

# THE WALL STREET JOURNAL.

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As of 12 p.m. ET DJIA 20538.52 ▼ 0.60% NIKKEI 18983.23 ▲ 0.39% STOXX 600 379.29 ▼ 0.49% BRENT 53.21 ▼ 0.60% GOLD 1251.80 ▲ 0.36% EURO 1.0664 ▲ 0.08% DLR \$110.95 ▼ 0.40%

## What's News

Business & Finance

**Tesla**, the upstart electric-car maker, has overtaken automotive pioneer Ford as the second-largest U.S. auto maker by stock-market value. **A1**

♦ **Indian stocks** reached a new high, powered by foreign funds optimistic that Modi will be able to accelerate change. **B1**

♦ **Moves in China's** currency may have given the country a competitive edge against many of its trading partners—except for the U.S. **A1**

♦ **Deutsche Bank** is shuffling more executives while it searches for a new finance chief and reshapes global businesses. **B5**

♦ **The top two U.S. auto makers** reported divergent results for March amid concerns about the industry's inventory levels and reliance on discounts. **B1**

♦ **Reckitt Benckiser**, owner of French's mustard, said it started a strategic review of its food business. **B2**

♦ **France's Schneider Electric** agreed to sell its U.S.-based data-software business DTN to TIB in a deal valued at \$900 million. **B3**

♦ **Apollo Global Management** and HNA Group made offers to buy Germany's HSH Nordbank. **B5**

♦ **U.S. companies** are trying to stop employees from raiding their 401(k) plans, warning of the impact on their retirement goals. **B7**

### World-Wide

♦ **Trump senior adviser Kushner** arrived in Baghdad on a surprise visit to meet U.S. and Iraqi officials and to receive military briefings on the fight against Islamic State. **A1**

♦ **Flynn initially didn't disclose** payments he received from three Russian-linked entities on a financial disclosure form. **A7**

♦ **Trump signaled** that he wasn't abandoning efforts to dismantle and replace the Affordable Care Act. **A7**

♦ **A blast tore through a subway train** in St. Petersburg, Russia, killing 10 people and injuring dozens more, officials said. **A4**

♦ **Japan's ambassador** to South Korea will return to Seoul to bolster coordination in dealing with North Korea. **A3**

♦ **Trump said** the U.S. is willing to take unilateral action against North Korea if China doesn't act to contain the burgeoning nuclear power. **A3**

♦ **The U.N. criticized Australia** for "deeply disturbing" levels of racism against its indigenous people. **A3**

♦ **Declines** in the number of jobless people in Italy and Spain drove the euro-zone's unemployment rate to its lowest level since mid-2009 in February. **A4**

♦ **Interest rates** will rise again and firms, households and politicians must prepare for higher borrowing costs, an ECB official said. **A4**

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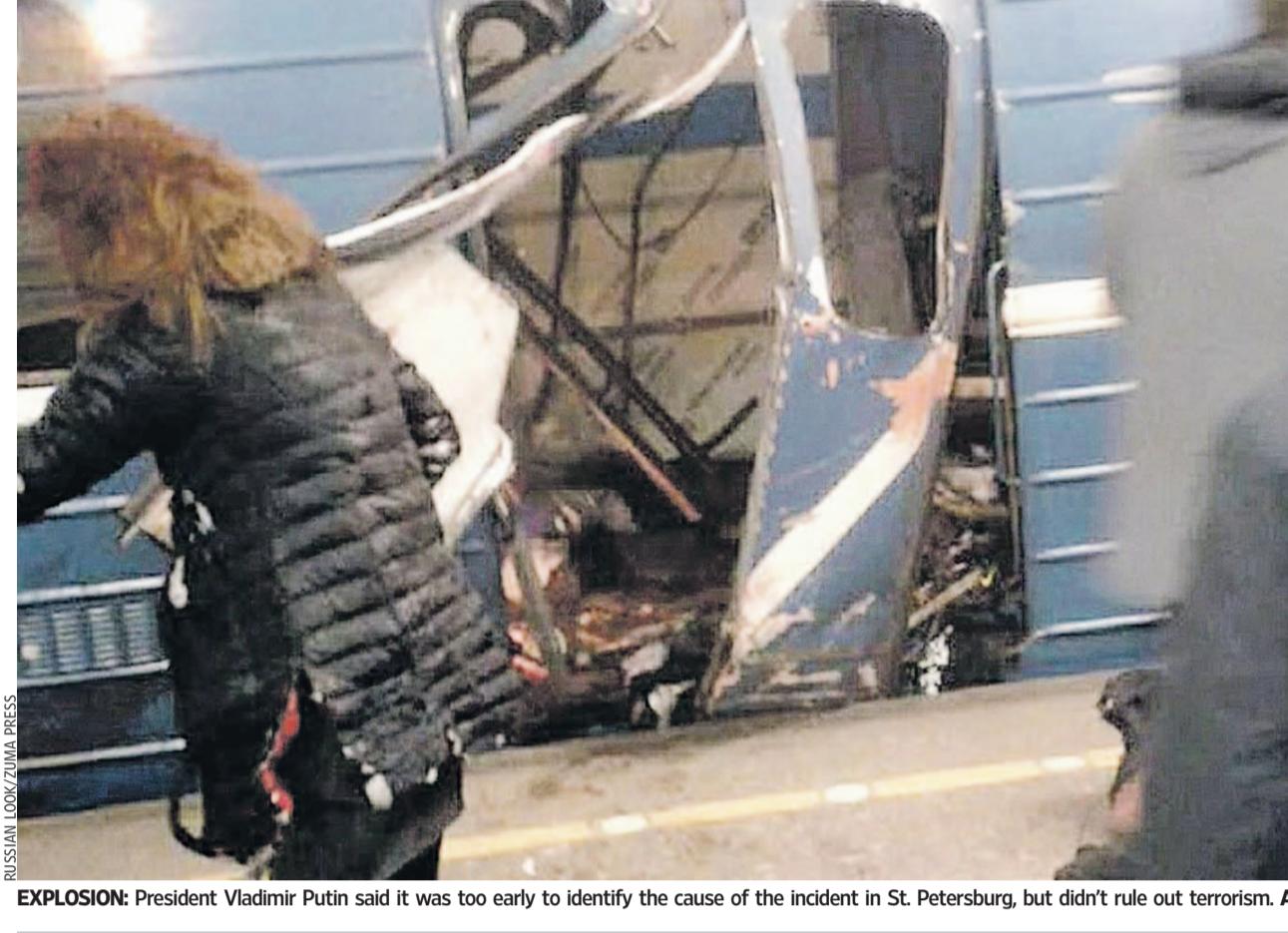
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## Blast in Russian Subway Kills 10



EXPLOSION: President Vladimir Putin said it was too early to identify the cause of the incident in St. Petersburg, but didn't rule out terrorism. **A4**

## Tesla Value Speeds by Ford

Electric-vehicle firm drives its market cap above Detroit maker's; an industry transition

By TIM HIGGINS  
AND CHRISTINA ROGERS

Elon Musk has steered past Henry Ford in the minds of investors, the latest sign that the auto industry is undergoing a seismic shift.

Tesla Inc., the upstart Silicon Valley electric-car maker run by Mr. Musk, has overtaken Ford Motor Co., the automotive pioneer that is exactly 100 years older, as the

second-largest U.S. auto maker by stock-market value.

Tesla shares were up 5.3% at \$293 late Monday morning, pushing the California auto maker's market capitalization to \$47.79 billion, above the Michigan company's \$44.91 billion, according to FactSet.

The next milestone for Tesla is General Motors Co., valued at roughly \$51 billion.

Tesla shares, which had already received a vote of confidence last week with Chinese tech company Tencent Holdings Ltd. revealing it had taken a 5% stake, were boosted by an announcement Sunday that the auto maker's first-quarter global vehicle

sales climbed to a record.

The changing of the guard reflects a belief that internal-combustion engines will eventually be replaced by electric motors as the primary power source for automobiles. It is the latest threat to Detroit's once-dominant stranglehold on personal transportation, a role that was diminished by Japanese car companies in the 1980s and is now being challenged by Silicon Valley's technological might.

While Mr. Ford's Model T ushered in a wave of affordable mobility for the middle class, Mr. Musk is promising the same with the coming

Model 3. It is a sleek, computerized \$35,000 sedan that can drive nearly the distance from New York City to Washington, D.C., on a single charge.

Tesla is a bet that Mr. Musk—who is 45 years old, the same age as Mr. Ford was in 1908 when he released the Model T—can reshape transportation not only with electric vehicles, but with cars that drive themselves.

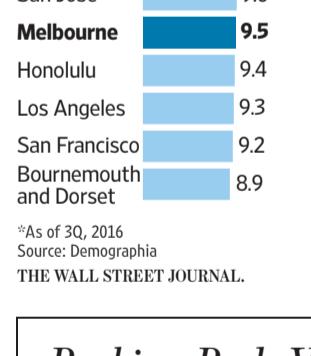
Some investors believe Tesla is better positioned than auto makers and tech giants.

Please see TESLA page A2

♦ **Auto makers post mixed sales results** ..... **B1**

### Southern Squeeze

Australia's two biggest cities are among the world's least affordable in terms of house-price-to-income ratio.\* **B1**



\*As of 3Q, 2016

Source: Demographia

THE WALL STREET JOURNAL.

## SYRIA'S WAR PRODUCES A WINNER

Hezbollah, the Lebanese militant group, has grown stronger fighting Syrian rebels

By MARIA ABI-HABIB

Few wars have seen such a tangle of combatants as Syria's, from obscure and morphing rebel groups to Russians, Turks, Kurdish and Iraqi militias. From the chaos, one clear winner is emerging.

Returning to his ancestral Syrian town of Qusayr after years away, a man named Mohammed discovered a new militia patrolling the neighborhood. Patches on the men's camouflage uniforms called them the Islamic Resistance of Syria. Their identity became clearer when he found a notice on his house claiming it for Hezbollah, the Lebanese militant group.

"Many houses have been confiscated with notices that they've been reserved for this or that family," Mohammed said.

Hezbollah, founded in the early 1980s to fight Israel's occupation of southern Lebanon, became involved in the civil war next door to protect its patrons in Damascus and a supply line of Iranian weapons. After years of growing engagement, including training thousands of mostly Shiite Muslim fighters and beginning to provide social services, Hezbollah is today stronger, more independent and in command of a new Syrian militia that its officials say is ready to be deployed to other conflicts in the region.

Hezbollah now fights alongside Rus-

sian troops, its first alliance with a global power. It was Hezbollah that devised the battlefield plan for Aleppo used by Syrian and Russian forces last year, according to Arab and U.S. officials who monitor the group.

Thanks to money and arms from Tehran, Hezbollah now stands almost on a par with Iran as a protector of President Bashar al-Assad's government, and as a sponsor of Shiite fighting forces in Syria.

"It's hard to see people rising through Syrian intelligence or military ranks without the blessing of Hezbollah or the Iranians," said Andrew

Please see SYRIA page A6

## Braking Bad: Vandals Lay Waste To China's Share Bikes

Pranksters are having a free ride with bicycles that don't require docking stations

By TREFOR MOSS

SHANGHAI—They've been stripped bare, thrown in dumpsters, hung in trees, set on fire, wrenching out of shape, tossed in canals, flung under cars and piled in mangled heaps outside town.

In one video, a young man trundles to the riverfront in the northern city of Tianjin and flips one casually into the water. In others, a pack of children vandalize them with delight, and an old woman bludgeons hers with a hammer.

The moral of this story: If you're somehow reincarnated as a share bike, pray you don't end up in China.

More than two dozen bike-share startups have put millions of cheery-hued yellow, blue, green or orange two-

wheelers on Chinese streets over the past year. The hugely popular bikes cost just a handful of U.S. cents to rent per hour after users sign up, usually putting down a deposit of between \$15 and \$45.

Unlike programs in the U.S. and Europe, however, these bikes don't have docking stations—bikes can be left anywhere and renters use smartphone apps to unlock their built-in locks.

London and New York, where bikes can be picked up or dropped off only at docking stations, have about 23,000 share bikes between them. Shanghai alone has half a million—and the sheer number of bikes, their often isolated and haphazard parking locations, and the age-old scourges of thievery, petty vandalism and gen-

Please see BIKES page A6

A share bike in China

## INSIDE



EVAN VUCCI/ASSOCIATED PRESS

### TRIBALISM IN TRUMP'S WASHINGTON

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F. MARTIN RAMIREZ/WJS

### WHEN CHILDREN ARE READY FOR CHORES

LIFE & ARTS, A8

## A Twist for Yuan As Leaders Meet

By SAUMYA VAISHAMPAYAN

Moves in China's currency may have given the country a competitive edge against many of its trading partners this year, but there is one notable exception: the U.S.

The twist comes ahead of this week's meeting between President Donald Trump and his Chinese counterpart, Xi Jinping, where trade and exchange rates are set to top the agenda. Mr. Trump has repeatedly accused China of keeping the yuan's value artificially low, among other alleged unfair practices that he and other critics have said contribute to a ballooning U.S. trade deficit with China.

The yuan is down 2% this year against a basket of currencies that includes the U.S. dollar, Japanese yen, South Korean won and Australian dollar, according to an index published by a branch of China's central bank. The index is at its lowest since its introduction more than a

year ago.

Yet while the yuan has been broadly weakening in 2017, it has gained about 1% against the U.S. dollar, the currency with the biggest weighting in the index. That is consistent with the dollar's pullback against a range of currencies from the Mexican peso to the yen as investors temper their expectations for fiscal stimulus and large-scale infrastructure spending, hopes that underpinned the so-called Trump trade following the U.S. election in November.

Still, the yuan's rise against the U.S. dollar is much smaller than those notched by other currencies. The yen has advanced 4.9% and the won has surged 8.2% against the dollar so far this year.

That means that even though the charge China is deliberately weakening the yuan against the dollar now carries less weight, the country might be gaining a relative

Please see YUAN page A2

## WORLD NEWS

# Tribalism Spreads in Trump's Washington



CAPITAL JOURNAL

GERALD F. SEIB

can Rep. Tom Cole of Oklahoma, a Washington veteran. "He didn't create them. He walked into it." Indeed, the divides may be signs of a political and ideological realignment under way.

A new health-care bill was choked off by ideological divisions among Republicans, while Democrats are splitting over whether to force a blowup in the Senate rules in an attempt to stop Supreme Court nominee Neil Gorsuch. A similar fate may await coming efforts at tax reform and infrastructure spending unless the White House finds a way to blur the lines to form a governing coalition across them.

For now, think of the capital as divided among five tribes:

• **The Trump Tribe.** This group is made up of the president, his advisers and his wider administration. The president is essentially an independent force who won office with limited support from his Republican Party's leaders, and who now is surrounded in the White House largely by peo-

ple with limited government experience.

Administration officials' loyalty is more to their president than to the party that runs Congress, and many Capitol Hill Republicans appear to feel limited loyalty in return. That was illustrated in the health debacle.

Mr. Trump's own loyalty is largely to his voters outside Washington. And those voters are standing with

party show it can get things done, even if that means accepting compromises.

Mr. Cole estimates that, while this group had comprised about 70 of the House's 237 Republicans, the health-bill episode actually has drawn in more members alarmed by that failure. He estimates its size now as 100 or more. This group also is well represented in the Senate.

*The polarizing nature of the Trump presidency is fueling this trend.*

him. The Journal's Dante Chinni dug deep into Gallup's presidential job-approval numbers for February and March and found that, even as Mr. Trump's approval ratings slumped nationally, they went up in the working-class and Appalachian counties that form his base.

• **Governing Republicans.** These are Republicans who think that, after waiting to gain full control of the government, it's essential the

• **Freedom Caucus Republicans.** This is a group that, at its core, consists of about 40 of the House's most conservative Republicans. (The exact number isn't clear and shifts around a bit.) They are the people who stood in the way of the bill to repeal and replace Obamacare because they thought it didn't sufficiently adhere to their principles.

The Freedom Caucus has

in the past found sympathiz-

ers in the Senate: Ted Cruz, Mike Lee, Rand Paul. Mr. Trump has spent the past few days sniping at the Freedom Caucus, and its members are firing back.

• **Never-Trump Democrats.** On the other side of the aisle are some Democrats who appear determined not to cooperate with Mr. Trump on anything. The precise number is hard to tell, but Sen. Bernie Sanders often gives voice to the feelings of such Democrats; on Friday he defended Trump voters while calling the president a "fraud."

Intense anti-Trump feelings at the Democratic grassroots are fueling such inclinations. Republicans are pointing to a speech last week by new party Chairman Tom Perez in which he told a rally that Democratic protesters feel Mr. Trump "didn't win the election."

• **Maybe-Sometimes-Trump Democrats.** These are moderate to conservative Democrats, many from states the president won in the November election, who are willing to work with the Trump administration on se-

lected issues. Sens. Heidi Heitkamp of North Dakota, Joe Manchin of West Virginia and Joe Donnelly of Indiana, for example, have said they would back Judge Gorsuch for the Supreme Court, while a big majority of their colleagues go the other way.

The chances of such Democrats working with the White House are "completely dependent on what the issue is," says Ms. Heitkamp. "The question is whether the well is too poisoned to get anything done. I think the answer to that is no."

In fact, the Senate's combination of governing Republicans and Democrats willing to work with them form the likeliest path to any legislative achievement amid a tribal Washington. Democratic Sens. Heitkamp, Manchin, Mark Warner and Claire McCaskill, and Republican Sens. Bob Corker, John McCain, Rob Portman and Lamar Alexander—they are the kinds of people who hold the key.

It may be impossible for them to prevent a standoff over a Supreme Court nominee, but a tax overhaul looms as the next big test.

**T**he problem in Washington is no longer simply paralyzing partisanship. The danger at the moment is that the capital could be sliding into a kind of tribalism.

The fights over health care and a new Supreme

Court justice suggest that the divides aren't simply between Republicans and Demo-

ocrats. Instead, there are schisms within the parties, and in some cases schisms within the schisms.

The polarizing nature of President Donald Trump and his presidency is fueling this trend, though the roots run deeper. "Most of these fault lines, in my view, predate the president," says Republi-

to swap their savings into a currency that isn't eroding in value, such as the dollar.

In periods when the yuan is declining against the dollar, the People's Bank of China tends to hold the index steady, highlighting its steadiness as evidence it isn't deliberately devaluing the currency, market participants say.

When the yuan lost 4.4% against the dollar in the last six months of 2016, the CFETS index slipped only 0.2%, prompting an unidentified official to write that the yuan "continued to remain generally stable against a basket of currencies" in a widely noted article posted on the CFETS website.

By contrast, when the yuan is strengthening against the dollar, the central bank tends to let the index fall by not letting the yuan rise as much as other currencies, as is happening now.

For much of the year to date, the yuan's value against the dollar has been higher in offshore markets, where it trades more freely, than in domestic markets, suggesting that broader market expectations of yuan depreciation have receded for now.

"Even though we saw the index dropping to record low, sentiment in the market is still quite stable," said Ken Cheung, Asian foreign-exchange strategist at Mizuho Bank in Hong Kong.

## New Airline Employees Are Set for Takeoff



MASS MEETING: More than 1,600 Japan Airlines employees attended a company entrance ceremony at a hangar in Tokyo on Monday.

FRANCK ROBICHON/EUROPEAN PRESSPHOTO AGENCY

## YUAN

Continued from Page One

tive edge in trade against some of its competitors, as a cheaper currency tends to make a country's exports more attractive.

"Ultimately the weakening of [the yuan] against the basket of currencies helps them achieve the objective of export competitiveness and reflation in the economy while at the same time avoiding that negative spillover effect," said Roland Miett, emerging-markets portfolio manager for Pacific Investment Management Co. in Singapore.

In late 2015, the People's Bank of China introduced the index, compiled by the China Foreign Exchange Trading System, as it fought to loosen the yuan's connection to the dollar and struggled to tamp down expectations of further depreciation after a surprise devaluation earlier that year. In December 2016, the central bank increased the number of currencies in the basket to 24 from 13.

Analysts have said the index was created in part to stem fears about declines in the currency, which tend to lead to capital outflows, further destabilizing it. When Chinese residents and companies expect the yuan to weaken, they are more eager

dollars in profit and sells millions of cars each year. It isn't standing still under Chief Executive Mark Fields, promising to deliver self-driving cars by 2021. It is buying and investing in tech startups: It invested \$1 billion in Argo AI, a company consisting of engineers from the autonomous-vehicle programs of Uber Technologies Inc. and AlphaBet Inc.

Under Mr. Fields, who took over Ford in 2014, the company has benefited from strong truck demand but struggled to persuade investors

Ford is coming off one of its most profitable periods in history, after a restructuring effort led by former Chief Executive Alan Mulally that eliminated brands, closed plants and streamlined the company's global operations.

Under Mr. Fields, who took over Ford in 2014, the company has benefited from strong truck demand but struggled to persuade investors

that brighter days are ahead, particularly as important markets plateau. He has proposed a number of ways to reshape Ford, but his vision is weighed down by a century-old business model that will be expensive to reshape.

Ford is forecasting leaner results for 2017, further confirming Wall Street's view that traditional car makers are still too exposed to the auto industry's boom-bust cycles.

"We do not run our business based on day-to-day stock changes," Ford said Monday. "What we are doing is focusing our business on what drives value creation, which is profitable growth, minimizing risk and delivering strong returns."

Ford's market value is roughly the same as it was in late 2010, when a newly public Tesla was valued at less than \$2 billion. Ford's stock has fluctuated since then, while Tesla's has steadily risen and has surged more than 50% since the company acquired SolarCity Corp. in November. The acquisition was part of Mr. Musk's vision to have under one roof a company that could offer customers solar roof panels, battery storage units and electric-powered cars. It is a vision he highlighted in February when he removed the word "Motors" from Tesla's official name.

Mr. Musk is betting that a less-expensive Model 3 will help Tesla evolve from a luxury-car maker into one with

mass-market appeal. He is aiming to make 500,000 vehicles next year, a projection doubted by some of his biggest supporters.

Still, Morgan Stanley autos analyst Adam Jonas has a price target of \$305 a share for Tesla, estimating the added value could come from a ride-hailing service that Mr. Musk has hinted will work with future vehicles.

"Tesla is distinctively positioned to commercialize an app-based, on-demand mobility service," Mr. Jonas wrote in a note to investors.

Some old-timers disagree.

"Its market cap is based on hype and promises versus substance," said David Cole, an outspoken supporter and investor in Detroit auto makers, and chairman emeritus of the Center for Automotive Research in Ann Arbor, Mich.

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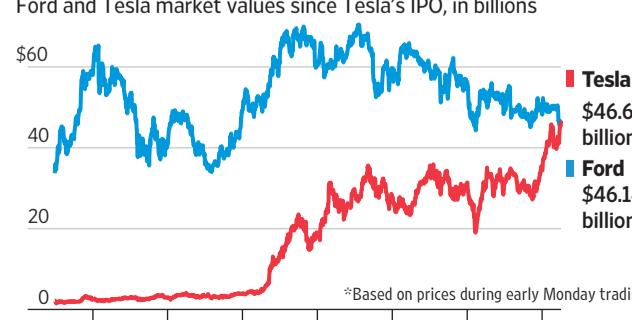
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A Tesla Model S 90D at a showroom in South Korea.

### Electric Shock

Ford and Tesla market values since Tesla's IPO, in billions



\*Based on prices during early Monday trading

Source: FactSet

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It was Tesla's best quarter of sales on record, topping the third quarter of 2016, when it delivered 24,500 vehicles.

Much of the first-quarter gain came from the continued rollout of the Model X, which had 2,400 sales a year earlier. The Model S increased about 8% from a year earlier.

Yet, Tesla remains a shaky bet. The 13-year-old company is unprofitable, deeply indebted and delivered just 76,000 cars last year. Its Autopilot mode is untested as a fully autonomous feature and has raised safety concerns.

Ford has over 20 times the annual revenue, billions of

# WORLD NEWS

## For Black Boxes, a Holding Pattern

Aviation community is deadlocked on best way to improve technology for probing accidents

By ANDY PASZTOR

Three years after Malaysia Airlines Flight 370's unresolved disappearance sparked efforts to implement new flight-data recorder technology, the global aviation community is deadlocked over the best way to ensure investigators will have timely access to vital clues in future crashes.

Technical, marketing and jurisdictional disputes—pitting Boeing Co. and U.S. regulators against Airbus SE and European authorities—have blocked consensus over prospective changes to today's black boxes that help unravel accidents.

The most prominent disagreement involves deployable recorders, devices designed to capture real-time flight data and cockpit conversations, just as damage-resistant black-box recorders do.

But while conventional black boxes are intended to be recovered from wreckage, the alternative devices, already used in a broad range of military jets and helicopters world-wide, are designed to be jettisoned automatically before impact and to float.

Airbus and other proponents say that supplementing current systems with deployable technology would lead to easier searches, with features including built-in emergency transmitters that can pinpoint locations on the surface of water.

In the opposing camp, Boeing's position is that the deployable technology is unnecessary partly because there are



Malaysia Airlines ground staff worked on aircraft at Kuala Lumpur International Airport in January.

so few crashes of big jets, and the recorders are expensive to maintain and potentially hazardous if ejected by mistake. The disagreement has played out in various forums, both in public and private. Federal Aviation Administration officials say it is hard to justify the costs of deployable recorders versus the safety benefits.

Progress in adopting deployable systems has been slow, with U.S. and European regulators watching to see whether the other side takes action to benefit either Boeing or Airbus at the other's expense. Equipment changes will take at least several years to show up, and they are expected to affect only new jetliners rolling off assembly lines.

The rivals say they don't compete on safety matters, but, in this instance, each company has quietly pressured suppliers and government agencies to embrace their view, people familiar with the details said. The result, these people say, has impeded the initial sense of urgency among regulators.

"Governments and international organizations are moving mighty slowly," said Alan Diehl, a former military and commercial accident investigator. "The public perception is, 'Why can't we have the solution now?'"

Historically, the FAA considered status quo black-box technology as acceptable. Agency officials point out that in nearly every jetliner accident stretching back decades, including the 2009 midocean crash of an Air France Airbus A330 that killed 228 people, conventional black boxes ultimately were recovered.

Supporters of deployable devices counter that those

searches were often protracted affairs. In the case of Malaysia Airlines' Flight 370, black boxes haven't been recovered despite extensive underwater searches in remote, deep parts of the Indian Ocean.

Airbus, which considers deployable recorders a marketing advantage, intends eventually to install them widely on newly manufactured jets. Outside experts said continued maneuvering over the issue has complicated those plans.

The standoff wasn't what was envisioned after the mysterious predawn tragedy of March 8, 2014, when Flight 370 and the 239 people on board bound for Beijing from Kuala Lumpur dropped off radar and continued flying for hours without communication from the cockpit.

Airline trade groups, regulators and leaders of the

United Nations agency that sets global-safety standards, the International Civil Aviation Organization, worked to overcome public concerns. Acknowledging that new options were essential, experts spelled out various potential solutions, publicly debated their merits and tried to persuade plane makers and equipment suppliers to embrace them.

After some hiccups, industry and the ICAO agreed on steps to track aircraft more closely, especially when they fly over large expanses of water or remote polar regions.

But to help future investigators, industry and government officials worldwide are considering a different option, which doesn't involve hunting for and retrieving recorders: streaming some flight data to the ground via satellites, in the event of an in-flight emergency or when traditional recorders are damaged or lost after a crash. That solution, however, has been held up by concerns about transmission costs and who would control information flowing off aircraft.

The FAA initially considered deployable recorders unreliable. As the Boeing-Airbus controversy was revving up in 2015, the FAA told international aviation authorities that mandating deployable systems would amount to a "redundant and economically burdensome" step. The agency has now developed design standards to mitigate those risks, said Peggy Giligan, who retired in March as the FAA's top safety regulator.

Still, an FAA spokeswoman said the agency hasn't received a single request to certify such a system on a commercial aircraft.

—Robert Wall contributed to this article.

## U.N. Slams Australia's Treatment Of Natives

By ROB TAYLOR

CANBERRA, Australia—The top United Nations envoy on indigenous rights criticized Australia for "deeply disturbing" levels of racism and urged the country to embrace a treaty that would recognize its indigenous people as its first inhabitants, a move she said would help combat prejudice.

Australia's indigenous people make up less than 3% of the 24 million population, but suffer higher rates of imprisonment, domestic violence and unemployment, according to government data.

"I have found the prevalence of racism against Aboriginal and Torres Strait Islander Peoples deeply disturbing," Victoria Tauli-Corpuz, the U.N. special rapporteur on indigenous rights, said in a report ending her 15-day visit. "This manifests itself in different ways, ranging from public stereotyped portrayals of them as violent criminals, welfare profiteers and poor parents and to discrimination in the administration of justice."

One in four prison inmates is of indigenous heritage, a statistic Ms. Tauli-Corpuz said was "simply astounding."

In a February report to Parliament, Prime Minister Malcolm Turnbull said his government was failing to close the gap between indigenous and other Australians in six of seven priority areas, including health and unemployment.

## Japan Envoy to Return to Seoul After Monthslong Rift

By ALASTAIR GALE

TOKYO—Japan's ambassador to South Korea, withdrawn three months ago amid a dispute over the countries' wartime past, will return to Seoul on Tuesday to bolster coordination in dealing with North Korea, Japan said.

Japanese Foreign Minister Fumio Kishida said Tokyo is also sending its ambassador back to prepare for a new government in South Korea, which is set to hold a presidential election on May 9.

Japan and South Korea are the two closest allies of the U.S. in East Asia and coordinate with Washington on defense. The three nations are holding a joint three-day antisubmarine exercise starting Monday as part of moves to counter rising threats from North Korea.

However, Tokyo and Seoul

also frequently clash over the legacies of Japan's 35-year colonization of the Korean Peninsula through 1945. One of the most contentious issues is the use of Korean women by the Japanese military as forced sex workers during that time.

In late 2015, the two countries reached a deal that both sides said would "finally and irreversibly" end a dispute over Japan's atonement for the so-called comfort-women system by providing an apology from Japan's prime minister and ¥1 billion (\$9 million) in Japanese government funds to support the women. Around 40 of the women remain alive.

The deal was accepted by most of the women but became unpopular in South Korea, in part because it was agreed to by former President Park Geun-hye, who has since been



Yasumasa Nagamine in January  
LEE JIN-MAN/ASSOCIATED PRESS

removed from office. Critics of the deal in South Korea have also slammed the Korean government for not consulting the surviving comfort women before the agreement was signed.

Following the deal, Japan said it expected South Korea to remove a statue of a comfort woman built by a civic group outside the Japanese Embassy in Seoul in 2011. However, that statue remains in place, and at the end of 2016, activists built an identical statue outside the Japanese consulate in South Korea's second city of Busan.

Japan recalled its ambassador, Yasumasa Nagamine, in early January, saying the installation of the Busan statue was a violation of the 2015 agreement. It called on South Korea to remove it before Mr. Nagamine would return to Seoul.

Since then, concerns have risen in both countries about the threat from North Korea following a string of missile launches.

—Jonathan Cheng in Seoul contributed to this article.

### Trump Vows to Act Against Pyongyang

WASHINGTON—President Donald Trump said the U.S. is willing to take unilateral action against North Korea if China doesn't move to contain the burgeoning nuclear power, as he put trade and the military threat from Pyongyang at the top of the agenda of his planned meeting with Chinese President Xi Jinping this week.

In his comments, Mr. Trump looked to tie U.S. imports of Chinese goods with China's cooperation on North Korea. The Trump administration, which has made narrowing the trade deficit a priority, has called China a nonmarket economy with unfair trade practices, and

signaled it would keep Chinese goods eligible for higher U.S. tariffs well into the future.

"China will either decide to help us with North Korea, or they won't," Mr. Trump said in an interview with the Financial Times published Sunday. "And if they do that will be very good for China, and if they don't it won't be good for anyone." He added: "I think trade is the incentive."

Asked if a grand bargain with China could result from the meeting, he said: "Well, if China is not going to solve North Korea, we will. That is all I am telling you."

China has favored talks with North Korea, while signing on to United Nations sanctions.

—Ben Kesling and Peter Nicholas



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## WORLD NEWS

# St. Petersburg Subway Blast Kills 10

One explosive device disarmed at another station; Putin considers terrorism 'above all'

BY NATHAN HODGE  
AND JAMES MARSON

MOSCOW—A blast tore through a subway train in St. Petersburg on Monday, killing 10 people and injuring dozens more, officials said, adding an explosive device was found and disarmed at another station.

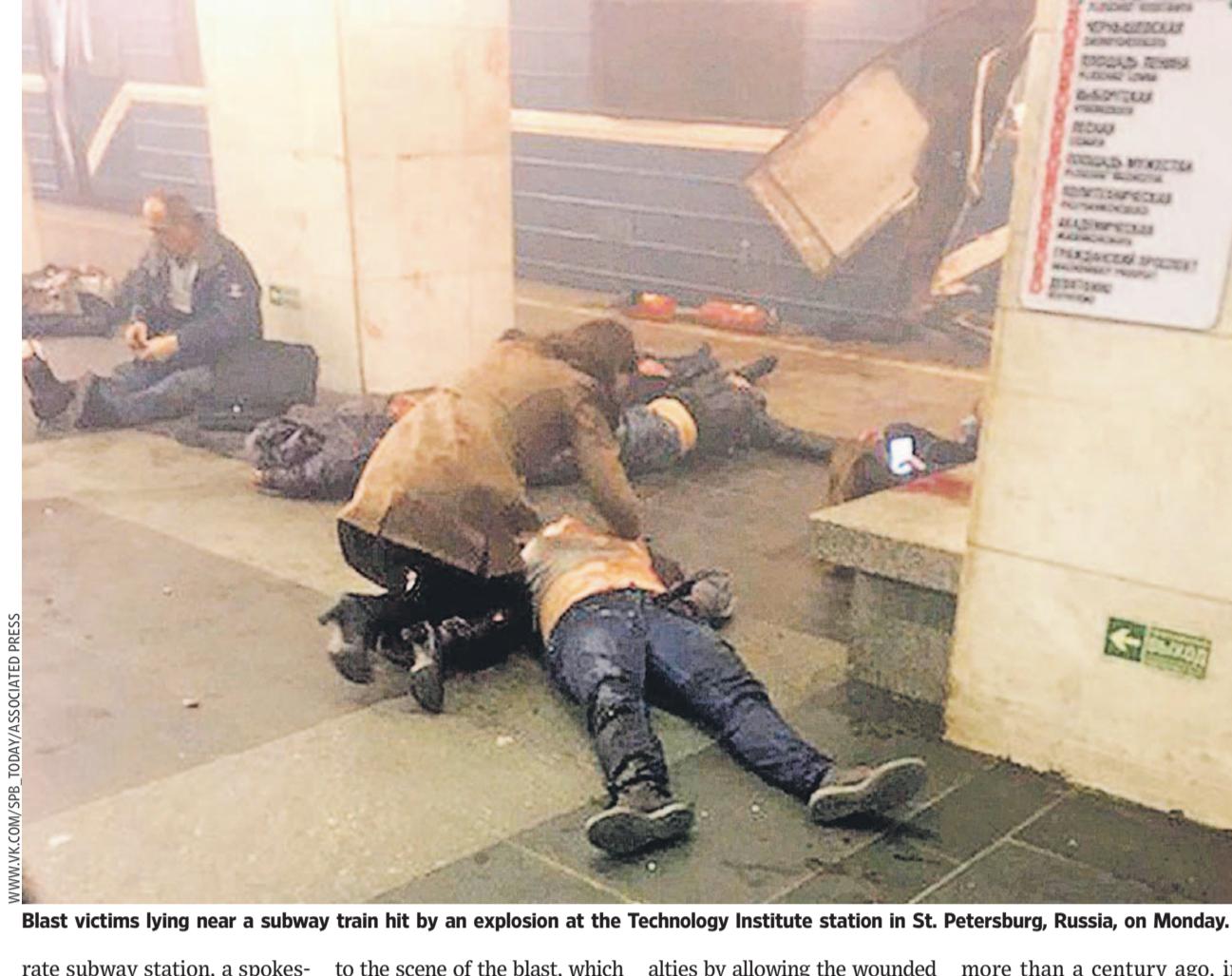
Russian President Vladimir Putin, who was in St. Petersburg to attend a media forum, said it was too early to say what caused the explosion, but didn't rule out terrorism.

"Naturally, we always consider all options—both domestic and criminal, and above all actions of a terrorist nature," he said at a meeting with Belarusian President Alexander Lukashenko.

State television showed first responders arriving on the platform at Technology Institute station and treating apparent victims. Videos posted on social media and broadcast on television showed smoke inside the station and the doors of a subway train bent outward by the blast.

Seven people died at the scene, one in an ambulance and two on arrival at hospital, Russian Health Minister Veronika Skvortsova said in televised comments. She said 47 people had been injured, six of whom are in a serious condition.

An explosive device was found and disarmed at a sepa-



Blast victims lying near a subway train hit by an explosion at the Technology Institute station in St. Petersburg, Russia, on Monday.

rate subway station, a spokesman for the National Anti-Terrorist Committee, Andrei Przhezdomsky, told state television channel Rossiya 24.

Authorities closed down all subway stations in St. Petersburg, Russia's second-largest city. Officials said more than three dozen ambulances raced

to the scene of the blast, which happened between Sennaya Ploshchad, or Haymarket Square, a busy downtown subway station that connects three lines, and Technology Institute station.

The subway driver carried on to the next station, preventing a greater number of casu-

ties by allowing the wounded to be treated and evacuated quickly, a spokeswoman for the Investigative Committee told Interfax news agency.

Much of Russia's elite hails from St. Petersburg, including Mr. Putin.

The former czarist capital was a site of terror attacks

more than a century ago, including the assassination of Czar Alexander II. But the 300-year-old city, popular with tourists for its architecture, theaters and museums, has been spared the large-scale terror attacks that have hit Moscow in the past two decades.

## History of Attacks On Russian Targets

If the St. Petersburg blast turns out to be a terrorist attack, it would be the latest in a string of attacks on Russian targets. The deadliest include:

◆ October 2015: Islamic State-affiliated militants down Russian airliner over Egypt, killing 224 people.

◆ December 2013: Suicide bombings in city of Volgograd kill 34 and injure 100.

◆ January 2011: Bomber blows himself up at Moscow's Domodedovo Airport, killing 35 and injuring 180 people.

◆ March 2010: Suicide bombers attack Moscow subway during rush hour, killing at least 40 and injuring more than 100.

◆ November 2009: Bomb explodes under train traveling between Moscow and St. Petersburg, causing derailment that kills 28, injures nearly 100.

◆ September 2004: About 30 Chechen militants seize school in Beslan. More than 330 people, about half of them children, are killed.

◆ October 2002: Chechen militants take 800 people hostage at Moscow theater. Special forces storm building, and 129 hostages and 41 Chechen fighters are killed.

—Associated Press

# South Africa Cabinet Shuffle Deepens Divide

BY GABRIELE STEINHAUSER

JOHANNESBURG—Rifts between allies and opponents of South African President Jacob Zuma deepened over the weekend, setting up a decisive week for the ruling African National Congress following the ouster of a popular finance minister.

The ANC's top six officials—three of whom have lashed out against the firing of Pravin Gordhan—were meeting on Monday to decide whether to take further steps against Mr. Zuma, including a gathering of the party's National Executive Committee, which could force the president to step down.

as analyst warnings of an almost-certain downgrade of the country's credit rating.

But it is unclear how much the opposition or a disgruntled ANC leadership can do to rein in Mr. Zuma. The 86-member National Executive Committee, the ANC's top decision-making panel, remains stacked with the president's allies. A previous attempt to oust him failed in November and among the officials promoted in the cabinet shuffle were several members of the National Executive Committee.

"That is Zuma taking out insurance against the NEC tipping against him," Prof. Booyens said.

Parliament Speaker Baleka Mbete said on Sunday that she would spend the week in consultations on whether lawmakers should be recalled from recess to vote on the president's future. Without a special session, any motion against Mr. Zuma would be delayed until May, giving the ANC time to pacify defectors in its ranks.

Zweli Mkhize, the ANC's treasurer, added his criticism of Mr. Zuma's conduct to that of Deputy President Cyril Ramaphosa and ANC Secretary-General Gwede Mantashe, who complained they weren't consulted on the cabinet changes.

That means three of the ANC's six most senior officials have come out against the shuffle, with only ANC Deputy Secretary-General Jessie Duarte standing by the president.

Ms. Mbete, the final member of the leadership team, which includes Mr. Zuma, on Sunday declined to endorse or criticize the president's decision.

In a statement released Saturday, Mr. Mkhize warned that the way Mr. Gordhan was let go "may have had long undesirable consequences for the ANC and South Africa," including the economy.

Opposition parties took advantage of the warring within the ANC to harden their own ranks.

The Democratic Alliance announced Sunday it was initiating disciplinary actions against its former leader and current premier of the Western Cape province, Helen Zille, for a series of tweets in which she defended the legacy of colonialism in South Africa. DA leader Mmusi Maimane said the tweets damaged the reputation of the DA, which has been working to draw in more black voters.

## EUROPEAN UNION

### Unemployment Falls, But Remains High

A drop in the number of people without work in Italy and Spain drove a decline in the eurozone's unemployment rate to its lowest level since mid-2009

in February, a sign that the currency area's modest economic recovery accelerated slightly in the early months of 2017.

The European Union's statistics agency said the unemployment rate across the 19 countries that use the euro fell to 9.5% from 9.6% in January, reaching its lowest level since May 2009. The number of people without work fell by 140,000 from January, as the number of jobless Italians dropped to 2.98 million from 3.06 million, and the number of jobless Spanish to 4.09 million from 4.13 million.

The eurozone's unemployment rate has been falling steadily, if slowly, since the bloc's economy returned to growth in mid-2013.

The decline is set to continue in coming months, with a survey of 3,000 manufacturing companies by IHS Markit pointing to a pickup in hiring during March as output grew at its fastest pace

## WORLD WATCH

### RECOVERY: Indonesian rescuers carried the body of a landslide victim in Ponorogo on Monday. Three people are dead and dozens missing.

in just under six years.

However, unemployment rates in southern Europe are still very high, with Italy's clocking in at 11.5% in February, and Spain's at 18%. Overall, the eurozone's jobless rate was more than double its U.S. equivalent.

—Paul Hannon

must prepare for higher borrowing costs, a top European Central Bank official said, putting the economy on notice that the days of ultralow policy rates are numbered.

"It is clear that the financial sector and the economy and states should prepare for an environment of higher rates," Benoit Coeuré said. Mr. Coeuré sits on the ECB's six-person Frankfurt-based executive board, which along with the 19 national central bank governors of the countries that use the euro sets ECB monetary policy.

The comments come as inves-

tors watch for signs that the ECB is preparing to end its very generous monetary policy. Critics say strong growth numbers combined with recent sharp rises in inflation render the central bank's negative interest rate and bond-buying program inappropriate.

Still, the day of reckoning likely remains far off. The ECB hasn't yet discussed its exit from its bond-buy program, Mr. Coeuré said. The central bank's chief economist said separately that the ECB's monetary policy remained appropriate.

Mr. Coeuré said the central bank's negative deposit rate was a good complement to bond buying, but cautioned that this couldn't last forever. "Negative rates were very effective but they shouldn't go on for too long as that penalizes the banking sector."

The central bank is unlikely to change policy soon, meaning there will continue to be a significant policy divergence between two of the world's most important central banks. The Federal Reserve decided in mid-March to raise interest rates and policy makers there expect further tightening this year.

—Todd Buell

and William Horobin

### EUROPEAN CENTRAL BANK

#### Top Official Says Brace For Rate Rise

Interest rates will rise again and firms, households and politicians

new strategy would look like.

But, according to numerous U.S. officials, the strategy may largely resemble the old one, initiated under President Barack Obama, with tweaks and additions in the margins, U.S. officials said.

Gen. Dunford said he invited Messrs. Kushner and Bossert to join him on the trip some weeks ago so they could see for themselves the work troops are doing here, since they will be part of the decision on strategy.

"I think anyone who's involved in the discussion on

where we go strategically—having good situational awareness about what's happening tactically and hear it first hand and unfiltered, how our advisers assess the Iraqi security forces, both the opportunities and the challenges—will feed into somebody's strategic view," Gen. Dunford told the small group of reporters traveling with him on a military jet.

The new strategy, or a refinement of it, may include additional U.S. troops for both Iraq and Syria, possible changes that could put American soldiers closer to the front lines, and an accelerated air-strike campaign.

Under Mr. Obama last fall, the U.S. military had already been given additional authorities which essentially delegated decision making closer to the battlefield.

The visit comes as American and Iraqi troops fight to evict Islamic State militants from the northern Iraqi city of Mosul and prepare for a fight against the group in Raqqah, its self-declared de facto capital in Syria.

Meanwhile, the U.S. military is investigating a series of airstrikes in recent weeks that officials believe may be partly responsible for the deaths of scores of civilians in both Iraq and Syria. There was no new assessment from those investigations, Gen. Dunford said Sunday.

## IRAQ

Continued from Page One

izations, launched an innovation office for the White House last week that intends to help reform government.

Mr. Kushner didn't speak with reporters on the trip into Iraq, his first ever trip here, which was preceded by an overnight stay at a U.S. military base in Germany.

He is accompanied by Tom Bossert, a former administration official under President

George W. Bush who is now serving as Mr. Trump's homeland security adviser.

Mr. Mattis and Gen. Dunford are completing a review of the strategy to fight the group. Mr. Trump signaled during the campaign and since assuming office that he had a plan to accelerate the fight against Islamic State, offering no details about what it might be.

No plan has emerged, and it now falls to Mr. Mattis and Gen. Dunford to come up with a new strategy. Gen. Dunford declined to discuss what the

new strategy would look like.

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largely resemble the old one, initiated under President Barack Obama, with tweaks and additions in the margins, U.S. officials said.

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"I think anyone who's involved in the discussion on



An Iraqi police officer walks along a street recaptured from Islamic State fighters in Mosul.



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## IN DEPTH

# SYRIA

Continued from Page One

Exum, until January a U.S. deputy assistant secretary of defense for the Middle East.

With its growing might, this arch-foe of Israel, a group long labeled terrorist by the U.S., has gained a modicum of international recognition. It participated in negotiations sponsored by Russia following the rout of rebels from Aleppo. When China's special envoy to Syria visited Lebanon in December, he carved out time to see Hezbollah's foreign-relations chief.

Even before the Syrian civil war, Hezbollah had evolved beyond its guerrilla-group origins into a business and political enterprise that holds positions in Lebanon's government and runs social programs such as schools and clinics. Now it is poised to capitalize on what many Middle East analysts expect will be an eventual end to the Syrian war that leaves Mr. Assad in power. Syria will have \$180 billion of war-reconstruction needs, by a World Bank estimate. Hezbollah has experience at that. After a 2006 conflict with Israel, the group efficiently organized the rebuilding of battered Beirut suburbs.

"Hezbollah is well-positioned to make a lot of money" from Syrian reconstruction, said Matthew Levitt, director of the Washington Institute's Stein Program on Counterterrorism and Intelligence, a veteran of the Treasury and State departments.

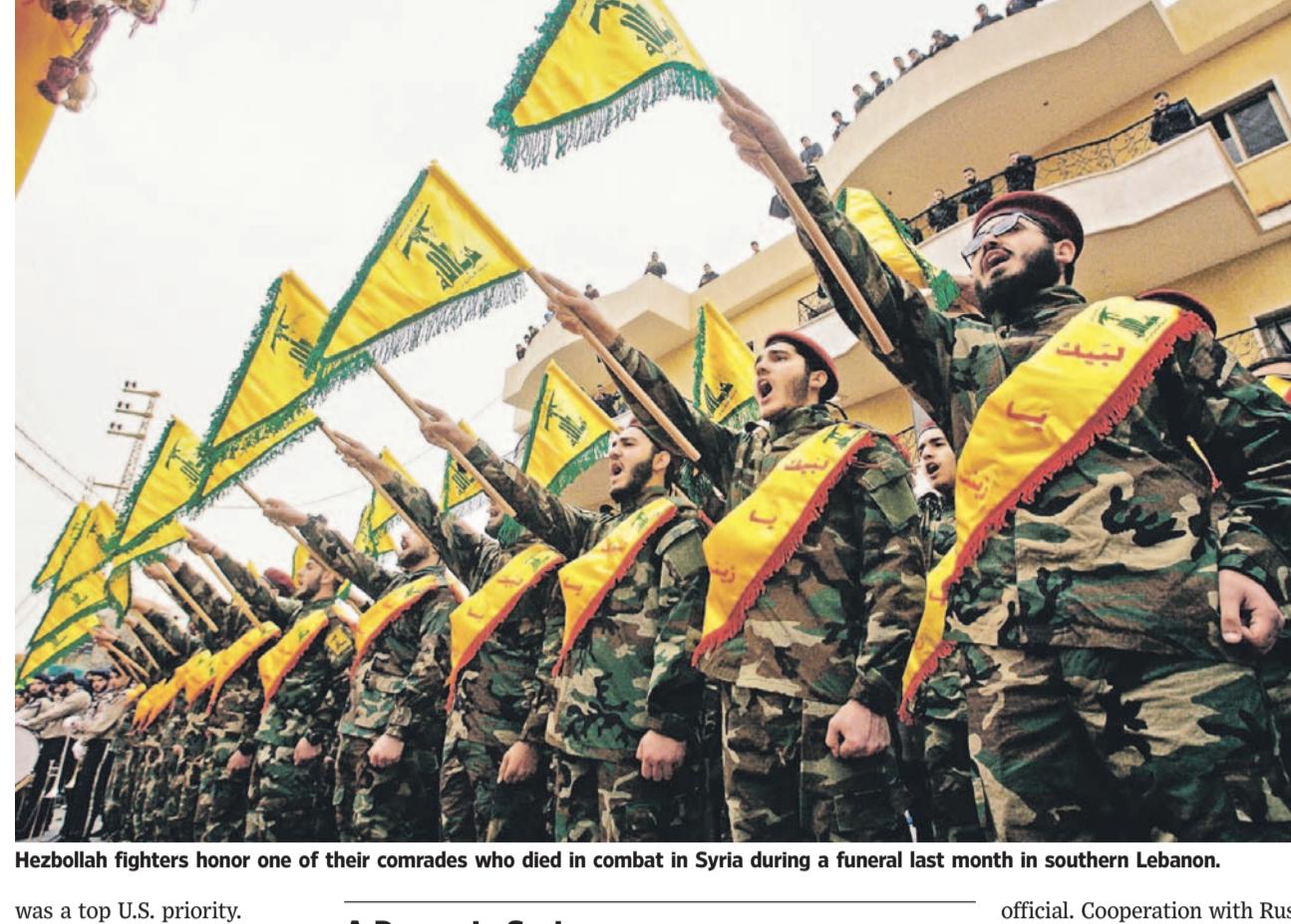
U.S. and Israeli officials have watched the growth of Hezbollah with concern, worried it could draw on its Syrian recruits to pressure Israel from a new front along the Golan Heights, captured by Israel 50 years ago. In March, Hezbollah announced the formation of a Syria-based "Brigade for the Liberation of the Golan" devoted to wresting the heights back for Syria.

"Israel knows that what has happened in Syria has changed Hezbollah, which has developed from not just defending against Israel, but attacking it," said a senior official from an alliance of Hezbollah, Syria and Iran. "It has now developed traditional and nontraditional means of war. It fights like a guerrilla army but also like a conventional one."

Israel hasn't waited for a Hezbollah attack in the Golan, sending aircraft to strike Iranian shipments of sophisticated arms to Hezbollah.

Premier Benjamin Netanyahu told President Donald Trump during a February U.S. visit that Hezbollah's expanded arsenal also endangers American warships in nearby waters, said diplomats briefed on the meeting.

The U.S. is well aware of Hezbollah's expanding capabilities and will continue working closely with partners in the region to address threats the militant group poses, a State Department official said, adding that disrupting Hezbollah's terrorist and military capabilities



MAHMOUD ZAYYAT/AGENCE FRANCE PRESSE/GETTY IMAGES

Hezbollah fighters honor one of their comrades who died in combat in Syria during a funeral last month in southern Lebanon.

was a top U.S. priority.

Hezbollah's new clout is adding to fears among Gulf states that Iran's power also is growing, drawing Saudi Arabia and the United Arab Emirates to agree to work with Israel. Their focal point is now Yemen, where Mr. Trump has agreed to provide a Saudi-led alliance with stepped-up U.S. military assistance to counter the Houthis, who were trained by Hezbollah and supported by Iran. The Gulf states, in turn, have tentatively agreed to try to bring the Palestinians to the negotiating table with Israel.

### Religious power

Hezbollah's role has implications for eventual postwar arrangements in Syria, given how its religious influence will likely compete with the secular politics of the Assad regime. Before the war, that government was improving relations with Saudi Arabia and once even considered a peace treaty with Israel. The improved ties have broken down, with the Saudis supporting Syrian rebel groups. Diplomats in the region say any normalization of relations after the war ends, likely with Mr. Assad still in power, will be even more difficult given Hezbollah and Iran's newfound clout in Syria.

Hezbollah has helped the Assad regime survive partly by protecting up its undisciplined military, which is plagued by corruption and defections. In Syrian villages retaken from rebel control, Hezbollah fighters have been seen holding Syrian soldiers by the wrist or collar and forcing them to return appliances or furniture looted from homes.

Syrian civilians say Hezbollah fighters sometimes openly disrespect Syrian troops on battlefronts, a stark change from its previous deference. Cars with blacked-out windows and Lebanese license plates screech up to Syrian checkpoints, the

### A Power in Syria

The Lebanese militant group Hezbollah has become an important player in the Syrian civil war, training local fighters and leading offensives against anti-Assad rebels.



THE WALL STREET JOURNAL.

Hezbollah commanders inside refusing to get off their phones during identification checks or to answer questions posed by their Syrian allies.

When Russia and Syria wanted to put priority on retaking Islamic State's capital of Raqqa last year, Hezbollah, along with Iran, insisted the focus instead be dislodging rebels from Aleppo to force them to the negotiating table, according to Mr. Exum and a Hezbollah official.

The strategy worked. The rebels evacuated Aleppo and agreed to participate in Russian-sponsored political negotiations now taking place in locations outside Syria.

When formed in the 1980s, Hezbollah was trained by Iran's Quds Force, an arm of the Islamic Revolutionary Guard Corps that manages Iranian clients across the region. Hezbollah gave Lebanon's dis-

enfranchised Shiite community political power and won its loyalty by providing free schooling and health care in addition to protection.

Militarily, it remained a guerrilla force, better at launching rockets from the bushes than spearheading offensives on urban centers—until Syria's civil war began in 2011. After wading in to protect its Iranian arms flow, Hezbollah stepped up its military commitment to counter Sunni extremists such as Islamic State, which regards Shiite Muslims such as Hezbollah as infidels. Hezbollah expanded its arsenal by gaining access to Russian and Syrian weapons under the cover of the civil war's chaos.

Shipments from Iran gave the Lebanese group precise and powerful armaments that it previously lacked, such as Russian-made Yakhont missiles, said a former State Department

official. Cooperation with Russia on the battlefield further increased the flow of weaponry.

"Russian stocks are open to Hezbollah," said a Hezbollah official who travels frequently to Damascus. "Our fighters eat and sleep alongside theirs and we're sharing everything, always." While an end to Syria's war could change the dynamics, Middle East analysts generally think Hezbollah's expanded access to weapons is secure.

Damascus was once considered a Hezbollah proxy master, but Western diplomats say the Lebanese group is carving out its own zones of influence across Syria by training local fighters. They include Shiites and Alawites, the latter being adherents of a branch of Shiite Islam that includes the Assad family.

Western diplomats estimate the number of these fighters loyal to Hezbollah's command, which Hezbollah calls al-Ridha Forces, and known locally as "Hezbollah in Syria," in the tens of thousands. Hezbollah officials say it is lower. Hezbollah's presence in Syria stretches 250 miles from the northern tip to the south, longer than the length of Lebanon.

Ryan Crocker, a former U.S. ambassador to both Iraq and Syria, said the autonomy Hezbollah enjoys in Syria arises partly because "Iraq is more important for Iran in many ways than Syria is," while to Hezbollah, next-door Syria is more important.

Messrs. Crocker and Exum said Hezbollah's strategy in Syria mirrors the Lebanese group's involvement in Iraq after the 2003 U.S.-led invasion. At that time, Hezbollah provided training inside Iran to Iraqi Shiite militiamen. Iran relied on Arabic-speaking Hezbollah officers to bridge a language gap that Iran's Farsi-speaking Quds Force couldn't overcome. A collateral result was to seed a

Hezbollah social influence in parts of Iraq that persists.

In Syria, Hezbollah is playing for lasting political and social influence, Western and Arab diplomats say. The group has broadened its mandate from countering Israel to fighting Sunni extremist groups across the region to protect religious minorities—not only Shiites but also Christians. It has begun replicating inside Syria the social programs that brought it loyalty and political success at home.

Hezbollah has created a Syrian branch of its Imam al-Mahdi youth movement, a Boy Scouts-type group whose Facebook page shows videos of children getting coloring books, saluting at military parades and somersaulting over fire pits. Part of the idea is to funnel young people to Hezbollah-sponsored local fighting groups and to the larger ranks of Syrian civilians—accountants, hairdressers and farmers—who maintain a fierce dedication to what they call the resistance.

Among Hezbollah supporters in Syria, deference to the Damascus regime is eroding. Photos on the walls in Syrian towns show dead fighters, described as martyrs, against a backdrop of Hezbollah leader Hassan Nasrallah and Iranian revolutionary leader Ayatollah Ruhollah Khomeini. There are few photos of Mr. Assad.

Coffins of Syrians who fought with Hezbollah used to come home draped with both Syria's flag and Hezbollah's bright yellow banner showing a green hand holding up a rifle. Over the past year, they have started arriving with just the Hezbollah flag.

### War spoils

In Qusayr, the Syrian town where Hezbollah has confiscated homes for its supporters, Hezbollah militants held a military parade in November showcasing antiaircraft systems and tanks. "To host a military parade commanding yourselves in another country is as bold as you can get," said a former State Department official. "It's telling your masters 'We're here now.'"

The boldness carries over to the negotiating table in talks to decide Syria's fate. Hezbollah has dangled offers to Syrian rebel groups weary of fighting. A pending deal with one called Saraya Ahl Alsham, in the southwest Syrian town of Qalamoun, would allow people who fled to return with a promise of protection from Syrian government prosecution or conscription. Hezbollah has said it would guarantee the agreement.

"Hezbollah is in charge of the whole region, and they control everything here," said Abu Ishak, a spokesman for Saraya Ahl Alsham. Tweaking an Arabic proverb to describe the Syrian regime's absence from the negotiating table, he said, "Hezbollah designs it, and the Syrian regime wears it."

—Noam Raydan and Rory Jones contributed to this article.

# BIKES

Continued from Page One  
erel mischief-making have led many to meet grisly fates.

The abuse has become so widespread that several hundred Good Samaritans across the country have taken up the cause. "I can't bear to see this behavior," said 26-year-old Sun Shiyue, who works for a unit of Coca-Cola Co. in Shanghai by day, and patrols his neighborhood by night with a flashlight looking for damaged or misused bikes from Mobike, one of China's largest bike-share programs.

He reports problems via the Mobike app, moves badly parked bikes and tapes a small notice—which he made himself—to the bike's saddle rebuking the previous user for irresponsible behavior.

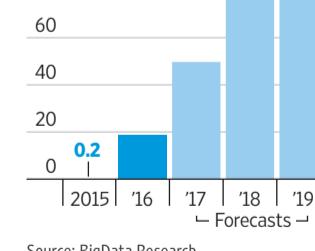
"They are the prey, and I am the hunter," he said of the saboteurs.

Before China began opening up in the late 1970s, bicycles conferred prestige. They were one of the four status symbols Chinese newlyweds aspired to own—the others being a watch, a radio and a sewing machine. Bicycles lost their glow to cars as China's economy took off, but as traffic and congestion became a problem, bikes became trendy again.

In recent months, investors have plowed \$1 billion into Chinese bike-share companies.

### Biking Bonanza

Use of China's shared bike services is growing fast.



Source: BigData Research

THE WALL STREET JOURNAL.



SIPA/ZUMA PRESS

A mass of sabotaged shared bikes near a park in Shenzhen in southern China.

\$400 each to build; users unlock them by scanning a QR code on the bike with their smartphone. They are bristling with security measures, including GPS tracking and an alarm system. That makes Mobike's loss rate "negligible," said spokesman Martin Reidy.

Nevertheless, tech-savvy

thieves have begun producing

fake QR codes for Mobikes and sticking them over the genuine codes. When users scan the bogus codes they end up, in some cases, transferring money to the scammers. Two men in the coastal cities of Ningbo and Fuzhou were charged with committing such a fraud in March, state media reported.

Bikes stolen from various

countryside shops.

A man in Chengdu was arrested last month after being caught red-handed, surrounded by the dismantled parts of numerous shared bikes. Stealing the bikes and reselling them whole was too unsubtle, the man told police, local media said, so he was breaking the bikes down and jumbling the parts together to form new ones.

Some people are so fond of

the bikes they have taken to

hoarding them, so one is always handy. It is common to see bikes stashed inside offices, or cached in stairwells. In February, two Beijing nurses were arrested for allegedly locking up shared bikes with their own locks, for which they spent five days locked up themselves, lo-

cal media reported.

In January, hundreds of shared bikes were found dumped in a huge pile in the southern city of Shenzhen by unknown saboteurs. In other locations, ranks of bikes have had their brake lines severed. Vandals have also taken to scratching off Ofo bikes' ID codes, making locked bikes unusable.

Some of the vandalism is just old-fashioned mischief.

Li, a 12-year-old Shanghai middle-

school student, and his friends have a game: seeing how many Ofo bikes they can unlock by exploiting a weakness in the company's system: People often neglect to jumble up the lock's combination at the end of their ride, enabling someone to flip open the lock free.

of charge.

"It's a lot of fun," Li said. Sometimes they mix it up by locking bikes together, Li said, or by removing locks and swapping them, baffling the next user when the code they are given doesn't work.

Authorities, until now generally supportive of the programs, are starting to get fed up with the snarls of parked share bikes blocking streets and intersections.

A vendor at Beijing's Bawangfen long-distance bus station said thousands of shared bikes routinely block buses from entering or leaving the station. "It causes arguments and even fights," said Mr. Yan, the vendor, who gave only his surname. "The city sent a guy to maintain order, but he does nothing."

Some local governments have impounded thousands of bikes, and Shanghai authorities warned bike companies not to put any more on the streets. Mobike and Ofo both said they are working with authorities to iron out these troubles.

Mr. Sun, the Good Samaritan, said bike sharing had brought too big an improvement to urban China to be fatally punctured by crooks or vandals. He said he thinks China will eventually learn to love its bikes once more, adding, "Mobike is part of my life now."

—Junya Qian and Kersten Zhang contributed to this article.

## U.S. NEWS

# Senate Panel Considers Court Nominee

Republicans weigh whether to change rules if Democrats try to block judge

By BYRON TAU

WASHINGTON—The Senate Judiciary Committee was voting Monday on whether to support Neil Gorsuch's nomination as the Senate braces for an increasingly acrimonious fight this week over President Donald Trump's pick to fill the vacancy left by the death of Justice Antonin Scalia.

Monday's vote by the 20-member Judiciary Committee is the first step in Judge Gorsuch's confirmation vote by the full Senate, with a showdown over Senate rules brewing in the chamber. As of Sunday, three Democrats said they would support confirming Judge Gorsuch in a body where 60 votes are needed to clear a procedural hurdle.

Republicans control 52 seats but have the power to change the Senate rules to eliminate the 60-vote requirement on Supreme Court nominees.

"What I can tell you is that Neil Gorsuch will be confirmed this week. How that happens really depends on our Democratic friends," said Senate Republican leader Mitch McConnell.

neil on Sunday, speaking on NBC.

The vote in the committee is expected to fall largely along party lines. Of the nine Democrats on the Judiciary committee, eight said they would vote against Judge Gorsuch—citing concerns about his judicial decisions from his time of the federal Tenth Circuit Court of Appeals and worries about his independence from Mr. Trump. Judge Gorsuch is expected to draw unanimous support from Republicans on both the committee and the Senate as a whole. They praise him as a model jurist who is well-qualified to fill a Supreme Court seat.

At the start of Monday's Senate committee hearing, Sen. Chuck Grassley (R., Iowa), the committee's chairman, praised Mr. Gorsuch's qualifications and said the judge is "well within the mainstream."

Ranking member Dianne Feinstein of California announced at the committee hearing that she wouldn't support Judge Gorsuch. Another Democrat on the committee, Chris Coons of Delaware, hadn't yet said which way he would vote on Judge Gorsuch.

The committee's vote is technically only advisory—Judge Gorsuch could still be considered by the full Senate



Supreme Court Justice nominee Neil Gorsuch during his Senate confirmation hearing on March 22.

without the approval of a majority of the committee, but such an event is extremely rare. Moreover, Republicans control a majority of seats on the panel and no GOP senator has indicated any opposition to Judge Gorsuch.

After clearing the committee, Judge Gorsuch would be voted on by the full Senate. A procedural vote on Judge Gor-

such is expected on Thursday, where he would need to get 60 votes to advance. If that vote fails, Republicans are expected to seek to vote to change Senate rules, a move that requires 51 votes, and advance the nomination that way. A final vote in the Senate to confirm the nominee is expected Friday.

Many Democrats have said Judge Gorsuch is out of the

mainstream and threatened to mount a filibuster. They encouraged Mr. Trump to choose a different nominee. Democrats are also upset about the treatment of former President Barack Obama's nominee Merrick Garland, who was nominated for the same seat. Republicans declined to vote on his nomination, saying that the seat shouldn't be filled

during an election year.

"Gorsuch will not reach the 60-vote margin," Sen. Chuck Schumer, the Democratic leader in the Senate, predicted on NBC Sunday. "Instead of changing the rules, which is up to Mitch McConnell and the Republican majority, why doesn't President Trump, Democrats, and Republicans in the Senate, sit down, and try to come up with a mainstream nominee?"

Democrats changed Senate rules in 2013 to eliminate the 60-vote procedural threshold on cabinet nominees and lower-court judges, but kept it in place for Supreme Court nominees. Republicans are threatening to use the same procedure on Supreme Court nominees if they can't reach 60 votes.

"We're all arguing against it, but we don't know any other options," Sen. John McCain (R., Ariz.), who has a history of working across the aisle, said of the rules change. "It's just not a good day. It's not a good time."

"Our base wants him confirmed, and would not understand if we didn't get him confirmed with [our] majorities," Mr. McCain said. "The Democrats are saying this is just another outrage perpetrated by the Republicans. It further polarizes the country."

## Flynn Initially Didn't Disclose Russian Incomes

By BYRON TAU

WASHINGTON—President Donald Trump's embattled former national-security adviser, Mike Flynn, initially didn't disclose payments he received from three Russian-linked entities on a financial disclosure form he filed upon entering government.

As part of the routine public release of the financial-disclosure reports from top officials, the White House provided two versions of Mr. Flynn's 2016 financial-disclosure form over the weekend—an initial version he filed in February and a more complete version he submitted last week.

On the earlier version of the form, Mr. Flynn didn't provide a full list of organizations and companies that had paid him for speaking engagements, including three Russia-linked organizations. Those payments became a source of controversy for the former national security adviser and retired three-star Army general who was forced to resign from the Trump administration earlier this year.

After playing golf with Mr. Trump, Mr. Paul told reporters that the two men had "talked about a little bit of health care."

He also said that "I continue to be very optimistic that we are getting closer and closer to an agreement on repealing Obamacare."

Mr. Trump made clear in an interview with the Financial Times, published Sunday, that he isn't giving up on passing a health-care bill.

"If we don't get what we want, we will make a deal with the Democrats and we will have in my opinion not as good a form of health care, but we are going to have a very good form of health care and it will be a bipartisan form of health care," Mr. Trump said.

On Sunday, however, the

for possible immunity.

Robert Kelner, an attorney for Mr. Flynn, said he had disclosed a speaker's bureau contract but not the itemized speeches in the February form, which he described as a draft. He said the process of submitting a disclosure form was suspended when Mr. Flynn resigned.

"When he made his initial submission, he very clearly showed his speaker's bureau contract in the relevant part of the form. It was not at all clear that he had to itemize," said Mr. Kelner. "When he was requested to do so, he did."

The March 31 form listed the companies under a section for sources of compensation exceeding \$5,000 in a year, along with a full list of other speaking engagements from Mr. Flynn that were omitted from the February form.

Mr. Flynn's attendance at an RT event in December 2015 in particular has been a source of controversy for both him and Mr. Trump. RT, previously known as Russia Today, has routinely been accused of acting in the interests of the Russian government, and Mr. Flynn was seated at the same table as Russian President Vladimir Putin during the dinner.

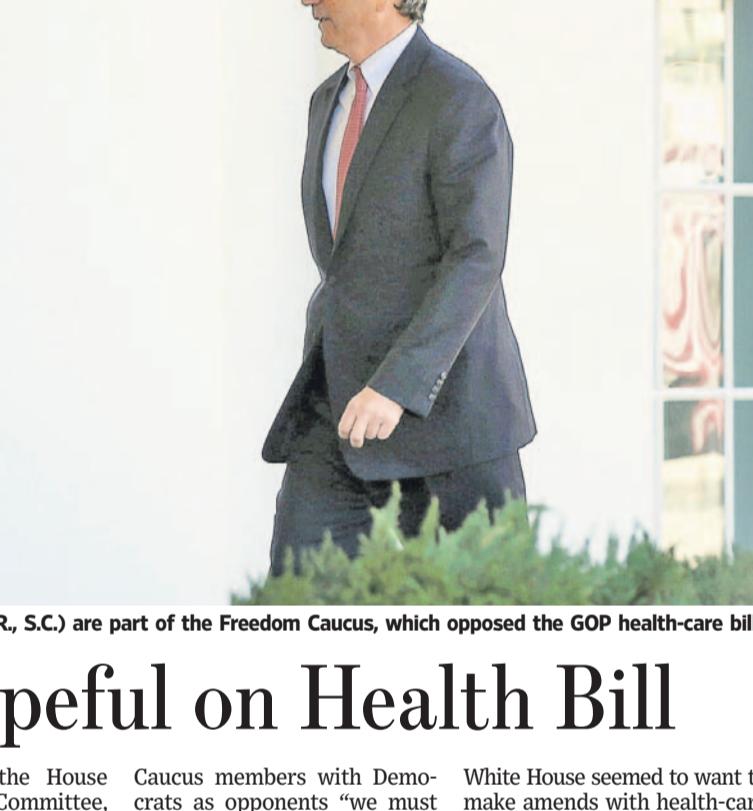
Mr. Flynn was paid \$45,000 for his appearance, according to documents released by a congressional committee, part of which went to the speaker's bureau.

Since leaving his position as director of the Defense Intelligence Agency in 2014, Mr. Flynn has taken on significant private sector work as a consultant.

He reported \$827,055 in salary from his firm, Flynn Intel Group LLC, and additional consulting fees from and salary from a number of other firms including the software company Adobe and several defense contractors.



Mike Flynn at President Donald Trump's inauguration. Mr. Flynn was forced out of his White House position earlier this year.



Rep. Justin Amash (R., Mich.), left, and Mark Sanford (R., S.C.) are part of the Freedom Caucus, which opposed the GOP health-care bill.

## Trump Still Hopeful on Health Bill

By PETER NICHOLAS

President Donald Trump signaled that he wasn't abandoning efforts to dismantle and replace the Affordable Care Act,

invoking unity within the same Republican Party he threatened

just last week to purge of dissident lawmakers.

"Anybody (especially Fake News media) who thinks that Repeal & Replace of Obamacare is dead does not know the love and strength in R Party!" according to a message posted Sunday on Twitter by Mr. Trump. He added: "Talks on Repealing and Replacing Obamacare are, and have been, going on, and will continue until such time as a deal is hopefully struck."

The GOP health-care bill collapsed in the House late last month, when Republican leaders failed to secure enough support to bring it to the floor. Although some Republicans have said they hoped to revive it, leaders for now want to address other agenda items, notably a rewrite of tax policy.

Rep. Kevin Brady (R., Texas),

the chairman of the House Ways and Means Committee, told reporters in the Capitol last week: "We continue to move our focus to tax reform."

Mr. Trump's tweet marks another shift in his roller-coaster rhetoric following the failure of the Republican health-care push. After initially blaming Democrats, Mr. Trump later lashed out at conservatives and floated the idea of working out a compromise with Democrats.

It is unclear whether Mr. Trump's latest tweet was meant to demonstrate a shift in political strategy toward smoothing over differences between the Republican Party's conservative and establishment blocs.

Last week, he took aim at the conservative Freedom Caucus, saying he would target them in the 2018 elections unless they got on board with his plans, as punishment for their opposition to the GOP health bill.

Mr. Trump wrote that the caucus would "hurt the entire Republican agenda if they don't get on the team, & fast." Referring to the midterm elections, he lumped in Freedom

Caucus members with Democrats as opponents "we must fight."

Picking up on this theme, senior White House aide Dan Scavino, in a tweet Saturday, singled out a prominent member of the Freedom Caucus, Rep. Justin Amash (R., Mich.). Mr. Scavino's tweet described the congressman as a "big liability" and urged the "TrumpTrain" to defeat him next year in a GOP primary.

Mr. Amash responded on Twitter: "Bring it on. I'll always stand up for liberty, the Constitution & Americans of every background" and said the Trump administration and party establishment have merged into the "Trump establishment."

Appearing on CNN's "State of the Union," Freedom Caucus member Jim Jordan (R., Ohio) stuck up for Mr. Amash.

"Justin Amash is a good friend and one of the most principled members of Congress and frankly if he is primaried I'm going to do everything I can to help him," Mr. Jordan said.

On Sunday, however, the

White House seemed to want to make amends with health-care critics. After sending out his tweet, Mr. Trump went to his club in Virginia for a golf outing with Sen. Rand Paul (R., Ky.) who had dismissed the GOP's health law as "Obamacare-lite." They were joined by White House Budget Director Mick Mulvaney.

After playing golf with Mr. Trump, Mr. Paul told reporters that the two men had "talked about a little bit of health care."

He also said that "I continue to be very optimistic that we are getting closer and closer to an agreement on repealing Obamacare."

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On Sunday, however, the



WASHINGTON

## What Ivanka Trump, Kushner Pay for Rent

Ivanka Trump and Jared Kushner, President Donald Trump's daughter and her White House adviser husband, are paying \$15,000 a month to rent their new home in Washington's fashionable Kalorama neighborhood from its billionaire owner, according to newly filed documents.

The documents, filed by the landlord with the District of Columbia housing department, present the first concrete finan-

cial information about the rental agreement between the couple and the home's owner, a Chilean magnate whose company is embroiled in a dispute with the U.S. government over a mine potentially worth billions of dollars.

The rent is in line with that paid for similar luxury properties in the area, according to local brokers. Andrónico Lukšić, bought the house after the November election and paid \$5.5 million for the six-bedroom property. The house never was advertised for rent. The White House has said Ms. Trump's and Mr. Kushner's broker knew somebody had a bid

on the property and helped facilitate the match.

"This was an arm's-length transaction at a market price," said Hope Hicks, a spokeswoman for the White House, Ms. Trump and Mr. Kushner.

—Mark Maremont and James V. Grimaldi

### MANUFACTURING

## Factory Activity Continues to Expand

U.S. factory activity decelerated slightly in March but continued to expand at a solid pace,

signaling healthy momentum in the nation's manufacturing sector. The Institute for Supply Management said its closely watched index of U.S. manufacturing activity fell to 57.2 in March from 57.7 in February. A number above 50 indicates expansion in the factory sector.

Economists surveyed by The Wall Street Journal had expected a March reading of 57.5.

It was the seventh consecutive month of industrial expansion, though down from a February reading that was the highest level for the index since August 2014.

—Ben Leubsdorf

# LIFE & ARTS

## FAMILY

# When Can My Child Mow the Lawn?

Chores boost confidence and teach many lessons; a guide to appropriate tasks children can master by age

BY ELLEN BYRON

### CAN YOUR 8-YEAR-OLD vacuum yet?

Assigning new jobs for children as they mature will develop their work ethic, says Gregg Murset, chief executive of BusyKid, a chore and allowance tracking app based in Scottsdale, Ariz. "The most important thing is to challenge them," he says. "Once they have some proficiency you need to make them stretch to do the next job."

Mr. Murset, a father of six children ages 10 to 20, believes parents should teach children to do housework when they're young, no matter if it yields imperfect results. "Even though it's easier to just clean the toilet by yourself and be done with it, you have to take the long view and realize that these fundamental life skills are so important," he says.

Michael Eisenberg, a financial advisor in Encino, Calif., and member of the American Institute of CPA's National Financial Literacy Commission, recommends attaching an allowance. "At earlier ages, it instills within children the reality that you do something and you get paid for it," he says.

Here are some housework and personal-finance matters that children can master, by age.

### 5 and Under: Grasp the Basics

Parents should teach children to pick up their toys and clean their bedroom. Hygiene rituals, including brushing teeth and combing hair, can also be assigned as daily jobs. "You need to get young children started on these basics so they will be able to graduate to more important tasks," says Mr. Murset.

Instead of an allowance at this age, show children how to put coins into a piggy bank.

### 6 to 9: Find New Challenges

Assigning essential tasks like filling the dog bowls with food and water and operating household appliances like the vacuum and dishwasher help build maturity, responsibility and motor skills.

Families should introduce an allowance at this stage and visit a bank together. "Let them watch a teller take the money, do a deposit and see how much they have in their account," says Mr. Eisenberg. Parents can also offer to match a child's savings to help reach a goal, like buying a toy. The incentive mirrors adult retirement savings programs.

### 10 to 12: Offer Choices

Chores that let children make



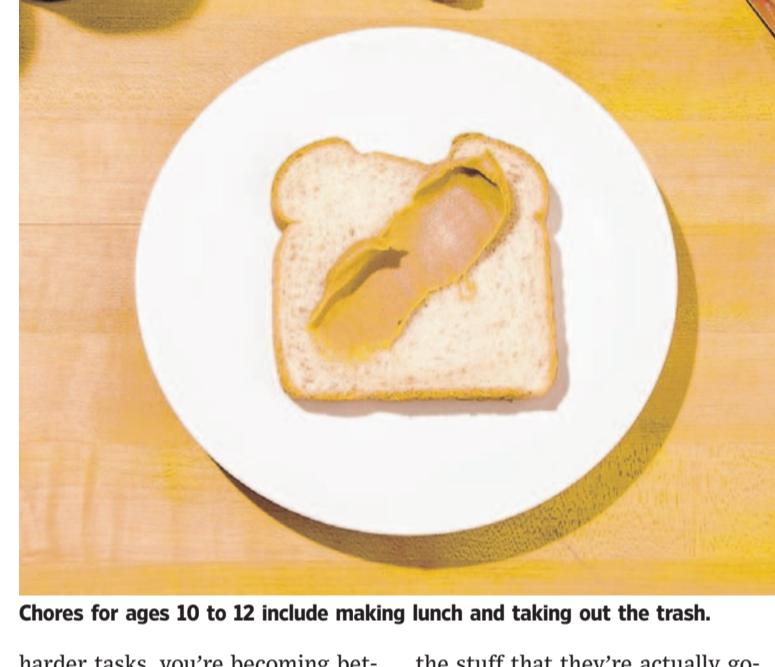
For age 5 and under, pick up the toys, clean the bedroom and comb their hair.



By age 16 to 18, teens can do laundry, grocery shop and car maintenance.



Teens, 13 to 15, can wash the windows, clean the garage and mow the lawn.



Chores for ages 10 to 12 include making lunch and taking out the trash.

their own decisions are effective confidence boosters, Mr. Murset says. Taking out the trash and walking the garbage and recycling cans to and from the curb require manipulating awkward items and offer a taste of independence, he says. So does making their school lunches. "They can decide what's in their lunch, and figure out when and how to get it done," he says.

As chores increase in sophistication and are completed successfully, allowances should rise, too, Mr. Eisenberg says. Parents should help children designate their earnings between spending, savings

and even investing. Children can buy a few shares of companies that make products they're interested in, such as toy, candy or entertainment companies.

**13 to 15: Build Ambition**  
"Teens now need to do the big stuff, like mow the lawn and wash the windows and cars, making sure there are no spots on them," says Mr. Murset. "The ability to get a job done all the way is a really good skill to have."

New and more challenging tasks help keep teenagers motivated, he says. "A work ethic has to be developed over time, and as you get

harder tasks, you're becoming better adept taking on those challenges and accomplishing them—that's the character development piece."

Given the rise of electronic banking, few children will grow up watching their parents tackle bills each month with a stack of paper statements and a checkbook. Sitting with your teenager as you pay bills online introduces how households manage finances, and how much everything costs, Mr. Eisenberg says.

**16 to 18: Time to Grow Up**  
"This is when you start piling on

the stuff that they're actually going to need in the next few years of their life, when they're adults," says Mr. Murset. "Have them do their own laundry and cook their own dinner once a week."

Other adult errands, like grocery shopping and taking the car for an oil change or emissions testing, help them better articulate their needs to strangers, he says. "And if you have a teen with an attitude problem, send them to the DMV, that's even better," Mr. Murset says.

At this stage, Mr. Eisenberg wants teenagers to get a summer job outside the home.

YOUR HEALTH | By Sumathi Reddy

# A PUSH TO ENCOURAGE SCANS FOR SKIN CANCER

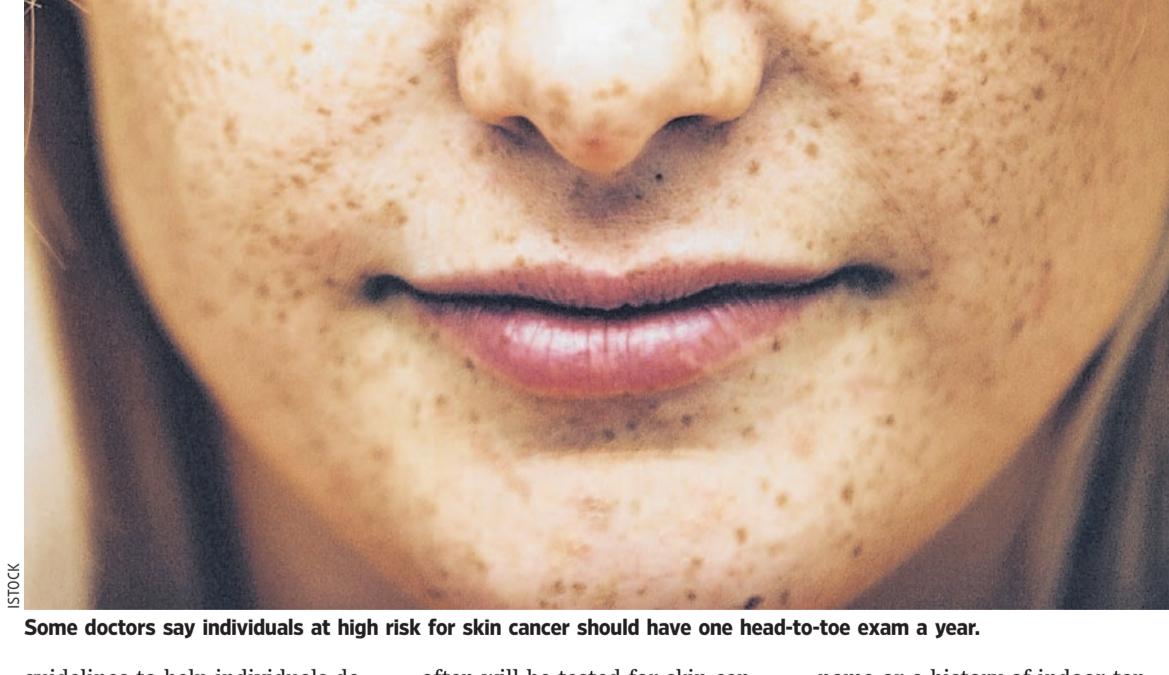
**BEVERLY MCCORMICK** gets a full-body exam for skin cancer every six months. With blond hair, freckles and light skin, she's not taking any chances.

Ms. McCormick, a 64-year-old manager in the financial-services department at the Christ Hospital in Cincinnati, says that over the years her dermatologist has removed a squamous cell carcinoma—a type of skin cancer—as well as numerous precancerous lesions.

"This isn't one of those preventive services like mammograms or pap smears that are always covered by insurance," she said. Most of the cost goes toward her high-deductible insurance plan.

Melanoma accounts for the majority of skin cancer-related deaths and is the fifth most common invasive cancer in men and the seventh in women. In the U.S., there is no national consensus on who should be screened for melanoma or how often, so insurance coverage varies.

Currently, most patients who get regular exams, like Ms. McCormick, consult a dermatologist on their own initiative. But some experts say screening for melanoma should be more widespread and accessible. In a perspective piece published last week in the journal *Melanoma Management*, more than 50 dermatologists and skin-cancer experts called for uniform



Some doctors say individuals at high risk for skin cancer should have one head-to-toe exam a year.

guidelines to help individuals determine whether they should get regular total-body skin exams.

Such tests usually entail a 10- to-20-minute head-to-toe examination in which a health professional studies the size, shape, color and borders of moles, including in hard-to-spot places such as the scalp, under fingernails, behind the ears and even in the iris of the eyes. Any suspicious-looking moles

often will be tested for skin cancer.

In the *Melanoma Management* article, the experts recommend an annual total body skin exam for people between the ages of 35 and 75 with one or more risk factors. Such factors include previous cases of melanoma, a mutation in a melanoma gene or a compromised immune system. Other risk factors: a family history of melano-

noma or a history of indoor tanning and blistering sunburns. Finally, an annual exam is

recommended for individuals with a broad array of physical features, such as light skin; blonde or red hair; lots of freckles; severely sun-damaged skin; 40 or more moles;

or two or more atypical moles.

"It's probably one of the most cost-effective screenings you can think about," said Sancy Leach-

man, director of the melanoma research program at Oregon Health & Science University's Knight Cancer Institute in Portland.

Dr. Leachman was one of the two first authors on the perspective piece. Because there isn't a high concentration of dermatologists in every part of the country, she said, it makes sense for primary-care physicians also to perform exams. But to do so, insurance coverage is necessary, she said.

Some experts say the criteria set forth in the *Melanoma Management* article don't go far enough.

"I recommend that every adult have an annual skin examination," said Elizabeth Hale, a clinical associate professor of dermatology at New York University Langone Medical Center and senior vice president of the Skin Cancer Foundation, which also recommends annual screenings for everyone.

Dr. Hale recommends that individuals with risk factors such as indoor tanning, light skin, freckles or atypical moles get two scans a year. "What makes skin cancer so unique is early detection is possible and so critical," she said.

The average five-year survival rate is as high as 98% for melanoma caught at an early stage, but drops to about 18% once it is stage four, or has spread to other organs.

## LIFE & ARTS

### BOOKS

# New Insights into a Prince

A new biography reveals unexpected quirks; from a passion for Monty Python to the game-changing role of Camilla

BY BRENDA CRONIN

**VISITING THE WHITE HOUSE** in 1970, Prince Charles met with President Richard Nixon in the Oval Office. Nixon's advice to wait watchfully in the wings before becoming king didn't sit well with the 21-year-old heir apparent.

"To be just a presence would be fatal," Charles wrote in his diary, railing at the notion of "saying meaningless niceties."

The account, from a biography out April 4, reveals a young man "who didn't want to spend his life cutting ribbons," says the author, Sally Bedell Smith. Although the Prince of Wales has devoted considerable time to fox hunting, gardening and painting watercolors, he "is absolutely driven by this sense that he has to accomplish all sorts of things," Mrs. Smith says.

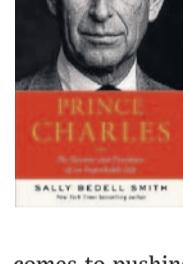
In "Prince Charles: The Passions and Paradoxes of an Improbable Life," Mrs. Smith decodes a very private public figure whose decades of philanthropy have received less tabloid coverage than his romances and occasional gaffes. Overshadowed by his dazzling first wife, Lady Diana Spencer, Charles ultimately was redeemed by his second, Camilla Parker Bowles, whom he wed in 2005. "The game-changer in his life was marrying Camilla," Mrs. Smith says.

Paradoxes dot the life of a man who moves in rarified circles but is most at ease in the countryside, where he spends hours weeding and tending to hedges. If he hadn't been born into the royal family, "he would have been a farmer," Mrs. Smith says.

In the early 1990s, Charles advocated to "radically modernize" the monarchy, in part by slimming down the royal payroll. But the fervent modernizer also is an unapologetic luddite, who bought property in Romania's Transylvania in part to experience life in



The book reveals the prince was pressured to marry Diana, left with princes William and Harry, by his father. Above, author Sally Bedell Smith.



paralyzed by indecision—and impervious to advice. "Probably one flaw is his unwillingness to listen to other points of view," Mrs. Smith says.

"He's very stubborn when it

comes to pushing his point of view."

Mrs. Smith first crossed paths with Prince Charles in 1991 at a polo match in England. Among the seven biographies she has written are lives of Queen Elizabeth II, as well as Diana, the Princess of Wales, who died in 1997.

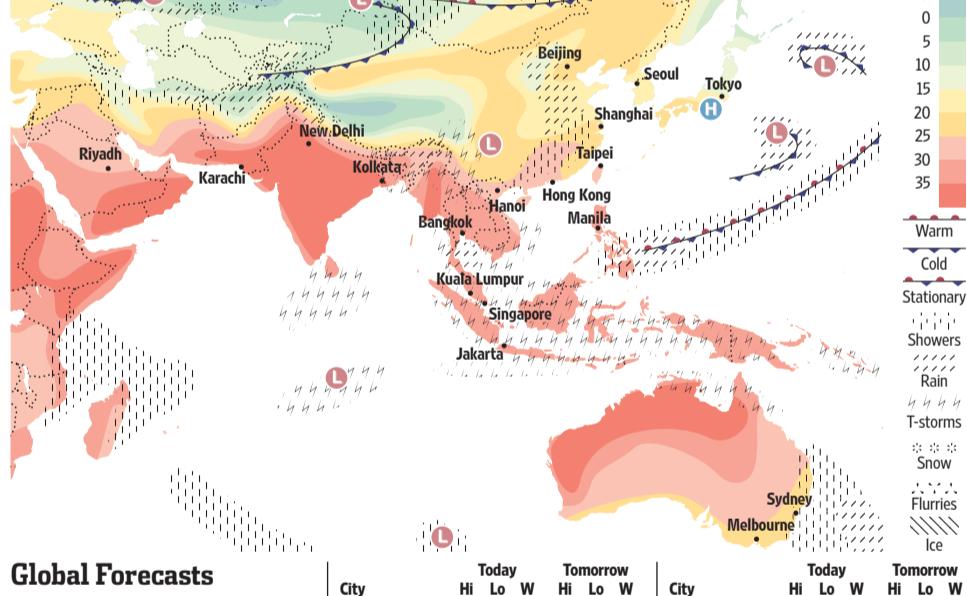
Charles's life is improbable, Mrs. Smith says, because it follows a jagged arc compared with his mother's smooth grooming for the throne. Charles "was caught between the modern world and the world of his parents, his mother in particular," she says. With his par-

ents preoccupied by their duties, Charles turned to his grandmother for affection. "The first part of his life was completely dictated by" Charles's father, Prince Philip, Mrs. Smith says. "He went to schools that he hated and went into the Navy as he was commanded to do."

Although a stickler for protocol with a sharp temper, Charles has mellowed over time, Mrs. Smith says. A Monty Python fan, he has a self-deprecating sense of humor and sustains a good-natured rivalry with his sister Anne, the Princess Royal, to tally the most appearances every year.

The heir apparent since the age of three, Charles has waited a record stretch of time to become king. Queen Elizabeth, who will be 91 this month, is Britain's longest-reigning sovereign. Mrs. Smith describes how as a boy, Charles watched his 27-year-old mother practice for her coronation, walking around the nursery wearing a bejeweled crown.

### Weather



### Global Forecasts

s...sunny; pc...partly cloudy; c...cloudy; sh...showers;

t...storms; r...rain; sf...snow flurries; sn...snow; l...ice

Today Hi Lo W Tomorrow Hi Lo W

City Amsterdam 15 6 pc 11 6 c

Anchorage 9 6 r 11 4 c

Athens 18 12 pc 19 12 t

Atlanta 27 16 pc 24 9 t

Bahrain 23 11 s 27 12 s

Baltimore 24 10 t 20 11 s

Bangkok 33 26 c 34 26 t

Beijing 21 11 c 19 9 pc

Berlin 15 5 pc 13 5 c

Bogota 22 8 pc 22 8 pc

Boise 14 5 pc 20 11 pc

Boston 7 4 r 7 3 s

Brussels 16 5 c 12 4 c

Buenos Aires 26 16 c 26 12 s

Cairo 29 16 s 31 19 s

Calgary 9 2 s 13 2 pc

Caracas 32 25 s 32 25 pc

Charlotte 27 12 s 24 12 t

Chicago 13 3 c 6 1 r

Dallas 30 11 s 22 9 s

Denver 4 5 sn 12 1 s

Detroit 12 5 c 9 3 r

Dubai 30 24 s 29 22 s

Dublin 11 4 pc 11 4 c

Edinburgh 12 6 pc 12 4 c

Frankfurt 18 5 pc 16 5 c

### Today Hi Lo W Tomorrow Hi Lo W

### City Geneva 17 6 sh 16 5 c

Hanoi 27 20 c 28 22 c

Havana 32 19 s 32 20 s

Hong Kong 25 21 s 26 21 s

Honolulu 29 23 pc 30 22 pc

Houston 31 15 s 24 10 s

Istanbul 17 11 c 17 10 c

Jakarta 32 23 t 31 25 t

Johannesburg 28 12 s 28 15 s

Kansas City 13 6 r 12 3 r

Las Vegas 22 11 s 25 14 pc

Lima 27 22 pc 27 22 pc

London 15 5 c 13 5 c

Los Angeles 24 13 s 27 13 s

Madrid 22 6 s 20 6 pc

Manila 32 25 s 33 25 s

Melbourne 24 12 pc 24 12 pc

Mexico City 29 10 s 30 13 pc

Miami 32 24 s 31 24 pc

Milan 22 10 p 20 8 pc

Minneapolis 15 3 c 12 0 pc

Monterrey 37 16 pc 27 10 pc

Montreal 6 2 r 9 1 r

Moscow 7 2 pc 10 4 c

Mumbai 32 24 pc 32 23 pc

Nashville 26 14 pc 25 5 t

New Delhi 38 22 pc 37 23 t

New Orleans 28 20 s 27 13 t

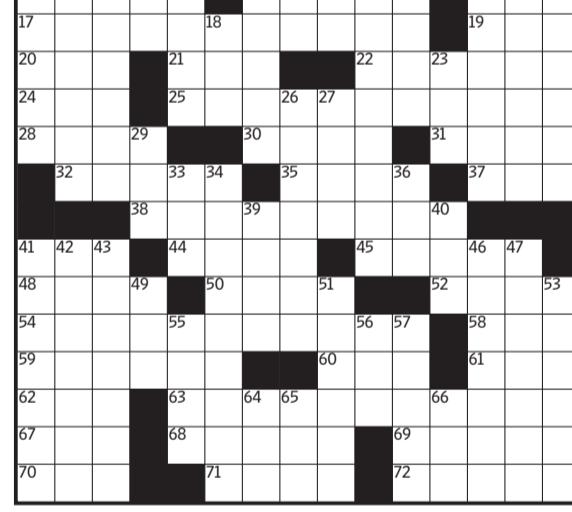
New York City 17 10 r 17 7 s

New Zealand 10 8 r 12 7 r

Washington, D.C. 26 12 t 22 12 s

Zurich 15 3 sh 15 4 c

### The WSJ Daily Crossword | Edited by Mike Shenk



### STICK TO YOUR GUNS | By Daniel Hamm

- Across**
- 1 Mexican mullah
  - 6 Funny folks
  - 10 Place for a price
  - 13 Crowd scene participant
  - 14 App stand-ins
  - 16 Feel sorry about
  - 17 Institution with Post graduates?
  - 19 Believer's suffix
  - 20 Major retail jeweler
  - 21 Pen name
  - 22 Belt settings
  - 24 Some CTA trains
  - 25 Burglar deterrent
  - 28 Out of juice
  - 30 Builder of 64-Down
  - 31 \_\_\_\_ avis
  - 32 Police trap
  - 35 Place for a circuit board
  - 37 Stop indicator
  - 38 Rural property
  - 41 Oomph
  - 44 Haleakala National Park location
  - 45 Dill pickle quarter
  - 48 Away from the wind
  - 50 Car freshener scent
  - 52 Right away, to a nurse
  - 54 Georgia site of FDR's "Little White House"
  - 58 Position on the fairway
  - 59 "Hamilton" prop
  - 60 Put a bow in
  - 61 Curry of TV news
  - 62 Singer DiFranco
  - 63 Ready for battle, like the other long Across answers?
  - 67 Horror director Craven
  - 68 Embarrassment for a fielder
  - 69 Aquarium buildup
  - 70 Booming jet of the past
  - 71 Long-haired terrier breed
  - 72 Property claims

► Solve this puzzle online and discuss it at [WSJ.com/Puzzles](http://WSJ.com/Puzzles).

- Down**
- 1 Worked for chicken feed
  - 2 Sighs, e.g.
  - 3 Visits overnight
  - 4 NHL great Bobby
  - 5 Ballroom dance from Brazil
  - 6 Neopagan practitioner
  - 7 Cologne cry
  - 8 Mawkish drivel
  - 9 Pair for Arctic hikers
  - 10 Studio with a Pegasus logo
  - 11 Starkly simple
  - 12 Blows a gasket
  - 15 Wow'em at the comedy club
  - 18 Répondez vous plait
  - 23 Netanyahu is its PM
  - 26 "The Barber of Seville" composer
  - 27 Whiskey distiller's need
  - 29 "What's the \_\_\_\_?" ("Who cares?")
  - 33 1960s war zone
  - 34 Wrestling match participants
  - 36 Pub fixture
  - 39 Sierra Club founder
  - 40 \_\_\_\_ Plaines
  - 41 Fleshy yellowish fruits
  - 42 Popular Upper East Side restaurant closed in 2011
  - 43 Carry on
  - 46 Not yet captured
  - 47 Barry Levinson film that won the Best Picture Oscar
  - 49 Off-premise hosp. worker
  - 51 Complete
  - 53 Past, present and future
  - 55 Drink brand with a lizard logo
  - 56 Singapore sling ingredient
  - 57 "Love Story" writer Erich
  - 64 30-Across built it
  - 65 Artist Lichtenstein
  - 66 "Moonlight" Oscar winner Mahershala

### Previous Puzzle's Solution

CHAT	LEAPS	FELT
ROSE	AGREE	EVER
TWIN	ENGINE	PLANE
SLATED	DAINTY	
PLOTS	BINS	
REDO	NOISE	LEVEL
EVIL	PRODS	CIRE
GORE	POLLS	CLOG
LIKE	DEFOE	ALDA
SECRET	FILE	REEL
TEND	NYMPH	
SAIDSO	BOOZES	
CLOSE	ORDER	DRILL
AONE	ROOMY	NOLA
MESA	SEETO	SNAP

### THE DAILY SHOT

## Micro Trends, Macro Context. In Minutes.

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## OPINION

### REVIEW & OUTLOOK

## The Truth About the China Trade Shock

When President Trump hosts Chinese President Xi Jinping this week at Mar-a-Lago, trade will be high on the agenda. If Mr. Trump hopes to come away a winner, he'll need the right objectives. That means focusing on China's mercantilist practices without jeopardizing the benefits of mutual trade and investment.

Support for this policy comes from two recent economic studies that debunk the claim that imports from China—particularly after its accession to the World Trade Organization in 2001—have hollowed out large areas of the U.S. and made Americans worse off.

The two new papers address the work of MIT economist David Autor and co-authors David Dorn and Gordon Hanson, who have published several papers on Chinese imports. Their much-quoted study, "The China Syndrome: Local Labor Market Effects of Import Competition in the United States," looked at 722 geographic areas from 1990 to 2000 and 2000 to 2007. It found that "rising imports cause higher unemployment, lower labor force participation, and reduced wages in local labor markets that house import-competing manufacturing industries."

Jonathan Rothwell, senior economist at Gallup and a visiting scholar at George Washington University Institute of Public Policy, studied the effects of China trade on the same areas during the same two time periods. His findings, published in "Cutting the Losses: Reassessing the Costs of Import Competition to Workers and Communities," are different because his methodology is different.

The Autor team compared changes across the two time periods, but Mr. Rothwell analyzed the two time periods separately. He did this to account for macroeconomic trends, which were not the same in both times for all places. For example, the dot.com boom followed by a bust in places like San Jose, Calif., shows a downturn in the second period compared to the first but that had little to do with China.

Mr. Rothwell's results show that foreign competition didn't affect workers in manufacturing any more than domestic factors like automation, bad management or right-to-work, low-tax states. The economist finds "the risk of layoff

New evidence shows that imports made firms and workers more competitive.

and unemployment to workers in trade-exposed sectors is comparable—or even lower—than the risk to workers in non-traded sectors and that these risks have not increased during the period of more intense competition with Chinese imports."

A second recent study—"Firm Reorganization, Chinese Imports, and US Manufacturing Employment" by Columbia Ph.D. candidate Ildiko Magyari—looks at the impact of Chinese imports on U.S. companies. It finds that trade with China reduced costs and allowed firms to expand "their total manufacturing employment in industries in which the US has a comparative advantage relative to China, even as specific" parts of the same company got smaller.

Although Chinese imports may mean job losses in one part of the company, Ms. Magyari writes, "these losses were more than offset by gains in employment within the same firms. Contrary to conventional wisdom, firms exposed to greater Chinese imports created more manufacturing and nonmanufacturing jobs than non-exposed firms." Somewhere David Ricardo is smiling.

Both studies conclude that competition from China increased the value of U.S. workers. As Ms. Magyari notes, using Census Bureau data, companies that faced competition and reorganized, expanded employment "by 2 percent more per year as they hired more (i) production workers in manufacturing, whom they paid higher wages, and (ii) in services complementary to high-skilled and high-tech manufacturing, such as R&D, design, engineering, and headquarters services."

An import surge does hurt some workers in some industries, and the Chinese surge after its entry into the WTO was bigger than most. But the evidence suggests that its impact was also a net benefit to many U.S. workers and firms, and that's without taking into account the benefit to consumers from lower prices for clothing and other daily goods. In any event that surge is now over and the U.S. economy has adjusted.

Mr. Trump is right to press Mr. Xi on intellectual property and cyber theft, high tariffs, favoritism to "national champions" and other bad practices. He shouldn't worry about trade in general or the size of the trade deficit.

## Japan's Open Hand to South Korea

Tokyo's decision to send Ambassador Yasumasa Nagamine back to Seoul is a responsible decision that will benefit the security of Japan and South Korea. The display of leadership should inspire reflection among South Koreans.

Mr. Nagamine was withdrawn from his post early this year after the South failed to honor the terms of a 2015 agreement to resolve the issue of "comfort women"—Korean women forced to become prostitutes by the Japanese Imperial Army during World War II. The deal included Japanese compensation for the survivors.

The breakthrough agreement also required Seoul to remove a statue of a Korean girl placed as a protest outside the Japanese Embassy. That didn't happen, and activists erected an identical statue outside the Japanese Consulate in Busan.

It's easy to understand that many South Koreans remain dissatisfied with Tokyo's refusal to fully acknowledge atrocities committed during

Countering North Korea is too important to let WWII issues interfere.

the war. But it makes no sense to kill a deal that offers help for victims in their old age. In this case, left-wing groups are exploiting the comfort women issue to hold the country's foreign policy hostage.

Japan and South Korea urgently need to improve cooperation to meet the threat from North Korea. Last November the two countries reached a deal to share military intelligence. And this week they are holding a joint naval exercise along with the U.S. aimed at countering submarine-launched missiles. Mr. Nagamine's return will help security ties develop smoothly.

As Japanese Vice Minister for Foreign Affairs Kiyoshi Odawara wrote in these pages in January, "It is difficult to accept the actions of activists undermining the trust and expectation of friendship that we have strenuously worked to build up." As Tokyo continues to act responsibly and offer reconciliation, Seoul has a responsibility to reciprocate.

## The Other French Radical

You wouldn't know from the heavy media coverage of Marine Le Pen, but the National Front leader isn't the only radical outsider threatening the French political establishment in this month's presidential election campaign. The other is independent hard-left candidate Jean-Luc Mélenchon, who over the weekend overtook the center-left Socialists in the polls.

Mr. Mélenchon is in striking distance of displacing the center-right's François Fillon in third place, not far behind the two frontrunners, Ms. Le Pen and the independent centrist Emmanuel Macron. If enough Socialist voters abandon their party's candidate, Benoît Hamon, Mr. Mélenchon might make it to the second round in May.

The 65-year-old spent 35 years in the Socialist Party before leaving in 2008 to launch his own movement, which he calls "Unbowed France." Mr. Mélenchon makes Bernie Sanders look like American Senator Ted Cruz, and his campaign platform would undo even the modest pro-growth reforms enacted in France over the past decade while adding a raft of new statist measures.

These include raising the minimum wage by 15% to €1,300 (\$1,386) a month after taxes; shortening the workweek to 32 hours from 35, and lowering the retirement age to 60 from 62. Mr. Mélenchon would slap a 100% tax on anyone earning 20 times the median income, or about €33,000 a month. For bad measure, he vows a €273 billion splurge in stimulus spending, public works and "green" projects.

Mr. Hamon, his rival for the left-wing vote, calls these proposals irresponsible. But Mr. Hamon, a former education minister, isn't all that moderate himself. He won the Socialist nomination after thumping the party's reform wing, led by former Prime Minister Manuel Valls. Mr. Hamon would also shorten the workweek, and he wants to fund a universal basic in-

come by taxing firms that employ robots.

The problem for Mr. Hamon is that voters associate him with President François Hollande's disastrous tenure, which began in 2012 with a march to the hard left and ended with modest attempts at pro-growth reforms. Socialist voters who liked the reform half are now supporting Mr. Macron, while the party's

base sees Mr. Mélenchon as the authentic voice of the left. Why support Mélenchon-lite in Mr. Hamon if you can get the real thing?

France's leftist grandes are urging the two men to merge campaigns in the hope of making it to the runoff, likely against Ms. Le Pen, but Mr. Mélenchon has so far resisted. It isn't clear whom his voters would support in case Mr. Mélenchon is eliminated in the first round. Mr. Mélenchon so loathes Ms. Le Pen that he refuses to mention her by name, yet the two see eye-to-eye on many economic questions.

Like Ms. Le Pen, Mr. Mélenchon wants to see Paris form an alliance with Vladimir Putin and Bashar Assad. He wants to pull the country out of NATO, and he views the European Union as a "neoliberal" vehicle designed to oppress French workers. Voters who back such a platform might prefer to hold their noses and vote for Ms. Le Pen in a runoff instead of supporting a reformer like Mr. Macron.

France isn't the only country where the traditional center-left party is either jumping further to the left or falling off a political cliff, or both. Support for Britain's Labour Party has plummeted under the leadership of '60s-style radical Jeremy Corbyn, and the center-left Labor Party fell apart in last month's election in the Netherlands, supplanted by the Greens and the far-left D66 party.

The collapse of Europe's center-left is as important a story as the rise of the far-right. In France it is another reason not to rule out a Le Pen victory next month.

## Donald Trump and The Plutocrat's Hubris

By Joseph Epstein

In the petit-bourgeois, confidently philistine milieu in which I grew up, plutocratic values held a firm purchase. When the men gathered in the living room after dinner, money talked—those who had found the greatest financial success tended to dominate the conversation. Since Lou Riskin had made a killing in the mail-order business, the assumption was that he had penetrating things to say on the subject of urban renewal. Saul Levine had run the most successful Buick agency in the city, therefore definitely worth listening to him hold forth on welfare.

When I hear Donald Trump talk, I think of how much at home he would have felt in those living rooms. The guy's a multibillionaire, cleaned up in real estate, so why shouldn't he know about health care, immigration, life in the inner cities? Or if he doesn't know, no reason why with a bit of quick study he can't find out enough to put everything in order.

My father was a moderately successful businessman—for a kid who never finished high school, an immensely successful one—but too well-mannered to wish to dominate these living-room discussions. Yet he had no argument with the underlying rules of the game. As an adolescent, I heard several of his business homilies: If you work for a man for a dollar an hour, always give him two dollars worth of effort; you make your money not in selling, but in buying right; you can't argue with success.

That last bit was the only one that, as I grew older, began to get on my nerves. What, I would ask my father, is better to argue with? How the success was achieved, what went into it, who suffered because of it? By success my father meant financial success. The money game was the real one, and not the least satisfying thing about it was the tidy means of keeping score: How much, in hard cash, did one come out with in the end?

I am someone who finds it difficult to think about money for more than two minutes at a time. I rather envy those who have earned enough money to sit out forever from the financial wars, but I don't envy them sufficiently to drop the things that interest me more in order to emulate them. Money-making seems a useful skill, but not much more. I've known too many ninnies who seem to have mastered it to be in thrall myself.

A strong argument can be made that, contra Trump, success in business is too narrow to transfer to other realms. Orderly thought is needed for success of any kind. So, too, the clarity to get outside oneself to grasp the larger forces involved in any complicated transaction. Confidence helps, to be sure. But making a wad in real estate, mail order or auto sales doesn't impart any special advantage in understanding the complexities of health care, African-American culture or foreign policy—as Mr. Trump and his billionaire-laden cabinet are discovering.

It's now obvious financial success does not easily transfer into other realms.

President Trump's first weeks in office demonstrate the hubris of the plutocrat. The defeats began with his releasing an immigration order neither well thought out nor even quite legal. He obviously didn't investigate thoroughly the men he hired for key positions in his campaign (Paul Manafort) or his administration (Mike Flynn). On health care, he evidently had no notion of the variety of views within his newly adopted party.

I've not read "The Art of the Deal," nor do I plan to do so during this life, but I should imagine that the heart of any effective negotiation is finding common interests among those at the bargaining table. In business, the paramount common interest is obvious: money, profit all round. In politics, it turns out, much more is usually entailed.

In government, unlike business, many things cannot be delegated. Careful study may be sufficient for determining where to build a new hotel, but an understanding of varied, often subtle human motives is required to compose and pass a complex piece of legislation.

That financial success doesn't easily, or always, transfer into other realms is now obvious. Let's hope that the evidence on display during the early days of his administration will soon humble even so arrogant a man as America's new president. Donald Trump and those who support him ought to think about arguing with success, at least as the plutocrats construe it.

Mr. Epstein's books include "Frozen in Time: Twenty Stories" and "Wind Sprints: Shorter Essays."

## No Justice in Argentina



AMERICAS  
By Mary Anastasia O'Grady

The international community is up in arms about last week's attempt by the Venezuelan Supreme Court to take over the National Assembly, as if doing so would mark the end of democracy in the troubled nation. Let's face it: That ship sailed long ago. The onset of authoritarianism in Venezuela dates to at least April 2002, when the military tried and failed to remove then-President Hugo Chávez for his violations of the constitution.

With the help of the many militants still dreaming of making Argentina another Cuba, the Kirchners began arresting former soldiers. They refused to arrest former guerrillas, though many openly admitted that they had been part of the terrorist rampage. Many became Kirchner government officials.

Clearly not everyone who wore a uniform was complicit in crimes committed by the military. Most were not. But the Kirchners wanted headlines. They packed the courts with left-wing judges—some of whom were former guerrillas—who allowed false testimony for the prosecution and mobs in the courtroom to harass witnesses. Many defendants were tried in groups, which is against Argentine law. Judges did little to hide their biases, sometimes hugging fans of the prosecution in jubilation after issuing a guilty verdict.

Frequently a lack of evidence tying a defendant to a crime was no obstacle to a conviction. He could be pronounced guilty on the ground that, given his rank and posting, he *should* have known about human-rights violations. It's hard to think of a modern republic anywhere in the world that would stand for such a manipulation of justice.

According to the nongovernmental organization La Fuerza de los Dignos—made up of sons and daughters of imprisoned military—717 former members of the armed forces have been convicted, and most have received life sentences. Almost 1,100 are still in the process of being investigated and tried. Most of them are over 70, which means they are entitled to house arrest under Argentine law. But that, too, is politically incorrect in a nation dizzied by leftist spin. So they sit in jail—for years, denied due process. Meanwhile former terrorists roam free.

Argentines want to move on from this painful history. They would rather not confront it. In Mauricio Macri, they have elected a reformer as president. But he faces violent obstruction from Kirchner-era diehards.

If the nation is to avoid Venezuela's fate, it needs to restore the rule of law. That means granting justice to the many victims of the rotten judiciary that served the Kirchners' political ends.

*Write to O'Grady@wsj.com.*

## OPINION

# How to Make U.S. Tax Reform Bipartisan

By Jason Furman

The implosion of the U.S. Republican health-care bill shows the limits of what one party alone can do in Washington. Tax reform will be even trickier, since it touches a larger fraction of the economy and threatens more powerful vested interests. The only hope for seriously revamping America's inefficient business-tax system to unlock stronger economic growth is a bipartisan approach, but it will require a course correction by President Trump. Here are five important steps to building a sensible tax reform:

**Focus on fixing the badly broken corporate-tax system, and commit to no loss of revenue.**

*• Commit to revenue neutrality and distributional neutrality, as in the 1986 tax reform.* In other words, a bipartisan plan would focus on making the tax system more efficient without cutting the revenue raised or shifting the burden in any direction. This wouldn't require a change in rhetoric. House Speaker Paul Ryan has already said tax reform should be revenue-neutral, and Treasury Secretary Steven Mnuchin has said that there will be "no absolute tax cut for the upper class."

Any specific legislation should be judged against these benchmarks by the nonpartisan analysts at the Joint Committee on Taxation, a group that

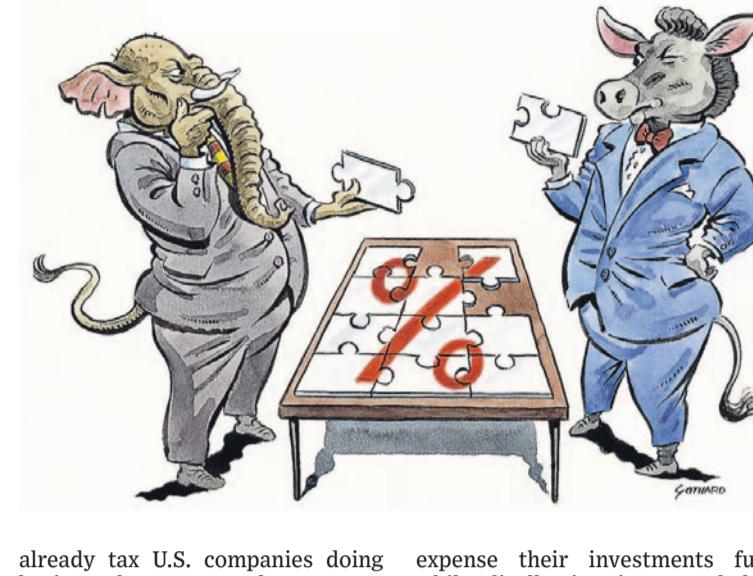
incidentally now uses dynamic scoring in assessing major tax changes. But the frameworks put out last year by the Trump campaign and House Republicans don't pass the test. They would add trillions of dollars to the deficit while providing, respectively, 50.8% and 99.6% of their benefits to the top 1%, according to the Tax Policy Center.

*• Focus on business taxes only.* This is where the largest economic gains from tax reform can be found. In part that's because companies can and do move across borders in search of lower taxes, while individuals are much less likely to do so.

For a reformed system to work, all large companies should have to file under the corporate-tax code, as President George W. Bush's tax-reform commission proposed. Small businesses should have their rates left alone but could be helped in other ways—for instance, with more generous tax breaks for research or employer benefits.

*• For overseas business income, adopt something like a "minimum tax."* The current system, which taxes U.S. companies on their repatriated earnings at the regular rate of 35%, is badly broken. It raises little or no revenue while imposing substantial distortions, such as giving firms an incentive to stash money overseas permanently.

A minimum tax instead would apply to all overseas earnings at some intermediate rate—President Obama proposed 19% and Republican Sen. Rob Portman supported a lower rate. Earnings could then be repatriated tax-free. A minimum tax wouldn't apply to investments in countries such as Germany or the U.K., which



ing. The goal should be to expand investment meaningfully in America's roads, bridges, railways and airports. It could be funded with a mandatory one-time tax—say, of 15%—on unrepatriated foreign earnings as part of the transition to the new international tax system. Both tax reform and infrastructure would be good for growth—and pairing them has been a staple of Democratic and Republican proposals alike in recent years.

Following these five steps is the way to enact genuine, durable tax reform. If Republicans work alone, they might be able to pass a temporary tax cut through the reconciliation process, which requires only 51 votes in the Senate. But the rules of reconciliation mean that the tax cut would sunset after a decade. That would only add a new layer of uncertainty on top of America's inefficient tax system, while swelling the budget deficit.

Real tax reform would create winners and losers, making it almost impossible to pass with only one party. Republican majorities are relatively slim, and vested interests trying to sink the legislation would need to pick off only three GOP senators or 22 representatives. An easier path would be to write a bipartisan bill and aim for the support of 30 Democrats in the Senate and 100 in the House. That could be doable, but only if President Trump is open to changing his approach.

*Mr. Furman, a senior fellow at the Peterson Institute for International Economics, was chairman of the White House Council of Economic Advisers from 2013 to 2017.*

already tax U.S. companies doing business there at more than 19%. But on investments in low-tax countries such as Ireland, which has a corporate rate of 12.5%, U.S. firms would pay the difference. Profits reported in tax havens such as the Cayman Islands could end up facing nearly the full 19%.

This is a less-elegant solution to taxing international income than the House Republican plan of shifting to a territorial system with a border adjustment. But the GOP proposal comes with serious side effects: large movements in the currency, shifts in asset prices and the potential to start a trade war. A minimum tax would avoid all of those.

*• For domestic business income, adopt something along the lines of the House Republican proposal.* Shift from taxing profits to taxing cash flow. This would allow businesses to

expense their investments fully while disallowing interest deductions—effectively like a consumption tax. At the same time, eliminate as many loopholes as possible and lower the tax rate as far as possible. These reforms would make the tax system neutral toward investing in different types of assets, as well as neutral between financing with debt or with equity.

How far could rates drop? Closing loopholes and moving to an international minimum tax would provide some revenue. If the goal is revenue neutrality, then getting the rate down to 28% might be possible. But the 15% or 20% rate proposed by the Trump campaign and House Republicans, respectively, would be impossible without massively raising the deficit.

*• Incorporate into the bill a real plan for public infrastructure spending.*

## Who Wins When Foreign Firms Comply With U.S. Tax Laws?

By Nigel Green

Recently I launched the Campaign to Repeal Fatca—the Foreign Account Tax Compliance Act. The 2010 law, which purports to track down tax cheats hiding money abroad, forces foreign banks and other financial institutions to disclose Americans' accounts to the Internal Revenue Service.

Threatened with U.S. sanctions if they don't comply, banks around the world have rushed to submit to Fatca. Foreign governments have hastened to abrogate their domestic privacy laws. Fatca, it seems, has been a big success. But who really benefits?

Not the U.S. budget. The IRS claimed in October that Fatca has helped it to collect \$10 billion since 2009 from "taxpayers coming back into compliance." But that figure lumps in penalties for filing deficiencies and money from all offshore enforcement programs.

William H. Byrnes, a law professor at Texas A&M, believes the actual net recovery attributable to

Fatca (subtracting IRS enforcement costs) may be closer to \$200 million a year and possibly as low as \$100 million.

That isn't enough to fund the federal government for more than half an hour. It's far less than was expected at Fatca's enactment, since the law was scored as bringing in \$800 million a year. Excepting penalties, writes Mr. Byrnes, Fatca could "soon cost more money than it brings in."

That meager gain must be weighed against the law's costs. Fatca adds one more onerous and expensive reporting obligation for American taxpayers who hold any asset abroad. It largely duplicates existing mandates, notably the Report of Foreign Banks and Foreign Accounts, and the penalties for error are draconian. The Tax Foundation estimated in 2016 that complying with Fatca each year takes almost 4.5 million hours and costs \$166 million.

But the really big boondole goes to the accounting, law and software firms that help foreign financial in-

stitutions sift through millions of client accounts looking for American "indicia." Although there is no official figure for the cumulative worldwide cost, the magnitude can be extrapolated from piecemeal disclosures by banks and the companies

### Soon the Foreign Account Tax Compliance Act will cost more to enforce than it recovers in taxes.

selling them services. These expenses, as Mr. Byrnes writes, are "staggering."

In 2014 Thomson Reuters surveyed some 300 financial institutions, 27% of which expected their annual Fatca compliance costs of between \$100,000 and \$1 million. The same year, The Wall Street Journal reported that Canada's five biggest banks collectively had spent about 750 million Canadian dollars (\$693.5 million) on initial Fatca compliance

expenses. That included some C\$100 million spent by the Bank of Nova Scotia alone as of 2013.

Mr. Byrnes cites KPMG and Deloitte estimates that more than 250,000 foreign financial institutions are affected by Fatca, with costs for some of the larger ones reaching more than \$200 million. The representative of Spain's Banco Bilbao Vizcaya Argentaria said in a paper released in 2014 that compliance costs could range from \$8.5 million for a local entity to \$850 million for a global one. The British government estimated the aggregate initial costs to U.K. financial institutions at \$1.1 billion to \$1.9 billion, with a continuing cost of \$60 million to \$100 million a year.

Thus there are plausible projections that the law's aggregate global cost is anywhere from \$60 billion to \$170 billion. That money comes out of the pockets of consumers, depositors and perhaps shareholders.

There's no question where this money goes—not to the U.S. government but to the bottom line of the vendors. Fatca had barely passed

when massive compliance practices sprang up, offering their services and advising that repeal of the law wasn't in the cards. "Fatca is here to stay," experts from Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers rushed to pontificate.

As a businessman, I have no objection to anyone offering professional expertise. But non-American accountants who pooh-pooh the notion that Fatca could be repealed often have little insight into American politics. What lies behind the smug posture of inevitability other than making sure vulnerable clients maintain a proper Stockholm syndrome docility?

Fatca was not subjected to a cost-benefit analysis before it was enacted, but the results are now in. As a revenue tool for the public purse, the law is a failure. Instead it offers a windfall of corporate welfare for the compliance industries. That's no reason to keep it.

*Mr. Green is founder and CEO of deVere Group, a world-wide financial consultancy.*

## A Lawsuit Accuses Yale of Censoring Even Inoffensive Ideas

By Peter Berkowitz

Yale's president, Peter Salovey, affirmed in October that "we adhere to exceptionally strong principles of free expression." He invoked Yale's exemplary 1974 Woodward Report, which states that the university's educational mission is inextricably bound up with "the right to think the unthinkable, discuss the unmentionable, and challenge the unchallengeable."

A February lawsuit tells a different story. Tucked inside the amended complaint, *Doe v. Yale*, is the extraordinary claim that Yale punished the anonymous male plaintiff for writing a class essay in which he condemned rape.

Like dozens of lawsuits now working their way through state and federal courts, *Doe v. Yale* alleges that university officials grossly mishandled sexual-assault allegations. According to the com-

plaint, a university panel found in spring 2014 that Doe had engaged in sexual intercourse with a woman without her consent. He alleges that the woman expressly consented and on that evening she harassed him. He adds that Yale's disciplinary procedures were stacked against him and administered by biased officials who presumed his guilt.

This case is unusual in several respects. Doe advances one relatively new and one completely novel legal theory. The relatively new one revolves around Title IX, the 1972 federal law that provides that "no person" may be discriminated against based on sex in educational programs that receive federal assistance.

In April 2011, the U.S. Education Department's Office for Civil Rights issued a "Dear Colleague" letter declaring that Title IX imposed a duty on colleges and universities receiving federal funding—as virtually all do—to investigate, prose-

cute and adjudicate sexual-assault allegations and impose punishments where appropriate. The letter also directed schools to reduce due-process protections for the accused, typically men.

Doe insists that Title IX must protect men as well as women. In punishing him for sexual assault on the basis of allegations that were either unfounded or refuted by facts to which both sides of the dispute agreed, the lawsuit argues, Yale discriminated against him on the basis of his sex in violation of Title IX.

The novel legal theory flows out of a reading of "state action" doctrine developed by Jed Rubenfeld of Yale Law School, who served as Doe's faculty adviser during the university's sexual-assault proceedings. Doe argues that through the "Dear Colleague" letter, the Education Department conscripted Yale to enforce criminal law—thereby transforming the private university into an agent of the government.

That would subject the university to constitutional limitations. Thus Doe alleges Yale violated his 14th Amendment rights to due process and equal protection of the law.

This case also involves free expression because it began, Doe alleges, with Yale's draconian regula-

tion of his speech. According to his lawsuit, in late 2013 a female philosophy teaching assistant filed a complaint with the university's Title IX office about a short paper Doe had written. In the context of

### A class essay condemning rape was 'unnecessarily provocative,' the Title IX coordinator allegedly said.

Socrates' account in Plato's "Republic" of the tripartite soul, the paper argued that rape was an *irrational* act in which the soul's appetitive and spirited parts overwhelm reason, which by right rules.

According to the lawsuit, Pamela Schirmeister, Title IX coordinator and an associate dean in the Graduate School of Arts and Sciences, summoned Doe to her office and told him his rape example was "unnecessarily provocative." She ordered him to have no contact with the teaching assistant and directed him to attend sensitivity training at the university's mental-health center.

She also informed him that he had become a "person of interest" to Yale, which meant that the uni-

versity had to intervene to ensure he "was not a perpetrator himself," in the lawsuit's words. A few months later, the same Title IX office initiated the sexual-assault investigation against him.

Through a spokeswoman, Yale described the lawsuit as "legally baseless and factually inaccurate" but declined on confidentiality grounds to address any specific factual allegations.

If the lawsuit's account is accurate, Yale has reached a new low in the annals of campus policing of speech. Surely no female student would incur criticism, much less censorship or punishment, for providing weighty philosophical authority in support of the proposition that rape is wrong.

If Doe's story is true, Yale is no longer satisfied in enforcing correct opinions. To utter the correct opinion, Yale also demands that you be the correct sex. Far from protecting the right to "discuss the unmentionable" in accordance with the Woodward Report, Yale is stretching the boundaries of censorship by abridging the right to discuss even the uncontroversial.

*Mr. Berkowitz is a senior fellow at the Hoover Institution, Stanford University.*

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Open Russia coordinator Vladimir Kara-Murza in "Answering the Kremlin's Challenge," an essay from the coming *World Affairs* book:

There is a growing appreciation in capitals around the globe...that nothing will change until Mr. Putin's regime is replaced by a democratic government.

That task, of course, must be undertaken by Russian citizens alone.

## Notable & Quotable: Russia and the West

Yet, while outsiders should not attempt to shape political events inside Russia, neither should they enable Mr. Putin and his kleptocrats by providing safe harbor for their illicit gains. For the many striking parallels between the Soviet system and the current regime in Russia—from political prisoners to media censorship—there is also a crucial difference: while they were persecuting dissenters and engaging in anti-

Western propaganda, members of the Soviet Politburo did not store their money in Western banks, send their children to Western schools, or invest in luxurious real estate in Western countries. Those who rule Russia today treat their citizens in ways expected of third-world dictatorships, but choose the freedoms and protections of the West when it comes to their own families and their ill-gotten money.



DANA MATTIOLI MERGERS & ACQUISITIONS REPORTER

## The Face of Real News

Dana Mattioli's unrivaled access to the business world helped break the story of Berkshire Hathaway's 2015 agreement to acquire Precision Castparts—the largest such deal in Warren Buffett's storied career. The timely, accurate reporting from Dana and her colleagues delivered scoop after scoop, including 8 out of the 10 biggest M&A deals that year.

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THE WALL STREET JOURNAL.

Tuesday, April 4, 2017 | B1

**Yen vs. Dollar** 110.9510 ▼ 0.40%

**Hang Seng** 24261.48 ▲ 0.62%

**Gold** 1251.80 ▲ 0.36%

**WTI crude** 50.27 ▼ 0.65%

**10-Year JGB yield** 0.075%

**10-Year Treasury yield** 2.337%

## Bets on Modi Lift Indian Stocks

Hope for economic overhauls grows as prime minister's popularity increases

BY CORINNE ABRAMS  
AND DEBIPRASAD NAYAK

MUMBAI—Indian stocks reached a new high, powered by foreign funds optimistic that the country's prime minister, Narendra Modi, will use his growing popularity to accelerate the pace of change and keep Asia's third-largest economy expanding as much of the world struggles with slowdowns and uncertainty about how U.S. President Donald Trump's policies will affect trade.

India's bellwether S&P BSE Sensex broke a two-year-old closing record Monday as it

rose to end the trading day 1% higher at 29910.22.

India has outperformed most developed and emerging markets this year. The index is up more than 12%, while key indexes in China, Brazil and the U.S. are up between 4% and 8%, and Russian stocks are down. Meanwhile, the rupee has risen 4.5% against the U.S. dollar since January.

Overseas investors bought a net \$8.57 billion worth of Indian shares and bonds during March in the hope that Mr. Modi will be able to step up his plans to revamp the often inefficient and overregulated Indian economy.

State elections last month proved the prime minister's popularity was actually bolstered by his controversial decision to nullify close to 90% of the country's cash late last year. The move—which was

aimed at punishing tax evaders and other criminals who hoard cash—slowed growth and forced millions of Indians to stand in line at banks for hours to exchange old notes. Still, voters rewarded Mr. Modi's Bharatiya Janata Party in state elections, indicating they were willing to go through the pain if they thought it was for the good of the country.

"It signals to investors that this administration will be able to push through a lot of the reforms and restructuring that it wants to do in the future," said Zhikai Chen, head of Asia ex-Japan equities at Lombard Odier, which has money invested in India. "We are seeing a pretty resilient economy on the back of this surprise demonetization exercise."

The BJP notched a landslide



Prime Minister Narendra Modi's party did well in state elections.

victory in the state of Uttar Pradesh, indicating it will be tough to beat in national elections in 2019. That allows Mr.

Modi to expect a second term in office and less resistance to his reforms, infrastructure

Please see STOCKS page B2

## Sales of Cars in March Were Mixed

BY ADRIENNE ROBERTS

The top two U.S. auto makers reported divergent results for March amid growing concerns about the industry's inventory levels and reliance on discounts.

General Motors Co. reported a 1.6% sales increase in March to 256,224 units compared with the year-earlier month. The Detroit auto maker said the company's retail sales were up 5% in March to 203,113 units.

Ford Motor Co. reported a 7.2% sales decline in March compared with the year-earlier month. The Dearborn, Mich., auto manufacturer pulled back on fleet sales and experienced a substantial decline in sales of passenger cars.

Leading Japanese auto makers reported mixed U.S. sales results for March, with Honda Motor Co. posting a 0.7% decline and Nissan Motor Co. reporting a 3.2% increase.

## 1.6%

Industrywide auto-sales increase  
J.D. Power expects for March

Ford said fleet sales dropped 17% in March, due in large part to the timing of customer orders. Retail sales for the No. 2 U.S. auto maker fell 1.5%.

The four auto makers were among the first to report monthly sales Monday. Other car companies were scheduled to report tallies for the month throughout the day.

Industry watchers are keeping a close eye on inventory levels, which are near historic highs and forcing auto makers to ladle out generous discounts. A glut of used cars flooding the market is also putting pressure on new-car prices.

Analysts expect auto sales to have increased in March industrywide, representing the first monthly uptick in 2017. J.D. Power projects a 1.6% increase for the month, driven by retail sales.

Sales to retail customers are seen increasing 2.4% in March, the firm said, representing one of the strongest performances in the past year. Meanwhile, sales to fleet buyers—including car-rental agencies and businesses—are expected to total 374,600 units in March, down by 1.2% compared with the year-earlier month.

Analysts expect between 1.61 million and 1.63 million vehicles were sold in March. Forecasts call for a seasonally adjusted rate in the range of 17.2 million and 17.4 million, up from the 16.8 million rate in March 2016 but down from February's 17.5 million rate.

Deirdre Borrego, general Please see CARS page B2

## INSIDE



### SAFER CARS COST MORE TO INSURE

JUSTIN SULLIVAN/GETTY IMAGES

## Macau Gambles On High Rollers

Things are looking up in the world's biggest gambling hub—but investors need to be cautious, given what is fueling the boom.

Macau had its best growth in three years last month, with gross gambling revenue up 18% from a year earlier.

Analysts had expected the recovery that began last August to continue, but not quite so vigorously, forecasting growth at around 15%.

One reason results exceeded expectations: The high rollers seem to be coming back.

Credit Suisse, for example, estimates VIP revenue was up 24% in March, compared with a 15% rise in mass-market revenue.

And one reason for their return is a flood of easy credit in China, meant to boost the economy. That same credit fire hose is also driving people to buy more houses and more costly cars and other luxury goods.

According to Bernstein, sales volume for premium car brands in China was 29% in January, excluding Audi, whose sales plunged because of a dispute with dealers. The Italian fashion group Prada said sales in China have resumed "rapid growth" since the quarter that ended in October.

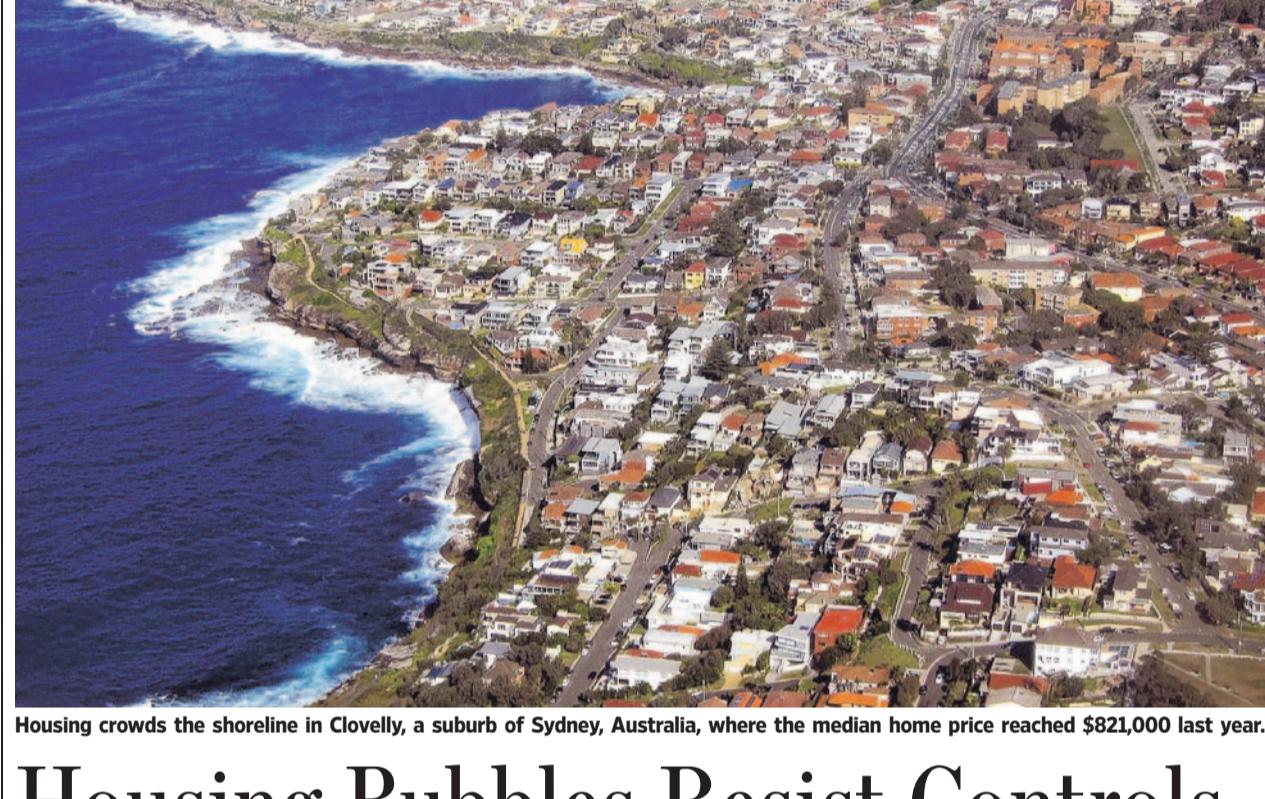
The result is surging housing prices and heated construction activity, which are helping drive up China's producer-price index. Historically, both housing prices and the index are highly correlated with Macau's gambling revenue.

But easy come, easy go. Times could sour quickly if the credit-driven boom ends, and China's recent cash crunch shows how fragile such growth is. The property market looks to be peaking as well. There is also the risk that Beijing, in its unending battle against capital outflows, will tighten restrictions on cash channeled into Macau.

Wynn Macau, the most indebted of the six casino operators and more geared toward the VIP business, could suffer the most when the tide turns. The company cut its dividend last week to preserve cash.

Galaxy Entertainment, which has net cash, and Sands China, which has a robust mass business, may be more resilient.

It could be time to take some bets off the table.



Housing crowds the shoreline in Clovelly, a suburb of Sydney, Australia, where the median home price reached \$821,000 last year.

## Housing Bubbles Resist Controls

By ROB TAYLOR  
AND RACHEL PANNETT

SYDNEY—From Australia to Canada, authorities are learning a hard lesson in their efforts to curb the foreign money flooding their property markets: Deterrents quickly lose their punch.

In recent years, regulators in several countries have raised taxes on residential real-estate purchases, required banks to demand bigger down payments and taxed empty homes—to little long-term avail.

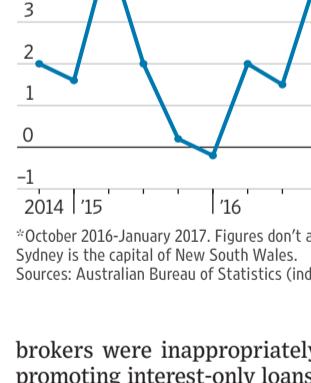
Now they are trying again.

Australian regulators on Friday ordered banks to limit the flow of interest-only loans—a villain in the U.S. subprime mortgage crisis—to 30% of new loans from about 40% now and to restrict loans to people making small down payments. The country's corporate regulator said on Monday it was investigating whether lenders and mortgage

### Raising the Roof

Home prices are soaring again in Australia's capital cities...

**Residential property price index**, change from a year earlier



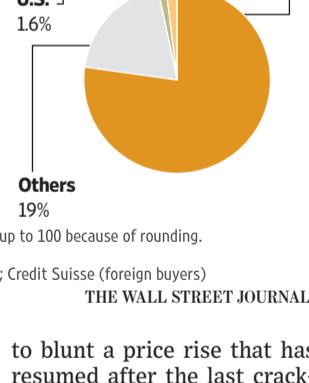
\*October 2016-January 2017. Figures don't add up to 100 because of rounding.

Sydney is the capital of New South Wales.

Sources: Australian Bureau of Statistics (index); Credit Suisse (foreign buyers)

...as China dominates foreign buying in at least one major market.

**Foreign property buyers in New South Wales**, share of value\*



the year through March 31, much of it in the past six months, according to an analysis by data company CoreLogic released on Monday.

The median house price in Sydney hit \$821,000 last year, according to Demographia, a U.S. think tank. It said the figure, equivalent to 12.2 times the average annual wage, made Sydney the world's second-most-expensive city after Hong Kong on a house-price-to-income ratio.

Demand in Melbourne is driving up the valuations of plots of land for housing by \$7,500 a week, said Giles Bray, a local mortgage broker.

Developers are now building 300-square-foot apartments—roughly one-third the area of the average new American unit—with 8-foot ceiling heights to pack in more units. In the past three years, foreigners have bought thousands of these apartments sight unseen. "They are poorly

Please see BUBBLE page B2

brokers were inappropriately promoting interest-only loans. New South Wales state, home to Sydney, is considering a further property-tax rise for foreigners.

The moves are an attempt

to blunt a price rise that has resumed after the last crackdown that started in late 2014.

House prices in Sydney and Melbourne, the nation's two biggest cities, rose by about 19% and 16%, respectively, in

Please see BUBBLE page B2

## For Google's Data Wars, Location Matters

By JACOB GERSHMAN

Google and the Justice Department are clashing in courtrooms across the country over the government's power to compel the company to turn over emails and other personal data sought in criminal probes.

The tensions deepened following a landmark court ruling last year.

Law-enforcement authorities send Google thousands of requests a year for user data in probes ranging from investigations of human trafficking and child pornography to terrorism and white-collar cases. Google

"legal investigations support" team is responsible for finding and disclosing matching records, often taking weeks to complete a single request, according to the company.

Until a few months ago, Google turned over data demanded in warrants regardless of where content was stored to comply with a 1986 federal statute that created safeguards over electronic communications and established disclosure procedures.

Google, a unit of Alphabet Inc., changed its policy last year when a New York federal appeals court became the highest judicial body to rule that data on foreign servers is beyond the reach of warrants.

That case was brought by Microsoft Corp., which sought

to quash a search warrant in a drug-trafficking probe seeking data in Ireland.

Within hours after the ruling by the Second U.S. Circuit Court of Appeals, Google halted

the processing of all search warrants. Coordinating with hundreds of employees, the company quickly developed tools to identify and filter out data stored overseas, Google said in court documents.

Weeks later in August, Google lifted the moratorium. But it no longer discloses emails, videos, photos and other data that it believes are stored overseas. The company has the support of other tech companies, including Microsoft, Yahoo Inc., Apple Inc. and Amazon.com Inc.

Google's tighter lid on data has angered federal prosecutors, who say the tech firm is impeding investigations.

"When any provider refuses to follow court orders, investigations are jeopardized, and sometimes end unsuccessfully," said Justice Department spokesman Peter Carr. "The Justice Department is holding Google to its legal obligation."

In at least one case, involv-

Please see GOOGLE page B2

FINANCE & MARKETS, B5



## BUSINESS NEWS

# Schneider Electric To Sell DTN Unit

BY BEN DUMMETT AND NOEMIE BISSEBRE

French power-equipment supplier **Schneider Electric SE** agreed on Monday to sell its U.S.-based data-software business DTN to TBG AG, a Switzerland-based private holding company, in a deal valued at \$900 million.

The transaction comes a day after The Wall Street Journal reported that Schneider, whose major competitors include **ABB Ltd.**, **Rockwell Automation Inc.** and **Siemens AG**, was nearing a deal to sell its DTN division.

Schneider acquired DTN, which distributes real-time weather information to farmers and other customers, as part of its €1.4 billion (\$1.5 billion) purchase of Spain's Telvent in 2011.

But in October, Schneider announced a strategic review of the business and decided against trying to build a subscription-based business as a new source of revenue.

The deal allows Schneider, which is based near Paris, to recover the bulk of what it paid to acquire Telvent while retaining a large part of its operations.

**The deal allows Schneider to recover the bulk of what it paid to buy Telvent.**

Schneider said it plans to use net proceeds from the transaction to buy back about €1 billion of its shares over two years.

The expected sale also comes as the French multinational's overall strategy is showing signs of paying off.

In February, it reported 24% growth in annual net profit, attributing the strength to a combination of organic growth, cost controls and improving margins.

TBG, which is acquiring DTN, doesn't have a website, and a spokesman for the company couldn't immediately be reached for comment. The Zurich-based firm is described as a family office focused on investing in buyouts of industrial products and services companies, according to the Swiss Private Equity & Corporate Finance Association website. It invests in companies in Europe and the U.S., taking equity stakes ranging in size from €20 million to €200 million, according to the website.

The acquisition of DTN gives TBG ownership of the Progressive Farmer magazine, a storied U.S. agricultural periodical founded in 1886. That operation, though, is only a small part of DTN's business. It also collects and electronically transmits weather information to farmers, primarily in the U.S. on a subscription basis.

By JULIE JARGON

Kevin Johnson, the tech-industry executive who took over Monday as the chief executive of **Starbucks Corp.**, inherits a company facing its most prolonged slowdown in the U.S. since the recession.

For more than six years, Starbucks had been posting quarterly same-store sales growth of 5% or greater in its biggest market. But that changed last year when the company began missing analysts' sales targets.

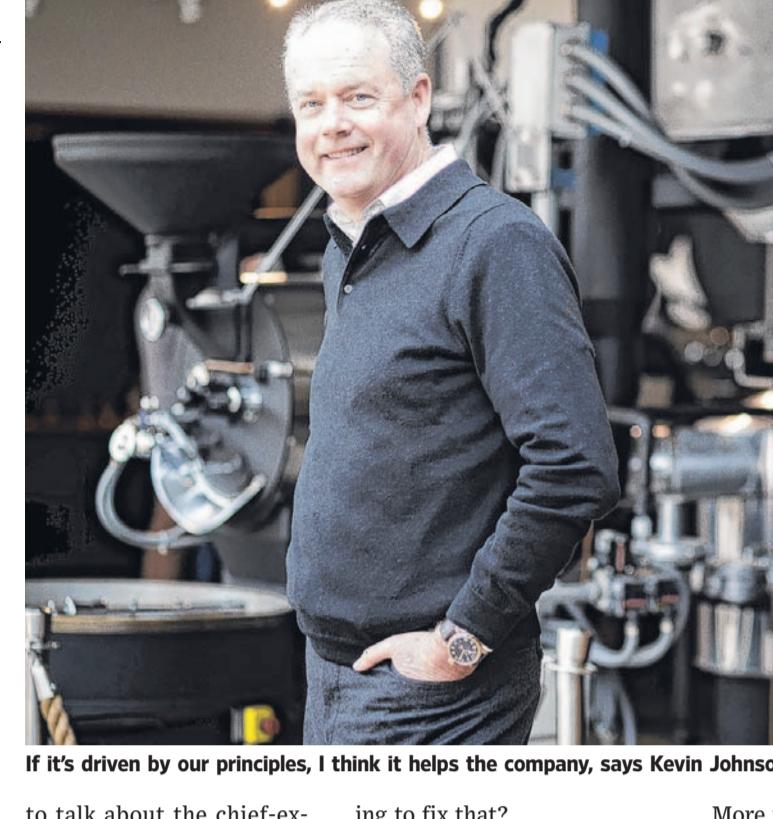
Starbucks last year blamed everything from uncertainty about the outcome of the U.S. presidential election and weak consumer confidence to disruption brought on by changes in its loyalty program.

As Howard Schultz, the CEO who built Starbucks into a global coffee chain, steps down to focus on developing luxury coffee shops within the company, Mr. Johnson has to make good on Starbucks's promise to restore the U.S. business to its historic growth levels of at least 5% increases in same-store sales.

Some Wall Street analysts have expressed reservations about whether Mr. Johnson has the right background to steer a large, global retail business, but others have said his time running daily operations at Starbucks has prepared him well.

The 56-year-old former Microsoft Corp. executive and Juniper Networks Inc. CEO has been on the Starbucks board since 2009 and has served as the coffee chain's operating chief for the past two years, before being tapped to take the top job late last year.

The Wall Street Journal sat down with Mr. Johnson



If it's driven by our principles, I think it helps the company, says Kevin Johnson, shown at Starbucks's headquarters in Seattle.

to talk about the chief-executive handoff, the slowdown in U.S. sales and why he doesn't plan to back away from taking a stand on social issues, despite recent backlash from a refugee-hiring announcement.

Edited excerpts:

**WSJ:** How much autonomy will you have as CEO?

**Mr. Johnson:** Howard has been clear that I'll be the CEO, so that means the buck stops with me, but I am also smart enough to know that you collaborate with people to get their input on things. So will I talk to Howard about things that I am noodling on? Of course.

**WSJ:** Transactions were down in the last quarter due to congestion caused by customers picking up their mobile orders. What are you doing

to fix that?

**Mr. Johnson:** In some of those stores we've added a dedicated barista who's greeting those customers and handing them their food and beverage as they come in the door. That's alleviating some of the congestion.

We've also launched some new technology that gives a customer who orders on their mobile app a notification when their food and beverage is ready.

**WSJ:** How much more room is there to expand in the U.S.?

**Mr. Johnson:** A lot of growth opportunities might be in less urban places, more suburban areas, the Midwest. Over the next five years we've projected building 12,000 additional stores globally, taking us to 37,000 stores.

More than half of those stores will be in the U.S. and China.

**WSJ:** When do you think China will overtake the U.S. as your largest market?

**Mr. Johnson:** Not in the next five years, but you could do the math and say in the next 10, 15 years.

**WSJ:** Howard has never been shy about voicing his opinion on social issues, and his recent pledge to hire refugees was met with backlash. Do you think taking a stand on certain social issues could hurt the company?

**Mr. Johnson:** If it's driven by our principles, I think it helps the company. Many of our veterans had worked with interpreters in Iraq and Afghanistan that are now refugees and so we saw that as very much aligned to the work we did hiring veterans.

It helps us attract great talent, but it also shows that we care about helping create opportunities for people.

**WSJ:** Do you think you'll be as public as Howard when it comes to speaking out on issues?

**Mr. Johnson:** I expect him to continue to be a spokesperson for us but that doesn't mean that I won't be playing a role in that.

**WSJ:** Why not just sell coffee?

**Mr. Johnson:** One of the reasons people come to work at Starbucks is because we stand for something. It's about human connection and having a sense of humanity. We think that's part of what makes Starbucks a special place that both partners and customers want to be associated with.

## North Korean Link Found to Bangladesh Theft

By ROBERT McMILLAN



BRENDAN McDERMID/REUTERS

A newly discovered digital clue links the hacking group blamed for a multimillion-dollar cyberattack on Bangladesh's central bank to a computer in North Korea, according to the Russian cybersecurity company Kaspersky Lab ZAO.

Kaspersky announced Monday at its security conference on the Caribbean island of St. Maarten that its researchers had obtained digital records showing a European server used by the group to launch its attacks exchanged data in January with a computer that had an internet address belonging to North Korea's state-owned internet service provider.

Security experts have long suspected the hacking group, known as Lazarus, was backed by North Korea, but that assessment hinged on a 2014 Federal Bureau of Investigation claim that one Lazarus hack—the compromise of Sony Pictures Entertainment in 2014—

was conducted by North Korea.

Although The Wall Street Journal reported last month that the FBI is pursuing a criminal case linking North Korea to Lazarus's activity, the agency hasn't provided any public evidence to substantiate the alleged North Korean link.

Multiple calls to the North Korean mission to the United

Nations went unanswered.

The newly discovered evidence came from a rare technical error by the Lazarus hackers, according to Kaspersky.

The hackers failed to remove computer-log files on a server used by the group, and these digital records show the server briefly connecting to another computer in North Ko-

rea, said Vitaly Kamluk, a researcher with Kaspersky.

North Korea has "very little presence on the internet, and the chances that this is just a random connection are extremely small," Mr. Kamluk said. "It does place North Korea into this equation."

As with most developments in the shadowy world of computer intrusions, this latest piece of evidence isn't conclusive. It is technically possible, for example, for someone to hack the North Korean computer and connect it to the Lazarus server to throw off investigators, Mr. Kamluk said.

Although the attacks against Sony and Bangladesh Bank occurred in 2014 and 2016, respectively, the Lazarus group has been active since at least 2009 and recently has targeted banks in Europe and the U.S., Mr. Kamluk said. Lazarus is a name given to a group of the hackers by security researchers. No member of the group has been publicly identified.

Often, as with the Bangla-

desh central-bank hack, the Lazarus hackers quietly break into computer networks and lurk undetected for months before attacking, the security experts said. The Lazarus group is suspected of stealing \$81 million from the Lazarus group is suspected of stealing \$81 million from Bangladesh Bank's account at the Federal Reserve Bank of New York last year at the Federal Reserve Bank of New York last year after initiating fraudulent orders asking for nearly \$1 billion.

The use of digital currency may have been one of the reasons that Lazarus's server logs weren't removed, Mr. Kamluk said. The European server containing log files was configured to perform a series of calculations that generated Monero, a digital currency similar to Bitcoin. But this computationally intensive work seems to have overwhelmed the machine, Mr. Kamluk said.

"They overconsumed the resources of the server and the server just crashed," he said.

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## TECHNOLOGY

# Apple Supplier Raises Prospect Of Patent Fight

By STU WOO

LONDON—A small but critical Apple Inc. supplier here is raising the prospect of a patent fight with the smartphone giant after Apple said it would stop using its technology to process graphics in its iPhones and other devices.

Shares of **Imagination Technologies Group PLC** fell as much as 70% in London trading after it disclosed that Apple—its biggest customer—would stop using Imagination technology in the graphics processing units in its devices within 15 months to two years.

Graphics processing units, or GPUs, are computer chips that power videos and other animations on smartphones, computers and other gadgets. Based in the English village of Kings Langley, outside London, Imagination runs its business based on intellectual property, designing and selling basic blueprints for GPUs, but not manufacturing the chips itself.

Imagination said Monday that Apple told the company it was working on a "separate, independent" design. Imagination said it believed it would be "extremely challenging" to design a brand-new GPU architecture "without infringing its intellectual property rights."

Imagination licenses its technology to Apple, which pays it royalties. Imagination said it was in talks with Apple about an alternative licensing and royalty arrangement.

An Apple spokeswoman declined to comment. An Imagination spokesman said the company was at the beginning of a process with Apple.

Imagination is a relatively small part of the global smart-

phone supply chain, but its technology has been a key component of Apple products for years, including its phones, tablets, iPods and watches. Apple last year said it held discussions with Imagination about acquiring the chip supplier but didn't plan on making an offer.

The chip designer had a market value of about £760 million (about \$950 million) when markets closed Friday, before the Apple disclosure. The news Monday reduced its market capitalization to less than £300 million as of Monday afternoon in London.

"The biggest risk to Imagination's business model was realized this morning," said Roger Phillips, an analyst for Investec Bank. He had forecast Apple would account for 50% to 60% of Imagination's revenue this year and said other customers might not sign deals with Imagination until it resolves its situation with Apple.

The blow to Imagination has been the second shock to Britain's semiconductor industry, which is small but has an outsize global influence, in less than a year. In July, Japanese technology giant **SoftBank Group Corp.** agreed to acquire Cambridge, England-based ARM Holdings PLC, which designs the basic blueprints for more than 95% of the world's smartphone chips.

Apple, the world's most valuable company, is in a legal tussle over intellectual property with another chip supplier. Apple in January sued **Qualcomm Inc.**, saying it disagreed with what Qualcomm charged in royalties. Qualcomm has called Apple's claims baseless.

While both disputes are examples of a major tech company throwing down the gauntlet to prosecutors, the privacy concerns in Google's legal fight are more opaque, according to American University law professor Jennifer Daskal, who specializes in national security law.

Google has likened the government's demands to requiring a U.S.-based hotel chain to hand over a customer's suitcase located in a foreign hotel.

But Google's customers don't know where their data is stored, as a federal magistrate judge in Philadelphia observed. Data is dispersed across data centers. An email with an attachment can be located in the country and abroad simultaneously. That's because, as a Google told judges, a file can be split into "smaller chunks" and stored in separate servers.

Lawyers for Google and other tech companies say it's not just customer privacy at issue. Turning over foreign data risks an intrusion upon foreign sovereignty that could provoke countermeasures, they have argued.

In a brief supporting Google's position, Microsoft and Apple said the government's position "invites foreign nations to reciprocate by likewise demanding that local offices of U.S. technology companies turn over U.S. citizens' private communications stored on U.S. soil."

The Justice Department, for its part, says Congress never intended to create such an investigative impediment.

"Because Google's data moves across its global network automatically and does not persist in any one geographic location," the government told a Wisconsin federal court in March, "the Microsoft decision renders such data inaccessible."

There hasn't been any ruling in this case yet.

The fight in some ways echoes Apple's confrontation with the Justice Department last year over whether the company could be forced to unlock a terrorist's iPhone. The standoff ended after the government said it bought a phone-hacking tool to crack the device without Apple's help.

Google no longer discloses data that it believes is stored overseas.

# Uber Hits Another Pothole

Self-driving program encounters snag as Pittsburgh presses firm to give back more

By IANTHE JEANNE DUGAN AND GREG BENINGER

PITTSBURGH—A pilot program that allowed **Uber Technologies Inc.** to launch its first self-driving cars in this former steel town has hit a bump.

It isn't about regulation, which steered Uber's driverless program out of San Francisco. Nor is it about safety, which last month led the ride-hailing company to temporarily suspend its self-driving testing after an accident in Arizona. Here, some top officials say Uber isn't giving enough back to the community.

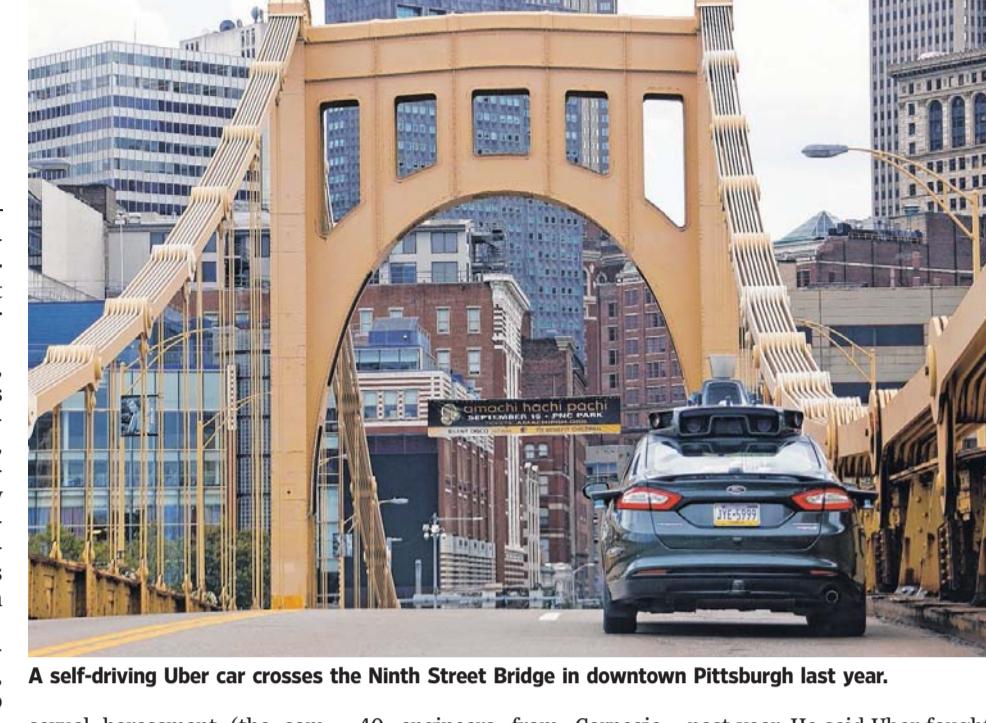
"If they are going to be involved in economic disruption, they have a moral obligation to society," said Mayor Bill Peduto. "In a partnership, it's not just what we can do for them."

Mr. Peduto, a Democrat, said he plans to seek Uber's signature on a memorandum of understanding demanding better work conditions for Uber drivers, services to some elderly residents, and improvements in fuel efficiency.

A spokesman for Uber said the company hadn't seen the memorandum. "Uber is proud to have put Pittsburgh on the self-driving map, an effort that included creating hundreds of tech jobs and investing hundreds of millions of dollars," he said. "We hope to continue to have a positive presence in Pittsburgh by supporting the local economy and community."

The Pittsburgh mayor's intervention highlights a broader clash as transportation companies test new technology on public roads in a race to roll out driverless cars.

It marks the latest challenge for Uber, which has been buffeted by charges of sexism and



A self-driving Uber car crosses the Ninth Street Bridge in downtown Pittsburgh last year.

sexual harassment (the company is investigating them), an embarrassing video of Chief Executive Travis Kalanick berating a driver (Mr. Kalanick apologized) and a lawsuit from rival Alphabet Inc. alleging that Uber stole corporate secrets for its self-driving car development (Uber says it will be vindicated.)

Last week, Uber published data about its workforce, saying women comprised just 15% of its technical team but 36% of all employees. Uber released the report in the wake of criticism from civil-rights groups that had called for Uber to be more transparent about its workforce.

In Pittsburgh, Uber has set up what it calls its Advanced Technologies Center. "Its mission: To make self-driving Uber a reality," according to a release published last September, when Uber began offering customers rides in self-driving Volvos, with a human in the driver's seat ready to intervene when needed.

The company has hired about 700 people, including more than

40 engineers from Carnegie Mellon University's National Robotics Engineering Center.

"The mayor is rightly concerned about what the relationship is between companies that are coming to leverage our assets—universities, roads and so forth—and those communities they are benefiting from," said Grant Oliphant, president of the \$1.52 billion Heinz Endowments, a philanthropic arm of the food conglomerate. "It is in some ways a modern expression of the old-fashioned expectation of corporate citizenship."

Uber has been well received by many residents and business leaders. Brian Kennedy, senior vice president for the Pittsburgh Technology Council, a trade group, said Uber's project has made it easier to draw other high-tech companies. He added that drunken-driving incidents dropped 18% in Uber's first year.

Mr. Peduto, an early fan of Uber, said he has become increasingly disillusioned in the past year. He said Uber fought to ensure Pittsburgh wouldn't impose a tax on ride-sharing, did a U-turn on offering free service during the pilot program and didn't participate in some civic causes.

For instance, Pittsburgh sought to join with Uber to win a Smart City Challenge, which grants cities federal money for developing high-tech transportation systems. It suggested that Uber sponsor a program that would allow low-income seniors to have free access to health-care providers and help build a driverless-car test track.

"They walked away from both," Mr. Peduto said. Pittsburgh lost the competition and the \$50 million prize.

Uber, a private company valued at nearly \$70 billion, believes self-driving vehicles will curb costs and limit accidents caused by human error. The technology might be necessary to help Uber one day be profitable by eliminating the cost of paying drivers and seek an initial public offering of stock.

## Apple iPads: The Old Ones Are Just Fine

Apple just delivered a brand new iPad that it says features "a brighter 9.7-inch Retina® display and best-in-class performance at its most affordable price ever."

Here's my Honest Press Release®: There's a new iPad that's a teensy bit faster and brighter than the last one,

and they're pretty much otherwise indistinguishable. Oh, and it starts \$70 cheaper.

The iPad has descended from one of Apple's most-hyped products to one of its slowest to evolve.

Even last year's 9.7-inch "Pro" model looks like a fraternal twin of the 2013 iPad Air. That doesn't mean they aren't worth owning: iPads, which outsell Macs, serve many of us well from vacation spots to children's playrooms.

For most of us, here's my simple advice: If you bought one of the new iPads in November 2013 or after, you're golden. Those, including the first iPad Air and iPad Mini 2, can run iOS 10, Apple's latest and most secure software.

If you enjoy a stroll down memory lane—or seek a tad more specific upgrade advice—I present seven years of iPads and what they're still good for today.

2010: iPad

In the beginning, Steve Jobs said, "Let there be iPad."

Nowadays, however, mine sometimes doesn't even turn on. It can still stream Netflix,

display e-books and double as a digital photo frame, but not much else. If you're done with it, recycle it responsibly at a Best Buy or Apple Store.

### 2011: iPad 2

This is what the first iPad should have looked like: It was about half as thick and had two cameras—very exciting at the time.

But by today's standards, that front-facing camera isn't great for FaceTiming with

Today, both can run iOS 9, which still supports many apps. But those apps may run painfully slow, so you're best limiting activity to streaming video—and perhaps strength training.

For the trivia buffs out there: Yes, there was another iPad released in 2012. The fourth-generation iPad was nearly identical to its predecessor, but had a faster chip plus a Lightning port to match the iPhone 5.



Seven generations of iPads. The latest one has a 9.7-inch display.

the grandparents. The low-resolution screen might hurt our precious eyes. It's also slower than molasses. Verdict: Give it to a 5-year-old.

### 2012: iPad with Retina display (aka iPad 3), iPad Mini and iPad 4

This iPad came with the high-resolution screen we now take for granted. But the Retina iPad was heavier than the iPad 2, and I've bonked my nose a few times while reading in bed. The 7.9-inch Mini didn't have the nicer screen (and wouldn't hurt your nose).

### 2013: iPad Air and iPad Mini with Retina Display

In this banner year, the iPad shed a third of its weight, and the Mini got the screen we love.

Today, both are still fine. They run the current iOS 10 and can handle the tasks most of us use iPads for.

If you keep them, you're stuck with two mild frustrations: The screens are hard to see in direct sunlight, and there's no Touch ID fingerprint reader to speed up unlocking, banking and shopping.

## BUSINESS WATCH

### GRAB

#### Ride Service Buys Indonesia's Kudo

Ride-hailing company **Grab** said it was acquiring the Indonesian e-commerce company Kudo for an undisclosed sum, and said it hopes to expand its online payments network in the country.

Grab's acquisition of Kudo paves the way for the Singa-

pore-based company to expand its offerings beyond ride-hailing services, by moving into online payments and e-commerce in Indonesia.

Kudo allows customers without access to traditional banking services to shop online.

The ride-hailing company said it plans to invest \$700 million in Indonesia over the next four years to help develop the country's digital economy.

—Dan Strumpf

### BOX OFFICE

#### 'Boss Baby' Delivers Strong Opening

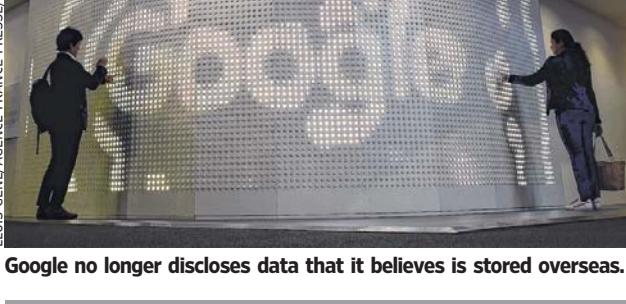
"The Boss Baby," an animated comedy featuring Alec Baldwin as the voice of a petulant, pint-size executive, unexpectedly took the No. 1 spot at the box office this past weekend with an estimated \$49 million in the U.S. and Canada.

Overseas grosses added an

additional \$59 million to the DreamWorks Animation film's total gross.

The weekend's other new wide release feature, "Ghost in the Shell," fared worse, with a disappointing debut of \$19 million. "Ghost in the Shell," starring Scarlett Johansson as a cyborg in futuristic Japan, is based on a popular comic series whose fan base was expected to turn out in stronger numbers.

—Erich Schwartzel



Google no longer discloses data that it believes is stored overseas.

## FINANCE & MARKETS

# Deutsche Bank Shuffles Executives

BY JENNY STRASBURG

**Deutsche Bank AG** is shuffling more executives while it searches for a new chief financial officer and reshapes global businesses for the second time in 18 months.

The lender's group treasurer since 2009, Alexander von zur Mühlen, will leave that post and return to the investment bank, where he previously worked, according to people familiar with the matter.

The move, to be announced as soon as this week, means Mr. von zur Mühlen will continue working for current CFO Marcus Schenck, who will co-head a newly recombined investment bank once a new CFO is named.

The investment bank, Deutsche Bank's largest division, is being restructured to encompass the trading unit that was split from the deal-advisory and transaction-banking businesses in late 2015.

Plans are being drawn up for new, adjacent offices to be constructed for the investment-bank co-heads, Mr. Schenck and current markets chief Garth Ritchie, on the fourth floor of Deutsche Bank's London headquarters, people with knowledge of the plans say. That floor is home to a reduced European stock-trading business.

**The investment bank is narrowing its client roster while trying to recover market share.**

Mr. von zur Mühlen previously was a senior European debt capital-markets and derivatives banker at Deutsche Bank. His fate as the longtime treasurer has been a subject of speculation inside and outside Deutsche Bank because some co-workers and investors saw him as a potential successor to Mr. Schenck as CFO, according to people close to the bank. A Deutsche Bank spokeswoman declined to comment on his behalf.

Deutsche Bank's new treasurer will come from the markets division: Dixit Joshi is moving into the job after overseeing fixed-income sales globally since late 2015, according to people familiar with the pending move.

Discussions about the plans were earlier reported by eFinancialCareers.

Mr. Joshi's departure from global markets is the latest example of change in client-facing roles in the investment bank. Deutsche Bank is still narrowing its client roster while trying to win back market share it has lost in key areas.

A number of current employees, including some in the investment bank and trading division, have been discussed as potential CFO candidates, but people close to the bank say Deutsche Bank executives have signaled that an external hire is more likely.

The CFO search is focusing on fluent German speakers with experience in a finance role at a bank or other financial entity, the people said.

Deutsche Bank executives have said they are confident the revamped strategy announced last month is the right one and that an €8 billion (\$8.5 billion) capital increase has put the lender on firm financial ground.



# Safer Cars Cost More to Insure

Premiums reflect expense of repairing sensors when high-tech vehicles do crash

BY CHRISTINA ROGERS AND LESLIE SCISM

New cars loaded with high-tech crash-prevention gear are having a perverse effect on car-insurance costs: They are soaring.

Safety features such as autonomous braking and systems to prevent drivers from drifting out of their lanes are increasingly available on vehicles rolling off assembly lines. Auto companies and third-party researchers say these features help prevent crashes and are building blocks to self-driving cars. But progress comes with a price.

Enabling the safety tech are cameras, sensors, microprocessors and other hardware whose repair costs can be more than five times that of conventional parts. And the equipment is often located in bumpers, fenders and external mirrors—the very spots that tend to get hit in a crash. Insurance companies, unwilling to shoulder all the pain, are passing some of the cost to buyers.

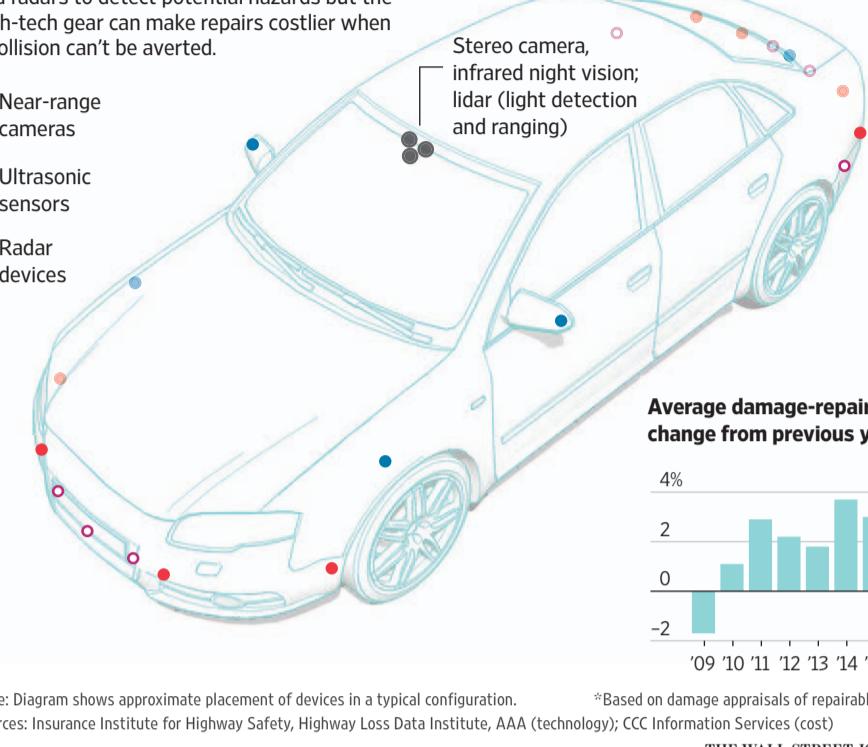
Jeff Woods, a professor in Illinois, recently bought a 2017 Volkswagen Passat to replace a two-year-old model. It was loaded with so-called active safety equipment. So he wasn't expecting his State Farm insurance-policy premiums to jump 20% to \$1,200 a year.

"I was told by the car dealership all the technology would improve the cost of insurance," Mr. Woods said. "Instead, it went up." Volkswagen AG declined to comment on Mr. Woods's experience but said it was "proud to offer advanced-safety technology sys-

## High-Priced Avoidance

Advances in crash-prevention technology have made cars safer by using sensors, cameras and radars to detect potential hazards but the high-tech gear can make repairs costlier when a collision can't be averted.

- Near-range cameras
- Ultrasonic sensors
- Radar devices

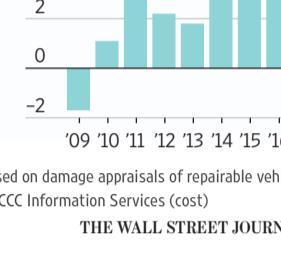


Note: Diagram shows approximate placement of devices in a typical configuration.

\*Based on damage appraisals of repairable vehicles

Sources: Insurance Institute for Highway Safety, Highway Loss Data Institute, AAA (technology); CCC Information Services (cost)

Average damage-repair cost, change from previous year\*



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tems on our vehicles."

Mr. Woods ended up negotiating a price reduction with State Farm.

Insurance sticker shock is a blow to auto makers looking to increase adoption of high-tech safety packages, which can add thousands of dollars to the price of a new car and deliver significantly higher margins than other options.

At present, though, only a fraction of buyers opt for the technology, often known as "advanced driver assistance systems," or ADAS. As a result, replacement parts are disproportionately expensive.

About 14% of vehicles sold in the 2016 model-year were equipped with collision-mitigation technology, according to WardsAuto.com. Some in-

surers estimate 25% to 50% of all vehicles on the road will

have to have forward-collision prevention systems before accident rates decline enough to offset higher repair costs.

It now costs \$166 to fix a conventional left mirror on a 2015 Mercedes-Benz ML350, according to Allstate Corp., but the repair bill balloons to \$925 for that mirror with collision-avoidance technology. A tech-equipped mirror on a Lexus RX 350 is \$840, more than double the \$390 for a mirror without the tech.

An industry alliance representing a dozen auto manufacturers declined to comment on repair costs. Several auto makers said safety is a priority, and while new parts are expensive at first, they tend to

fall over time.

Owners of ADAS-equipped cars aren't the only ones footing the bill. Liability insurance is on the rise, too: A driver of a more-basic car may be liable for damages in a collision with a vehicle loaded with safety gear.

Bumpers, fenders, grilles and side mirrors fitted with safety sensors often cost more to fix because of the need to recalibrate software and the limited availability of replacement parts, said Susanna Gotsch, lead analyst for CCC Information Services, which provides software to collision-repair shops, insurers and the automotive industry.

State Farm in October raised Illinois insurance rates 5.9%, the largest such jump

LOUIS DREYFUS

## Profit Rose in 2016 Despite Grain Surplus

Agricultural commodities trader **Louis Dreyfus Company** reported a rise in 2016 income on Monday despite another year of ample supplies of grain.

The Switzerland-based, privately held company reported net income, group share, of \$305 million for 2016, up from \$211 million the previous year. The total was well below the 2014 level of \$648 million.

"Oversupply, market shocks, geopolitical dynamics and adverse weather conditions were some of the difficulties that the

agribusiness industry had to face during 2016," said Chief Executive Officer Gonzalo Ramírez Martíarena.

The volume of grain and other products shipped by Louis Dreyfus was in line with the previous year at 81 million metric tons.

The financial results of the dominant agricultural trading houses—**Archer Daniels Midland Co.**, **Bunge Ltd.**, **Cargill** and **Dreyfus**—have suffered in recent years from three consecutive large global grain crops, but there are signs of improvement.

Last week, Cargill, the largest of the four, said that quarterly net income in the period ended Feb. 28 rose 42% to \$650 million.

—Sarah McFarlane

—Sarah McFarlane

GUNVOR GROUP

## Oil Trader Earns Less

Profits slipped last year at **Gunvor Group** after asset sales provided a one-time boost to the firm's results in 2015.

The privately held oil-trading firm said that net profit was \$312 million, down from \$1.25 billion in 2015, when it finished divesting itself of its Russian assets in a move to diversify.

The firm said the 2016 underlying profit increased from the previous year, but didn't disclose figures.

Gunvor's total trading volume rose to 187 million metric ton from 180 million tons in 2015.

—Sarah McFarlane



DADO GALDIERI/BLOOMBERG

# HSH Nordbank Gets Two Offers to Buy It

By WILLIAM WILKES AND COSTAS PARIS

FRANKFURT—The race to sell **HSH Nordbank AG** picked up speed after **Apollo Global Management LLC** and China's **HNA Group** made offers for the state-owned German bank.

HSH Nordbank faces liquidation if it can't find a buyer after the European Commission last year ordered its owners, the federal states of Hamburg and Schleswig-Holstein, to sell their combined 85% stake in the bank.

The privatization must be completed by February 2018, the European Commission has said. Taxpayers in northern Germany face multibillion-euro losses if a suitable buyer can't be found.

HNA Group and Apollo Global Management made indicative offers for the bank ahead of a Friday deadline, according to people familiar with the matter. They didn't say how much the investors bid for the troubled bank, which last week said it had loan loss provisions of €2 billion (\$2.13 billion) because of soured shipping loans.

The bidders were earlier reported by Bloomberg.

While the offer details weren't known, the cost to acquire the bank could fall sharply as the February 2018 deadline draws nearer.

Basil Karatzas, founder of

Karatzas Marine Advisors & Co. in New York, said the bank's portfolio would probably have to be parceled into different sizes in order for the states to get the best price for taxpayers.

The global shipping crisis is also complicating the process, with banks world-wide struggling to unload bad shipping loans and shipping companies scrapping worthless vessels.

In Germany, **Deutsche Bank AG** and **Commerzbank AG** have warned that their losses on shipping loans could be as high as €346 million and €600 million, respectively.

**The German bank faces liquidation if its privatization isn't complete by February.**

HSH Chief Executive Stefan Ermisch has urged the bank's state owners not to dawdle on the cleanup and privatization. The finance ministries of Hamburg and Schleswig-Holstein said in a joint statement they were "very satisfied" with the response from interested buyers, without naming them. The ministries plan to launch talks with interested parties, though any deal requires European Union approval.

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FUND NAME GF AT LB DATE CR NAV YTD %RETURN—

Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866 Fax No: 65-6835-8865, Website: [www.cam.com.sg](http://www.cam.com.sg) CAM-CF Limited OT MUS 03/24 USD 31,078.35 2.6 7.3 -2.1

Value Partners AS EQ HKG 03/31 USD 12.66 7.4 13.3 -0.9

VP Class-B Units AS EQ HKG 03/31 USD 16.20 12.1 20.3 -0.3

VP Class-C Units AS EQ HKG 03/31 AUD 13.36 11.9 21.2 0.3

VP Class-C Units AUD H AS EQ HKG 03/31 CAD 12.95 11.8 20.6 -0.5

VP Class-C Units CAD H AS EQ HKG 03/31 HKD 11.00 11.7 19.0 NS

VP Class-C Units HKD H AS EQ HKG 03/31 NZD 13.39 11.0 19.9 0.9

VP Class-C Units NZD H AS EQ HKG 03/31 CNY 11.39 9.3 25.7 NS

VP Class-C Units RMB H AS EQ HKG 03/31 USD 10.86 13.0 22.0 NS

VP Multi-Asset Fund Cls A HKD OT OT HKG 03/31 HKD 10.10 5.0 NS NS

VP Multi-Asset Fund Cls A USD OT OT HKG 03/31 USD 10.24 4.8 7.0 NS

VP Multi-Asset Fund Cls B HKD OT OT HKG 03/31 USD 18.59 11.0 22.6 7.0

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## FINANCE & MARKETS

# Firms Curb Raids on 401(k)s

Employers seek to stave off growing trend of early pillaging of retirement savings

By ANNE TERGESEN

American companies are trying to stop employees from raiding their 401(k)s, in an attempt to ensure that older workers can afford to retire and make room for younger, less-expensive hires.

Employers of all types—from Home Depot Inc. to a mortgage lender—are taking steps to warn workers of the financial implications of borrowing from their retirement accounts and pulling the money out when they leave jobs.

Tapping or pocketing retirement funds early, known in the industry as leakage, threatens to reduce the wealth in U.S. retirement accounts by about 25% when the lost annual savings are compounded over 30 years, according to an analysis by economists at Boston College's Center for Retirement Research.

"Employers have done a lot to encourage people to save in 401(k) plans, such as automatically enrolling them. But there is a growing recognition that if the money isn't staying in the system, the objective of helping employees reach their retirement goals isn't being met," says Lori Lucas, defined-contribution practice leader at investment-consulting firm Callan Associates Inc.

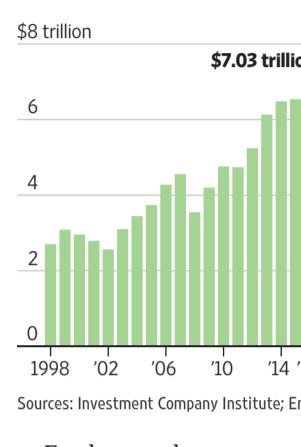
Movement Mortgage LLC, a Fort Mill, S.C.-based mortgage lender with 4,200 employees, this year started requiring workers who initiate a 401(k) loan to consult with a financial counselor first, at the company's expense.

"We want them to stop looking at their 401(k) like a cash register," said Chief Executive Casey Crawford. Movement Mortgage aims to help employees get "a game plan in place," he said.

### Loans and Leaks

As 401(k)-style plans have taken a greater role in Americans' retirement savings, 'leakage' of plan assets through unpaid loans and early withdrawals has emerged as a costly problem that saps savings.

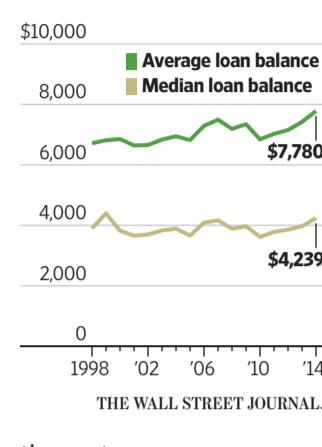
#### Assets in 401(k)-style retirement plans



#### Percentage of eligible 401(k) participants with loans outstanding



#### Median and average dollar amounts of 401(k) loans



Sources: Investment Company Institute; Employee Benefit Research Institute

Employees who grew accustomed to borrowing from their 401(k)s during the recession are tempted by the rising balances in these types of plans, which currently hold \$7 trillion, up from \$4.2 trillion in 2009, experts say.

"People are getting statements telling them they have \$5,000 in this account and they are asking themselves, 'How can I get my hands on this money?'" said Rob Austin, director of retirement research at Aon Hewitt, a human-resources consulting firm.

Home Depot in recent years launched several initiatives aimed at "getting people out of the habit of going from one [401(k)] loan to the next," says director of benefits Don Buben.

The home-improvement chain recently started making employees wait at least 90 days after paying off one 401(k) loan before initiating another. Workers are also encouraged to pay off their 401(k) loan balances early.

Since 2014, the total number of outstanding loans at Home Depot has declined by 17%, the company said.

When applying for a 401(k) loan online, Home Depot em-

ployees automatically get a pop-up notice that includes an estimate of how much the loan would reduce the employee's savings by retirement age.

"Most people don't realize the impact of taking a loan," Mr. Buben said, adding that some borrowers reduce their 401(k) contributions while repaying their loans.

Other companies are taking different steps, including encouraging new employees to roll existing retirement savings from former employers' plans into their 401(k) plans. Some are preventing employees from borrowing money the employer contributed, and others are helping employees amass emergency savings or tap funds other than their 401(k)s.

ABG Retirement Plan Services, a Peoria, Ill., 401(k) recordkeeper and administrator, plans to soon start offering its employees the option to contribute—via payroll deductions—to an emergency savings account linked to its 401(k) plan. The company plans to offer its clients the feature this summer.

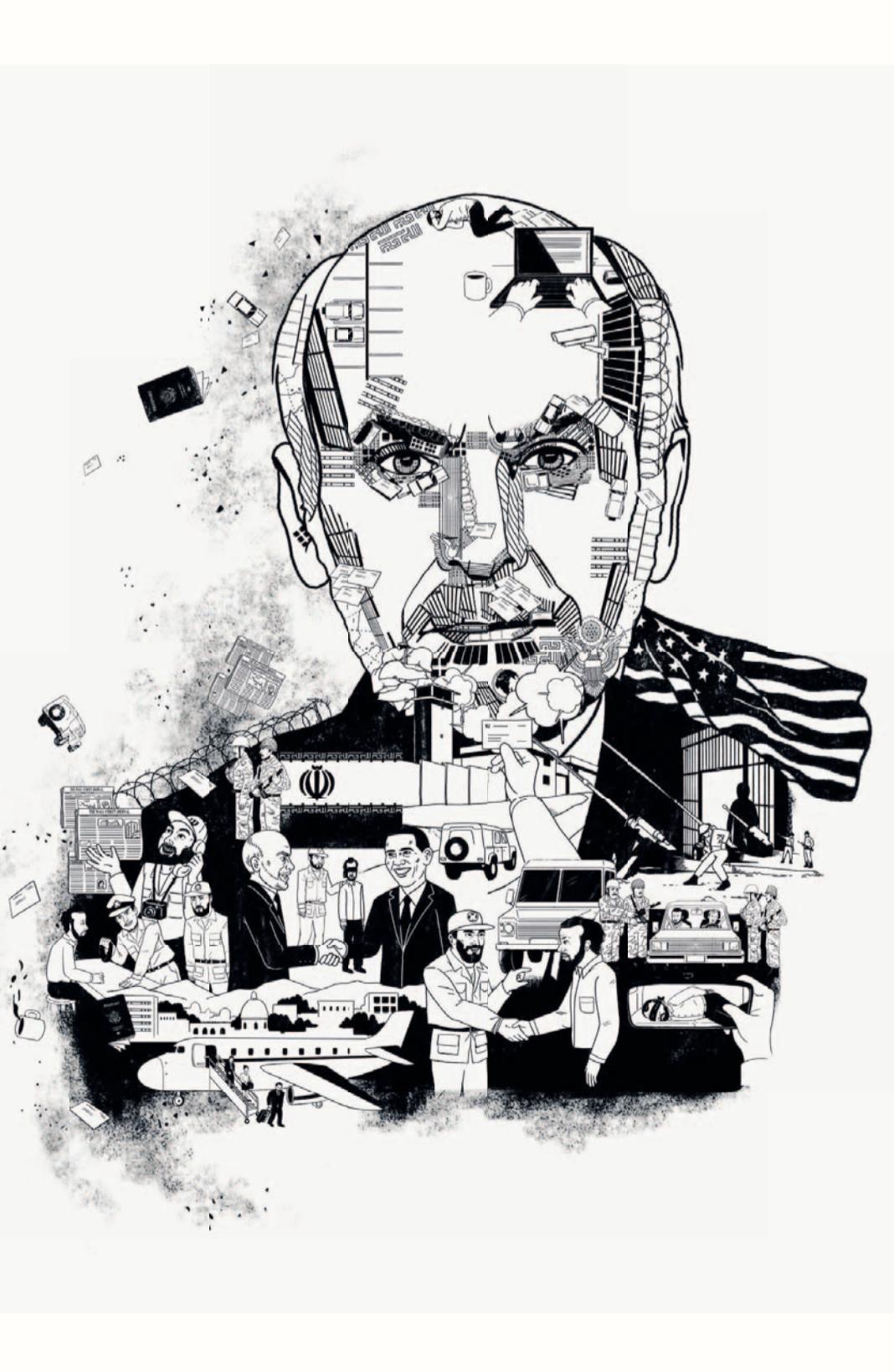
A typical 401(k) account offers participants several ways to tap their savings before re-

tirement.

On average, about 30% to 40% of people leaving jobs elect to cash out their accounts and pay taxes and often penalties rather than leave the money or transfer it to another tax-advantaged retirement plan, according to recordkeepers and economists.

Most plans also allow people to pull out their savings—after paying taxes and typically a penalty—for reasons including buying a home, preventing foreclosure, and paying medical bills and college expenses, something relatively few participants do annually. These are known as hardship distributions and the employee must demonstrate an "immediate and heavy financial need," according to the Internal Revenue Service.

"401(k) plan leakage amounts to a worryingly large sum of money that threatens to undermine retirement security," says Jake Spiegel, senior research analyst at research firm Morningstar Inc. His calculations show that employees pulled \$68 billion from their 401(k) accounts taking loans and cashing out when changing jobs in 2013, up from \$36 billion they withdrew in 2004.



# Stocks Edge Down In U.S. and Europe

By RIVA GOLD  
AND KOSAKU NARIOKA

U.S. and European stocks kicked off the second quarter with declines Monday, but shares across Asia inched higher.

Japan's Nikkei Stock Average rose 0.4%, ending 73.97 points higher at 18,983.23, buoyed by shares of companies in industries such as food

that are considered less reliant on overseas demand. A weakening dollar and a rising yen have weighed on exporters' shares in recent sessions.

Probiotic drink maker Yakult Honsha Co. rose 3.6% and the chocolate maker Meiji Holdings Co. gained 3.1%.

Hong Kong's Hang Seng index gained 0.6%, and the Korean market benchmark rose 0.4%. Australia's S&P/ASX 200 rose 0.1%. The Stoxx Europe 600 fell 0.5% to 379.29.

In the U.S., the S&P 500 fell 0.6% after posting its biggest quarterly gain since 2015 on Friday. Near midday in New York, the Dow Jones Industrial Average was down 101 points, or 0.5%, to 20,562 and the Nasdaq Composite fell 0.6%.

Investors have been wagering on a stronger U.S. econ-

omy and have dialed back on some popular postelection trades recently. Shares of financial companies were among Monday's biggest decliners, with the KBW Nasdaq Bank Index of large U.S. commercial lenders declining by 1.3%.

A gauge of U.S. factory-sector health moderated slightly in March, data showed Monday, with the Institute for Supply Management saying its manufacturing PMI for last month was 57.2, down from 57.7 in February.

The yield on the 10-year U.S. Treasury note fell to 2.335%, according to Tradeweb, from 2.396% Friday. Yields fall as prices rise.

The WSJ Dollar Index, rose less than 0.1%.

Investors are also likely to focus on the outlook for U.S. policy, including a potential tax overhaul and a summit later this week between U.S. President Donald Trump and his Chinese counterpart Xi Jinping that could shed light on prospects for trade.

Markets are "trying to adjust for the prospects of politics in Washington. That's the major turbulence right now," said Brad McMillan, chief investment officer at Commonwealth Financial Network.



Meiji Holdings gained 3.1%, helping to lift the Tokyo market.

## GERALD F. SEIB EXECUTIVE WASHINGTON EDITOR

## The Face of Real News

Gerald Seib's illustrious career covering politics has taken him around the world and put him face-to-face with some of the biggest players on the global stage—but it has also put him in situations of real danger. In 1987, he was kidnapped and imprisoned for four days on suspicion of espionage by Iranian officials while covering the Iran-Iraq War.

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# MARKETS

## THE DAILY SHOT

### House Divided

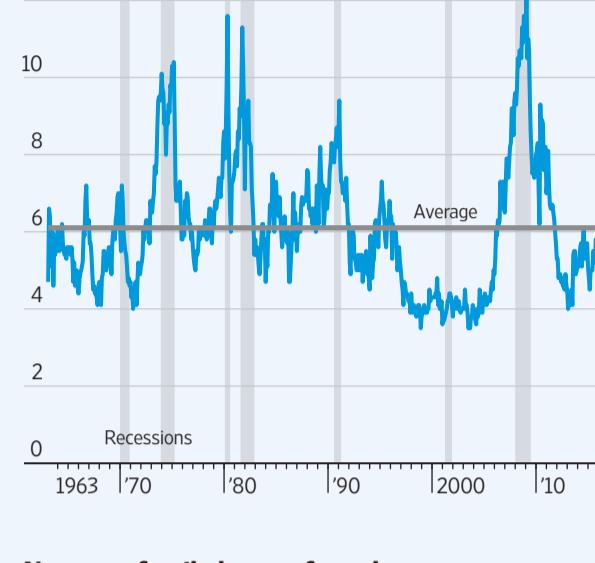
The U.S. housing rebound has helped drive the economic recovery that began in 2009, yet indicators of its health are mixed. Home builders are catching up with the S&P 500 after a long lag, and supply is in line with long-run averages. But home prices are running well ahead of wage growth, a function of soft housing starts and the limited number of new houses coming to market, while mortgage rates have risen the most in four years. What will coming months bring?

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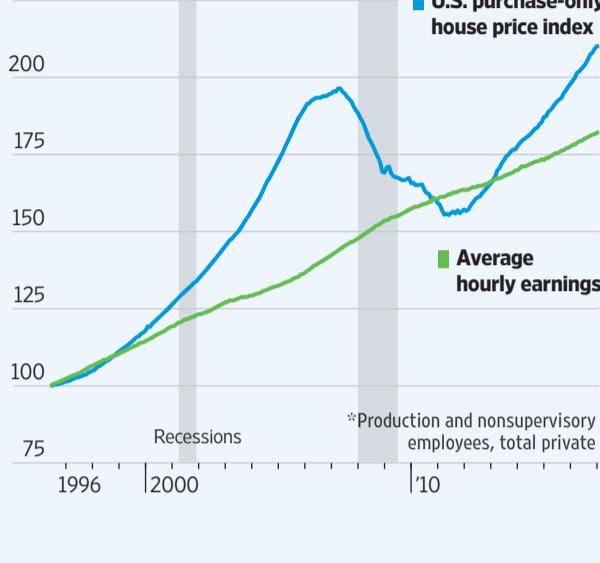
#### Percentage change since 2015



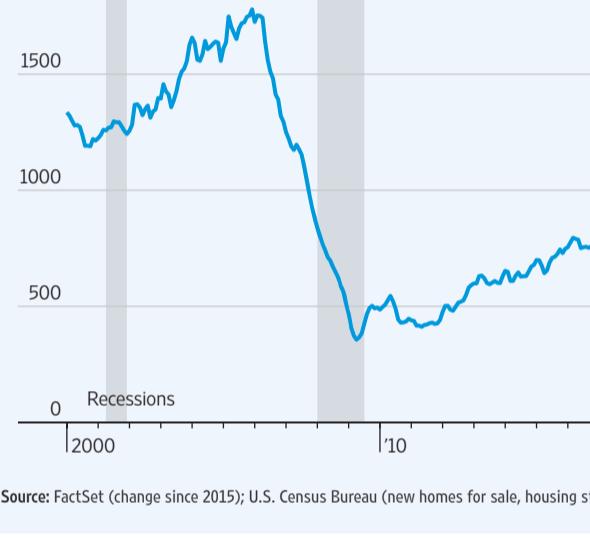
#### U.S. monthly supply of houses, seasonally adjusted



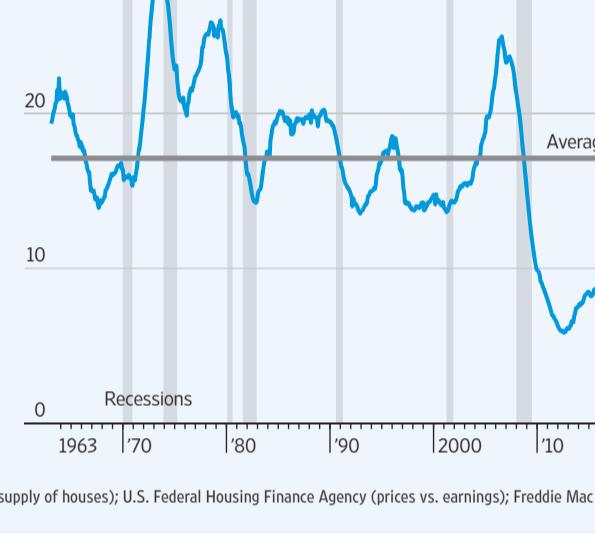
#### House prices vs. earnings (May 1996=100)



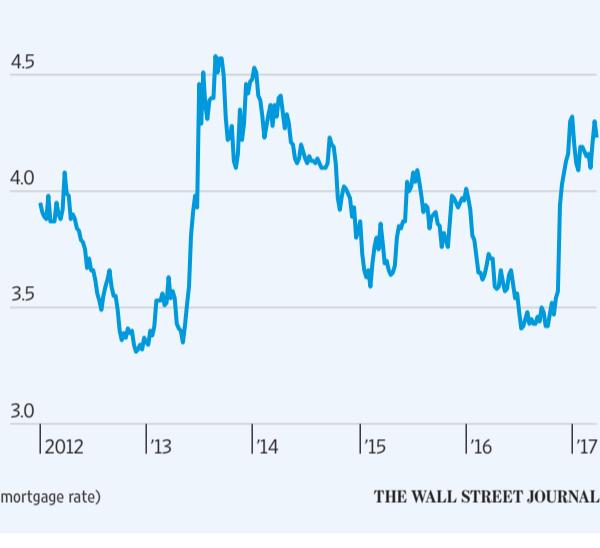
#### New privately owned housing units started, three-month moving average



#### New one-family homes for sale per 10,000 U.S. civilians



#### 30-year mortgage rate



Source: FactSet (change since 2015); U.S. Census Bureau (new homes for sale, housing starts, supply of houses); U.S. Federal Housing Finance Agency (prices vs. earnings); Freddie Mac (30-year mortgage rate)

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# HEARD ON THE STREET

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FINANCIAL ANALYSIS & COMMENTARY

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## These Condiments May Not Mix

French's Foods is up for sale, and Kraft Heinz is on the hunt for acquisitions. But the U.S. leaders in mustard and ketchup, respectively, aren't the perfect match they might appear to be.

**Reckitt Benckiser** on Monday announced a "strategic review" of its food business, which includes the French's and Frank's RedHot brands. The U.K.-listed consumer group is eager to raise cash, having

counter drugs.

French's would be small change for Kraft Heinz, which withdrew a \$143 billion offer for Reckitt's peer Unilever after the Anglo-Dutch group mounted a more spirited defense of its stand-alone strategy than the U.S. condiments giant expected.

French's made an adjusted operating profit of £118 million (\$148 million) last year, which would make the unit worth £2.2 billion if the food business changes hands at the same valuation multiple as shares in the wider Reckitt group. Unlike Unilever's food business, French's isn't noticeably underperforming.

The business's organic growth of 5% last year was better than the group's overall 3% rate.

But there are major obstacles to this speculated combination. One concerns antitrust issues.

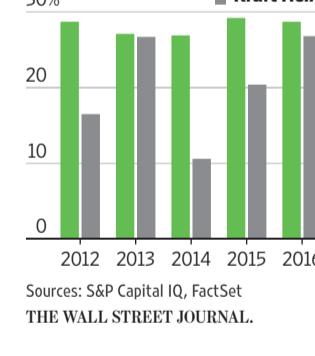
French's and Heinz have started to compete for each other's lunch over the past two years. French's lost

A private-equity buyer wouldn't have to contend with antitrust concerns.

announced the \$17.9 billion acquisition of nutrition group Mead Johnson in February, and there isn't much overlap between French's and the rest of Reckitt's operations, which center on hygiene brands such as Lysol and over-the-

### Food for Thought

Operating margin before exceptional items



market share in mustard to a new product from Heinz in 2015, only to regain it last year. And all the while, it has focused on expanding its ketchup business. A private-equity buyer wouldn't have to contend with the risk that regulators would see a merger as a consumer-unfriendly stitch-up.

The other problem, perhaps counterintuitively, is French's high operating margin, which was close to

29% last year. Kraft Heinz, which has earned a reputation for aggressive cost-cutting since it came under the control of Warren Buffett and Brazilian private-equity investor 3G, made a 27% adjusted operating margin over the same period.

If the model is to buy and find savings, Kraft Heinz would need to get its teeth into a flabbier business.

—Stephen Wilmot

### OVERHEARD

The computer systems at the Internal Revenue Service made headlines for all the wrong reasons in recent years.

Whatever one's political interpretation of lost emails and crashed hard drives might have been, there is also an economic angle that should enrage liberals and conservatives alike: The IRS spends a tremendous amount of money on information technology. The Tax Prof Blog points out that \$37,051 is spent on IT for the average Treasury Department employee, of which the IRS is a big part, compared with less than \$5,000 per employee in the private sector.

The International Association of IT Asset Managers estimates that the IRS could save a whopping \$31,000 per employee annually. Translated into the typical \$9,118 that most Americans send each year to the IRS, that is 281,000 taxpayers' contributions to the federal budget eaten up by waste in the agency tasked with collecting their taxes.

### The Danger Lurking at China Banks

The veil of stability over the Chinese economy is masking some worrying realities at its banks.

Earnings for China's major banks ticked up last year as they doled out piles of new loans. A rise in corporate profits overall, driven by surging factory-gate prices in China, might suggest worries about banks' loan books should ease further. Beijing has been pushing ahead with plans to cut overcapacity in major industries like mining and steelmaking, another helpful sign.

Beneath the surface, all is not so well. Even though the balance of nonperforming loans remained stable last year at China's big and mid-size banks, their return on assets and equity continued to fade as credit costs—a measure of banks' impairment charges—rose to their highest in six years.

There is likely more of this to come. For now, major pain from souring corporate debt seems at bay as Chinese companies' cash flows

grow—rising a whopping 9% last year. But corporate debt balances are growing even faster at 13%, according to Deutsche Bank analysts.

The moment there is a pullback in the broader economy, debts will get tougher to service and pay off. There are already signs that debt is spinning further out of control.

Investors seem overjoyed with apparent improvements in Chinese companies' financial health. Chinese bank stocks are up an average of 10% this year, and are at last trading, on average, close to their book value. If China's economy runs into any trouble, this resurgence could prove to have flimsy foundations.

—Anjanji Trivedi

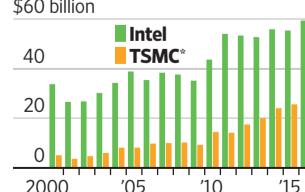
## Semiconductor Giant Intel Must Chip Away at Fab Rivals

Intel is getting more serious about wanting to make chips—for other companies. It has good reason to.

That the company is in this position now speaks to how much the semiconductor business has shifted in recent years. Intel has long had a virtual lock on processors for personal computers and servers. Those are huge markets that require a large number of chips to be produced for them every year, but the PC business has been stagnating for quite a while now. Meanwhile, demand for servers from individual businesses is also slipping

### Semi-Sweet

Annual revenue for fiscal years ended December



\*Currency adjusted Source: S&P Capital IQ

and being only partially offset by growing sales of server processors to cloud service operators.

The results of all this

have been hard on Intel. Its revenue is projected to rise by only 1% this year, but the costs for keeping its chip production facilities up-to-date keeps going up at a much faster pace. Capital expenditures are expected to hit a record \$12 billion this year after having averaged \$9 billion annually over the past three years.

Intel naturally wants to eke out a better return on this very large investment, hence the company's latest program to offer production services to other chip designers who can make use of its state-of-the-art capabilities. Intel estimates this

market to be worth about \$23 billion a year now, but it will likely take some time to build up.

And it is worth noting that serving large customers such as Apple, which outsources production of the chips it designs for products like the iPhone, would require a significant expansion of Intel's production footprint. Intel itself notes that the cost of building a modern chip fab is now around \$10 billion.

What is more, Intel's competitors in chip fabrication are hardly sitting still. Taiwan Semiconductor Manufacturing Co. and Samsung

Electronics, which serve the bulk of the mobile chip market, also are investing heavily to keep their own fabs on the leading edge. Combined capital expenditures for the two are expected to reach \$22.9 billion this year, up 6% from last year, estimates analyst Wes Twigg of Pacific Crest Securities.

It helps that Intel is still considered unrivaled in its ability to squeeze more performance out of shrinking pieces of silicon. However, fully cashing in on that advantage requires Intel to get a little bit of help from its friends.

—Dan Gallagher