it said that it spent lobbying the EU for the whole of 2013.

Google declined to comment on this article. But its efforts in Europe are part of its "soft power" approach towards influencing policy makers.

The Financial Times has spoken to several people with knowledge of how the company has built an operation worth tens of millions of dollars and focused on Brussels. It has learnt from peers, such as Microsoft, which waged its own battles with the EU in the 1990s and early 2000s and was fined a total of €2bn between 1993 and 2013. Where the Seattle group adopted an aggressive approach towards European regulators, Google has employed a "soft power" strategy using private lobbying, philanthropic initiatives and public events to try to influence policy makers.

"In Europe, the spectre of what happened to Microsoft is always in people's mind at Google. They are the study of how not to do things," said one insider. "Instead, a lot of time is spent behind



The US tech company has tried to build bridges with European countries by helping to fund philanthropic projects in line with the aims of government — Reuters

closed doors talking to the right people."

Jan Philipp Albrecht, a Green MEP from Germany who has campaigned vociferously on digital privacy and been a public critic of the company, agreed. "Google learned from these mistakes," he said.

"The difference between Google and the others is that on a personal level they

are very nice and reasonable. It makes them look a reasonable partner."

According to two people familiar with Google's operations, the company is able to open doors at the highest levels of European government, but the "direction of traffic" is not one-way. Politicians are often eager to associate themselves with Google, with lawmakers often

requesting meetings with its executives rather than the other way round.

"You see this all round Europe and the US, in politics and opinion leadership. They travel to Silicon Valley, meet up with these companies," said Mr Albrecht. Politicians "want to be part of such a successful movement and gain some of their limelight and coolness".

Others said that the company has tried to build bridges with European countries by helping to fund philanthropic projects in line with the aims of government.

People familiar with the matter said that Google's cultural institute in Paris is one example. In 2010, Eric Schmidt, executive chairman, announced that the company would create a venue in the French capital dedicated to "digital culture", with an investment that would run into the "millions of dollars", according to local media reports.

Its creation was partly in response to a declaration by Nicolas Sarkozy, then France's president, that the government was considering an internet levy — dubbed the "Google tax" — to charge sites that generate income from content created by domestic media outlets.

Google executives believed the tax

plan was unworkable, but they feared it was a dangerous escalation in rhetoric.

One insider said that the institute was a "gesture to show Google cared about French cultural values. It was to counteract the view that this was US imperialism out to crush French media groups."

In December 2013, the centre was opened. But French politics had changed. The internet levy was never implemented but Mr Sarkozy had been replaced by the socialist François Hollande.

His new culture minister, Aurélie Filippetti, who had promised to inaugurate the venue, cancelled at the last minute. "Despite the quality of the projects concerned, I don't wish to appear as a guarantee for an operation that still raises a certain number of questions," she said.

In the UK, Google has built Campus London, a hub for budding tech entrepreneurs.

The centre was opened in March 2012 by George Osborne, Chancellor of the Exchequer, who hailed it as a project that could fulfil the UK government's vision to turn the area's budding start-up scene into the "technology centre of Europe", a key government objective.

## Marketing

## Digital ads pioneer spends more on traditional media

Though Google has spent much time and money creating a soft power machine, the main approach used to influence public debate is to appeal over the heads of Europe's leaders and make its pitch directly to consumers.

Unusually for a company that has made its multibillion-dollar fortune from digital advertising, Google has increasingly turned to tried-and-tested marketing platforms to boost its brand among the public.

According to Nielsen data, Google spent £40.4m on advertising in the UK

alone between August 2010 and July 2011. Of this, £30m was spent on "traditional" advertising such as billboards, cinemas, newspapers and magazines. Just over 40 per cent of its ad spending was on television, more than it spends on internet marketing.

Though Google pays attention to government scrutiny, greater emphasis is placed on public opinion. People familiar with its approach said it does not engage in typical corporate lobbying efforts to win specific concessions from European governments or favourable business policies. Instead they described it as an effort to maintain the status quo, so that it can continue its operations unhindered. — MURAD AHMED

## General retailers

# Inditex sales beat forecasts as it prepares store openings and online launches

TOBIAS BUCK — MADRID

Inditex yesterday posted a better than expected rise in sales over the first half-year, after the Spanish fashion retailer managed to hold down costs and press ahead with a string of new store openings and online launches.

The owner of Zara said net sales in the first six months reached €8.09bn, a rise of 6 per cent over the same period last year.

Adjusted for new store openings, the world's largest fashion retailer by mar-

ket value posted like-for-like sales 4.5 per cent ahead of last year's results.

Net earnings fell from €951m to €928m, mainly as a result of currency movements, but still came in ahead of analysts' expectations.

The gross margin, a closely watched indicator in the retail sector, slipped one point, to 57.6 per cent.

Analysts welcomed the results, noting that currency effects were likely to have less of an impact on Inditex's financial performance in the months ahead.

"We expect the fading adverse effects

of currency trends and ongoing robust underlying trading to drive a return to double-digit earnings-per-share growth in the second half," Citigroup said in a research note.

The upbeat outlook was echoed by the group, which said sales in the most recent period, between August 1 and September 12, rose 10 per cent in constant currency terms.

"The current base offers huge growth potential for the coming years," Pablo Isla, Inditex chairman and chief executive, told analysts.

Inditex is widely seen as a pioneer of the "fast fashion" industry, which seeks to respond as quickly as possible to the latest fashion trends and customer demands.

It has 6,460 stores in 88 countries, but still designs and produces most of its higher-value products close to its home base in rural Galicia.

Mr Isla said the group's schedule for store openings and new online platforms was on track.

In recent years, the retail group has followed the industry trend towards

online sales, setting up websites and sales platforms for Zara and other Inditex brands in 25 markets.

"In the weeks to come, Zara's online platform is due to go live in South Korea, and it will expand its online offering in China with the opening of its virtual storefront on Tmall [the Chinese retail website]," the group said yesterday.

Mr Isla said the group had seen sales growth in all its markets, including in Spain, which is just emerging from a prolonged economic downturn.

## Travel &amp; leisure

# Air France strike hurting nation's image, warns premier

MICHAEL STOTHARD — PARIS

The French government has called for an end to the Air France pilots' strike, which has grounded more than half of flights and cost the airline millions of euros this week, saying that it was damaging the image of the country.

Manuel Valls, the prime minister, said on France Inter radio that the strike was "weighing heavily on Air France, as well as on its finances, and on the attractiveness and the image of our country".

"No one understands what this strike is about," he added.

The French pilots' union organised a week-long strike that has already grounded thousands of flights, demanding that employees at Air France-KLM's low-cost Transavia division are paid the same as regular Air France pilots.

It comes as Air France is attempting to expand its low-cost services in response to pressure from budget carriers led by easyJet on European short-haul routes. This has prompted union fears that these services will end up cannibalising Air France's short-haul flights.

Emmanuel Macron, the former investment banker who replaced Arnaud Montebourg as budget minister, also called for an end to the strikes, saying "we cannot accept that a country gets blocked because of just a few".

The comments came after France's socialist government narrowly defeated a vote of no-confidence in the French parliament on Tuesday. The government survived a rebellion by leftwing parliamentarians over a more pro-business stance being adopted by ministers.

Frédéric Gagey, Air France chief executive, yesterday told Europe 1 radio that management were negotiating with the unions and have "heard the concerns of pilots who imagined that Transavia France could suddenly replace all of Air France across France".

"Air France said it expected to operate at least 40 per cent of its flights" yesterday, based on three-fifths of pilots walking out, and has sent out text messages to passengers about cancelled services.

Alexandre de Juniac, chief of Air France-KLM, last week said he would halt the development of Transavia and expand the low-cost division elsewhere in Europe if no agreement is reached.

Lufthansa, the German flag carrier, made some progress on its industrial action problems on Tuesday when UFO, the cabin crew union, reached agreement on staffing levels for a planned new low-cost, long-haul airline.



The pilots' action has cost the airline millions of euros this week

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## Legal Notices

Sub-regulation 5.6.12(2)  
Sub-section 509(2)

**FORM 529**  
**Corporations Act 2001**  
**NOTICE OF MEETING**  
**New Cap Reinsurance**  
**Corporation Limited (In Liquidation)**  
**(Subject to Scheme of Arrangement)**  
**ACN: 075 962 551**

Notice is given that a Final Meeting of the creditors and members of the company will be held at the Chartered Insurance Institute, 20 Aldermanbury, London EC2V 7HY, United Kingdom at 11.00am on Monday, 22 October 2014.

**AGENDA**

The purpose of the meeting is to:

1. Lay before the Meeting an account showing how the winding up of the company has been conducted and showing how the property of the company was disposed of;
2. Provide any necessary explanation of the account received by the Meeting; and
3. To consider any other relevant business.

Dated this 18<sup>th</sup> day of September 2014.

John R Gibbons, Liquidator and Scheme Administrator,  
New Cap Reinsurance Corporation Limited (In Liquidation) (Subject to Scheme of Arrangement)  
Bentleys Corporate Recovery Pty Ltd, Level 3,  
1 Castlereagh Street, Sydney NSW 2000, AUSTRALIA

## Industrial engineering

# Sulzer and Dresser-Rand in tie-up talks

CHRIS BRYANT — FRANKFURT  
ARASH MASSOUDI — LONDON

Sulzer, the Swiss maker of industrial pumps backed by Russian billionaire Viktor Vekselberg, is in talks with Dresser-Rand, the US oilfield equipment manufacturer, over a possible tie-up.

The talks come as companies look to tap into the US and Canada where shale gas has been a boon for the energy industry and associated equipment suppliers.

In a statement, Winterthur-based Sulzer confirmed "it is engaged in non-exclusive discussions with Dresser-Rand regarding a potential transaction. There can be no assurance that a transaction will result from these discussions, and Sulzer does not intend to comment further unless and until an agreement is reached".

Sulzer's shares were suspended following a report in Swiss newspaper Handelszeitung that the two companies are in discussions about a possible merger. The newspaper said the two parties are in the process of examining each others' books. Dresser-Rand has a \$5.5bn mar-

ket capitalisation and achieved \$3bn in sales last year. Sulzer has a SFr4.24bn (\$4.53bn) market capitalisation and last year achieved sales of SFr3.3bn.

The US compressor maker in August retained Morgan Stanley in preparation for possible takeover offers, a person familiar with situation told the FT at the time. Sulzer has sought to focus its business principally on producing pumps for

**\$5.5bn**  
Market cap of US oilfield equipment manufacturer  
Dresser-Rand

**\$4.5bn**  
Market cap of Swiss industrial pumpmaker  
Sulzer

the oil and gas sector. Sulzer said at its half-year results it would consider "transformational" deals as opposed to bolt-on acquisitions.

Sulzer's anchor shareholder is Renova Group, Mr Vekselberg's investment vehicle, which has a 33 per cent stake.

In January, Sulzer sold its thermal spray coatings unit to OC Oerlikon, a holding company in which Renova Group is the largest shareholder, for

SFr850m. Sulzer's chairman is Peter Löscher, who was ousted as chief executive of Siemens, the German engineering company, a year ago following a succession of profit warnings.

Sulzer's intervention is likely to trigger speculation of possible counterbids. Siemens has made plain its determination to grow in the US oil and shale gas sector and recently appointed a new board member who will be based in the US. Dresser-Rand has often been rumoured as a possible target for the Munich-based group.

Chief executive Joe Kaeser lost out to General Electric this year in the battle for Alstom's energy assets, but by entering the fray on that occasion he made clear he is prepared to take action when Siemens' competitive interests are challenged. A spokesman declined to comment.

Weir, the UK engineering company, has also said it is looking to make acquisitions in the sector.

Dresser-Rand's shares climbed 7 per cent to \$72.67. Shares in Sulzer rose 1.7 per cent to SFr125.80 before the suspension of trading.

Eni S.p.A.  
Registered Office: Rome, Piazzale Enrico Mattei, 1 - Italy  
Company share capital Euro 4,005,358,876.00 fully paid up  
Rome Companies Register - Tax Identification Number 00484960588  
VAT number 00905811006, R.E.A. Rome No. 756453



## Payment of the Interim Dividend 2014

The Board of Directors in the meeting held on September 17, 2014, resolved to pay an interim dividend 2014 (the "Interim Dividend") of 0.56 euro (0.55 euro in 2013) per share (or 1.12 euro per ADR, being each ADR listed on the New York Stock Exchange representative of 2 Eni shares), gross of taxes to be paid, if any, for each share outstanding on the ex-dividend date. Eni treasury shares held by the company on the record date will be excluded from the distribution of dividends. The Interim Dividend will be paid on September 25, 2014, coupon No. 23, being September 22, 2014 the ex-dividend date (record date September 24, 2014). The Interim Dividend to Beneficial Owners of ADRs will be payable on October 6, 2014, being September 24, 2014 the record date; the payment will be executed through The Bank of New York Mellon, the Depository of Eni's ADRs (BNY Mellon - 101 Barclay Street - New York, New York 10286). In order to receive the Interim Dividend, shareholders whose shares are non-materialized shall previously deliver such shares to a financial intermediary for their deposit with Monte Titoli S.p.A. (the Italian Central Securities Depository) and their subsequent dematerialisation. The Interim Dividend does not entitle to a tax credit and, according to the beneficial owners' tax treatment, may be subject to a withholding tax or may be considered as part of their taxable income. The accounting report of Eni S.p.A. at June 30, 2014, the Report of the Board of Directors and the opinion of the External Auditors on the payment of the Interim Dividend are deposited at Eni S.p.A. Registered Office in Rome, Piazzale Enrico Mattei, No. 1, pursuant to Article 2433-bis of the Italian Civil Code. Aforementioned documents may be requested by e-mail at segreteria@societaria.azionisti@eni.com or by calling the Toll-Free Number 800 940 924 for calls from Italy and 800 11 22 34 56, after dialling the International access code (+), for calls from outside Italy.