CITY&FINANCE

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Rock's ex-chair taps market

By **Brian O'Connor**

FORMER Northern Rock chairman Matt Ridley is tapping investors for cash for another business proposition.

Ridley, who quit the Rock in October after the bank's dramatic meltdown, is back in the market to raise money. This time it is a modest £16m share offer by Northern 2, a venture capital trust he chairs.

Ridley quit the Rock on October 19 after three years as chairman, latterly at £315,000 a year. At the Northern 2 trust, which has a £43m investment portfolio, he collects a modest £15,000, though he also holds 217,000 shares which offer him attractive tax savings.

Venture Capital Trust (VCT) investors get income tax relief at 30pc, a valuable perk for top rate taxpayers. It used to be 40pc.

A brilliant scientist whose doctoral thesis was on the mating habits of pheasants, Ridley is the author of several books. One, 'The Red Queen: Sex and the Evolution of Human Nature', suggests sex developed as a way of keeping ahead of 'constantly mutating predators'.

Sadly it may not work against hedge funds or short-sellers.

Northern 2 VCT, one of five funds run by NVM, a Newcastle venture capital firm with a good track record, invests in young companies making anything from Cornish pasties to hot air curtains. Its shares have been little changed over two years and are now 80½p, valuing it at £38m.

Chairing a low profile fund must be a welcome respite for Ridley, 49, after his *annus horribilis* at Northern Rock.

His 2007 chairman's statement for Northern 2 proclaims 'we have a sound balance sheet'. A welcome reassurance.

Sir Richard swoops into Virgin dispute

By **Sam Fleming** and **Ray Massey**

In happier times: Sir Richard Branson with Virgin Atlantic cabin crew

SIR RICHARD Branson dramatically intervened in a standoff with Virgin Atlantic staff, warning their pay demands could create a 'dangerous precedent' threatening the company's future.

The bearded tycoon wrote a hard-hitting letter to all 4,800 of the long-haul firm's cabin crew pointing out history is 'littered with carriers that have gone bust' because of disputes between staff and management.

Branson, whose mother was one of the world's first air hostesses, said employees insisting on bigger wage packages should quit rather than endanger the airline.

Virgin Atlantic is braced for two 48-hour stoppages next month, on January 9th and 16th. The carrier has pledged to operate nine out of 10 flights as scheduled, cancelling three services on each strike day. Passengers on those flights have already been notified.

Virgin Atlantic offered cabin crew an 8.3pc two-year wage package, but 1,400 employees voted to walk out even after Unite union bosses backed the deal.

Branson's personal intervention is unusual given he is no longer involved in day-to-day operations.

He said: 'There comes a time in any negotiation when a good management team has to draw a line in the sand and I agree with them that time has come.

'To go further would result in unacceptable risks and would set a dangerous precedent to the company as a whole. It would be irresponsible of our management and they, rightly, are not going to take that risk.

'For some of you more pay than Virgin Atlantic can afford may be critical to your lifestyle and if that is the case you should consider working elsewhere.'

Rising tensions at Virgin come at a critical time for airline passengers as workers at Heathrow operator BAA gear up for industrial action.

Crunch talks are looming this week after thousands of Unite members at the seven BAA-owned airports voted to walk out over a decision by its Spanish owners to close the company's final salary pension scheme to new entrants.

Merrill might need more cash

MERRILL Lynch boss John Thain was reported to be in talks with Chinese and Middle Eastern investors over the weekend seeking new injections of capital.

The bank raised £3.8bn earlier this month, partly by selling shares to Singapore's investment firm Temasek, after suffering massive sub-prime related losses.

But that capital infusion may have been insufficient because of the scale of the hits the Wall Street brokerage has suffered. A spokeswoman declined to comment.

A number of leading banks have been forced to beg investors for cash after making unwise bets on America's mortgage market.

Sunday tips

SUNDAY TIMES: Filtronic, Aricom, Aviva, Berkeley Group, LogicaCMG, Hammerson, Galiform, GlaxoSmithKline.

SFO probes drug giants

THE Serious Fraud Office is stepping up its probe into UK companies involved in the Iraqi oil-for-food programme.

Drug giants GlaxoSmithKline and AstraZeneca have been ordered to hand over confidential documents related to the SFO investigation of alleged bribes paid to the regime of deceased tyrant Saddam Hussein.

A spokesman for the SFO said it had served requests on 'a number of companies' in December, as part of a 'deepening' of its probe. Glaxo and Astra confirmed they have received demands for documents. They have both denied any wrongdoing.

The programme allowed Iraq to sell oil to buy food and medicines, but Hussein's regime used it as an opportunity to demand kickbacks.

More than 2,200 companies were named in a 2005 report by former US Federal Reserve chairman Paul Volcker.

HSBC under pressure

HSBC faces renewed pressure to overhaul its strategy after a powerful US pension fund tabled a set of swingeing demands.

The UK bank was told by investment giant Calpers to address its share-price underperformance, refocus the group and set testing new financial targets by July 1.

Calpers has been quietly backing activist shareholder Knight Vinke, which has become a major thorn in the management's side during 2007.

But its decision to publicly intervene will create an additional headache for chairman Stephen Green and chief executive Michael Geoghegan.

Shell to axe 3,200 jobs

A CHILL wind is blowing through the corridors of Royal Dutch Shell as the oil titan gears up for an aggressive cost-cutting exercise.

Some 3,200 positions could be outsourced to external providers as the Anglo-Dutch firm slashes its information technology budget, according to an email from a Shell staffer disclosed by 'gripe site' royaldutchshellplc.com.

Financial jobs are also set to be shed as Shell reduces cross-border overlaps and shunts workers into a handful of major centres.

A spokesman refused to discuss job numbers but confirmed Shell is aiming for £250m a year of cost savings, including by outsourcing a 'substantial' chunk of its IT division.

Chief executive Jeroen van der Veer has been trimming fat as he grapples with the rising cost of production.

MONDAY VIEW by Sam Fleming

Economics Correspondent

Toxic aftermath of Greenspan's time at the helm

FOR a man once hailed by Gordon Brown as 'the world's greatest economist', Alan Greenspan's legacy is looking pretty tattered.

America's property bubble built up on the former US Federal Reserve chairman's watch.

His mantra – defiantly reiterated in his self-congratulatory memoirs – was to let asset bubbles burst and then sweep up the debris afterwards.

This led him to keep rates too low in the late 1990s even as the internet boom led to massive over-investment in tech and telecoms and the stock market skyrocketed.

He then responded to the dot-com crash in the early part of this decade by slashing interest rates to 1pc.

This was ostensibly done to prevent deflation (never a genuine threat), but it stoked the fires fuelling a property boom that turned into a global economic menace.

Coupled with these monetary policy errors were an enthusiasm for financial innovations such as credit derivatives and a steadfast defence of slack regulation.

Credit derivatives were supposed to distribute risk more effectively around the financial system, but have ended up doing no such thing.

Instead, they were used to make wild bets on sub-prime loans advanced to Americans who couldn't afford them.

Greenspan failed to spot the looming threat posed by sub-prime, ignoring warnings from his late Fed colleague Edward Gramlich as many as seven years ago.

Instead he extolled the benefits of extending the dream of home ownership to poorer citizens, while brushing aside calls for them to be better protected from predatory lenders.

Today losses stemming from defaulting sub-prime loans are heading towards £100bn, with no end in sight.

Greenspan failed to rein in the excesses of the worst speculative orgy on Wall Street since the 1920s. To this must now be added a toxic epitaph.

Paid vast sums for his speeches, the octogenarian economist has carped from the sidelines ever since his retirement.

While central bankers have traditionally kept a low profile after leaving office, for fear of muddying the monetary waters, Greenspan has done no such thing.

As a result, not only must current Fed chairman Ben Bernanke steer the US through its greatest economic threat for generations, but he must do so while the man partly responsible seems determined to make matters worse with a torrent of apocalyptic predictions.

Greenspan ratcheted the doom up another notch this month when he warned the chances of a US recession have increased from 30pc to 50pc.

He went on to claim America faces an incipient threat of stagflation, in which near-zero growth couples with soaring prices.

Bernanke must have read these headlines with something approaching blind fury. Central bankers don't habitually predict recessions, as such prophesies can become self-fulfilling.

GREENSPAN would never have made such a bleak claim when he headed the Fed – on the contrary, he prided himself in his ability to obfuscate.

Instead of grandstanding, Greenspan should be engaged in a period of overdue reflection.

The low inflation seen in the 1990s and early part of this decade lulled many central bankers into a false sense of security.

As Bank of England markets chief Paul Tucker said in a speech this month, policy makers must now quickly learn the lessons of the credit crunch.

How could a period of apparent stability give way so suddenly to a financial cataclysm?

In a direct challenge to Greenspan's philosophy, Tucker said it is 'distinctly uncomfortable' for central bankers to mop up the mess after an asset bubble bursts, rather than trying to prevent it in the first place.

I have a proposal for Greenspan: stop behaving like the economic equivalent of Mick Jagger, immersed in a perpetual world tour, and head instead to the ivory towers of academia.

There he could devote his time to undertaking a frank and thorough examination of his policy record – warts and all. Others are already doing so.