

## What's News

### Business & Finance

**P**PG said the U.S. paint company isn't ruling out a sweetened offer or a hostile takeover in its push to buy Dutch rival Akzo. **B1**

◆ **ChemChina won** EU approval for its roughly \$43 billion deal for Switzerland's Syngenta if the Chinese firm sells some businesses. **B1**

◆ **Fed officials agreed** in March that they would likely begin shrinking a \$4.5 trillion securities portfolio later this year. **A7**

◆ **Panera Bread plans** to be acquired for roughly \$7.16 billion, excluding debt, by European investment fund JAB Holding. **B3**

◆ **Wells Fargo** overhauled its credit-card-processing business after a probe found false sales reporting and other abuses. **B5**

◆ **A Pimco fund** became the biggest actively managed bond fund in March, topping TCW's MetWest. **B5**

◆ **McDonald's top marketer** in the U.S. is expected to leave as part of management shake-up at the chain. **B2**

◆ **Zoox is hiring** an Obama administration official as the self-driving car maker's safety innovation officer. **B4**

◆ **Sony plans** to expand marketing of its PlayStation VR virtual-reality headset to commercial customers. **B4**

◆ **Boeing is establishing** a venture-capital arm in a push for new technology. **B4**

◆ **U.S. stocks slipped**, giving back the day's gains late in the session. **B8**

### World-Wide

◆ **Trump blamed** the Assad regime for the chemical attack on Syrian civilians and suggested it could prompt a shift in U.S. policy. **A1**

◆ **Medical groups said** victims' symptoms were consistent with exposure to a nerve agent, as the deal toll rose to at least 85. **A3**

◆ **Islamic State gunmen** and suicide bombers disguised as police officers killed at least 35 people in an attack in Tikrit, Iraq. **A3**

◆ **North Korea launched** a missile off the east coast of the Korean Peninsula, a day before Trump was scheduled to meet China's Xi. **A4**

◆ **The European Parliament** toughened its stance on coming talks about the U.K.'s divorce from the bloc. **A5**

◆ **The Homeland Security** chief said he doesn't envision a wall along the entire U.S. border with Mexico. **A6**

◆ **Trump strategist Bannon** was removed from the National Security Council's principals committee. **A6**

◆ **Trump's pick** to run the FDA said he believes "in the gold standard of safety and efficacy" at the agency. **A7**

◆ **Births by Muslim women** world-wide will exceed those of Christians within 20 years, a study said. **A5**

◆ **The ANC leadership** closed ranks around South African President Zuma amid calls for him to quit. **A3**

◆ **A eurozone gauge** of factory and services activity pointed to a pickup in first-quarter economic growth. **A2**

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€3.20; CHF5.50; £2.00; U.S. Military (Eur.) \$2.20



Nikki Haley, the U.S. ambassador to the United Nations, displays photos of Syrian victims.

## TARGET'S COSTLY LESSON IN SPEAKING OUT ONLINE

Retailer prompted backlash with response to North Carolina bathroom law, exposing problems in stores it is now spending billions to fix

By KHADEEJA SAFDAR

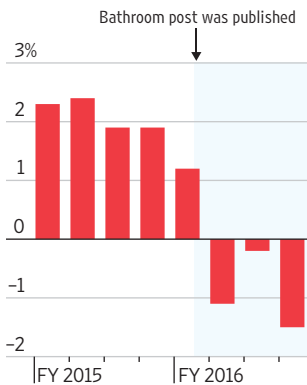
In April last year, Target Corp. published a blog post welcoming transgender employees and shoppers to use restrooms and fitting rooms corresponding with their gender identities. "Everyone deserves to feel like they belong," read the post, which turned half of Target's red bullseye logo into a gay-pride rainbow.

Other retailers have similar policies. But for Target, the posting of what was its long-held practice quickly became an expensive and distracting lesson about the perils of combining the web's megaphone with touchy social issues.

Target Chief Executive Brian Cornell hadn't approved the April 19 post, which responded to a move by North Carolina to legislate bathroom use, said people familiar with the episode and its aftermath at Target. He didn't see an email

### Bathroom Break?

Target's same-store sales fell each quarter after its April 19 blog post. The retailer, which faced multiple competitive challenges in the period, says the post's impact wasn't material.



Source: FactSet  
THE WALL STREET JOURNAL.

notifying executives of the post, and was surprised to learn about it.

The next day, a conservative Christian nonprofit, American Family Association, called for a boycott of Target, saying the policy "is exactly how sexual predators get access to their victims." Protesters picketed stores from Clovis, Calif., to Mount Dora, Fla.

At Target's Minneapolis headquarters, executives scrambled to control the damage, according to the people familiar with the aftermath, perplexed that they were pilloried for a policy common to retailers. Sales started to decline and have now in every quarter since.

After an internal review, executives determined the negative publicity was the tipping point for some

stores, especially in the South, that were already not inviting or competitive enough to

*Please see TARGET page A8*

## Apple Pay Struggles To Gain Traction

By TRIPP MICKLE

Nancy Schrum watched curiously as a colleague from her law firm made an iPhone above a credit-card reader to buy a Subway sandwich with Apple Pay earlier this year.

"I have that, but I'm afraid to use it," said Ms. Schrum, who feared the technology wouldn't work.

When Apple Inc. launched its mobile-payment service more than two years ago, it hoped to speed up the check-out process and, ultimately, to replace physical wallets for U.S. consumers.

Apple Pay has made significant headway, but Ms. Schrum's wariness reflects a range of factors that analysts say have caused growth to undershoot their expectations. *Please see APPLE page A2*

## Before a Big Game, South Koreans Practice Holding Their Ears

To prepare for a match in Pyongyang, a soccer team turns up the noise

By EUN-YOUNG JEONG

MOKPO, South Korea—"Let's reunify our homeland, just the Korean alone!" the crowd boomed in a martial, distinctly North Korean accent as it clapped and cheered in unison.

It was the sort of clamor one might expect to hear during a soccer match at Kim Il Sung Stadium in Pyongyang. But this is Mokpo, a sleepy port city on the southern tip of South Korea, more than 200 miles from the North Korean border.

In advance of Friday's qualifying match against North Korea in Pyongyang, Yoon Deok-yeo, the coach of South Korea's women's soccer team,

wanted to do something to fortify his players for the task ahead. So naturally, he ordered a facilities crew to install four large outdoor speakers on the field.

As his players practiced against a local boys' high-school team, the speakers assaulted their eardrums with a 51-minute-long montage of sounds from previous matches held in North Korea, some of which were available on YouTube. At roughly 100 decibels, Mr. Yoon's serenade ranked somewhere between a jackhammer and a jetliner taking off.

The boys' team, which had been warned of the propaganda, *Please see SOCCER page A8*

## U.S. Weighs Policy Shift On Syria

President calls attack on children 'horrible,' says his attitude toward Assad 'changed very much'

WASHINGTON—President Donald Trump blamed the regime of Syrian President Bashar al-Assad for the suspected chemical attack on civilians in Syria, which he

By Carol E. Lee,  
Eli Stokols  
and Farnaz Fassihi

called "a terrible affront to humanity" that he suggested could result in a change in U.S. policy toward Syria.

Mr. Trump, speaking Wednesday at a news conference with King Abdullah II of Jordan, said the chemical attack, which has killed at least 85 people, crossed "many, many lines, beyond a red line."

"These heinous actions by the Assad regime cannot be tolerated," he said.

The president didn't elaborate on how his administration will respond but he suggested the chemical attack could prompt a policy shift.

"That attack on children yesterday had a big impact on me. Big impact. That was a horrible, horrible thing," Mr. Trump said. "It doesn't get any worse than that."

"My attitude toward Syria and Assad has changed very much," he said.

The World Health Organization *Please see SHIFT page A3*

◆ **Death toll from suspected gas attack rises**..... A3

## Trade Clouds Trump-Xi Talks

By WILLIAM MAULDIN

As President Donald Trump and China's President Xi Jinping meet this week for what White House officials are calling an introductory summit, there is one issue where the U.S. leader's position will need no introduction: trade.

Mr. Trump won the White House in part with an angry denunciation of other countries' economic "cheating," using China as Exhibit A. Last week, he predicted a "very difficult" meeting with Mr. Xi, citing "massive trade deficits and job losses."

Even with North Korea and other Asian security concerns front and center, disagree-

### Top Aide Dropped From Key Panel

Chief strategist Steve Bannon has been removed from the National Security Council's principals committee. **A6**

ments over trade between the world's two largest economies may well be the topic that brings the most tension to the gathering at Mr. Trump's Mar-a-Lago club in Florida on Thursday and Friday. White House officials aren't raising expectations for any kind of grand deal.

"At the end of the meeting *Please see TRADE page A4*

## INSIDE



THE BACK-DOOR ROUTE TO A VACATION

TRAVEL, A9



MEDIA MOGUL PUSHES TO CHANGE UBER

BUSINESS & FINANCE, B1

## Oracle #1 SaaS Enterprise Applications Revenue

1,000+ Employees Segment, 2015

#1

Oracle Cloud  
14.5%

#2

Salesforce Cloud  
12.4%

ORACLE®

[oracle.com/applications](http://oracle.com/applications)

Source: IDC "Worldwide SaaS Enterprise Applications Market Shares, 2015: The Top 15 by Buyer Size," doc #US41913816, Dec. 2016; Table 4. For the purposes of this report, SaaS enterprise applications include the following application markets: CRM, engineering, ERP, operations and manufacturing, and SCM. Copyright © 2017, Oracle and/or its affiliates. All rights reserved.



WORLD NEWS

# Why the U.S. Needs a Social Cost of Carbon

This week Scott Pruitt, head of the Environmental Protection Agency acknowledged that humans do indeed contribute to a warming climate.

Mr. Pruitt's concession to scientific consensus came with a caveat: "The real issue is how much we contribute to it and measuring that with precision." Indeed, how regulators measure climate impact matters more than agreeing that such an impact exists. This makes President Donald Trump's order last week scrapping official estimates of the "social cost of carbon" especially significant. Without actually disputing the science behind climate change, it drastically raises the bar to acting on it.

Federal rules are supposed to cost the economy and society less than the harm they prevent. But regulators long lacked any benchmark for the costs of greenhouse-gas emissions. Courts have ruled they can't assume the costs are zero, so in 2010 Barack Obama's administration, after lengthy study, began estimating the social cost of carbon. It put the future damage, such as from rising sea levels, crop damage and heat-related

death, of emitting one metric ton of carbon dioxide in 2015 at \$42.

Critics argued the Obama administration chose assumptions that inflated that figure. Mr. Trump responded by instructing agencies to use broad regulatory guidance issued in 2003 that allows much less stringent assumptions. Yet most of the criticism of the initial estimates doesn't stand up. Indeed, equally plausible assumptions would justify a higher figure.

The most widespread criticism of Mr. Obama's social cost of carbon is that it was derived from complex models that link emissions to atmospheric concentrations to temperature and then to economic damage.

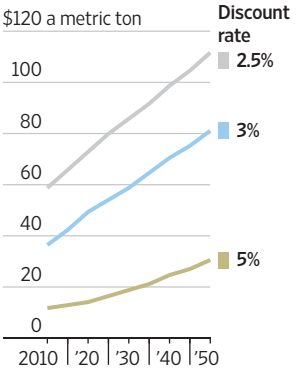
This, they say, yields results so uncertain they can't justify costly and irreversible mitigation measures. Critics also note that actual temperatures seem less responsive to CO<sub>2</sub> than models predicted, which the United Nations-backed Intergovernmental Panel on Climate Change acknowledged in 2014.

But the answer to imperfect models isn't to ignore them but to improve them. Michael Greenstone, a University of Chicago economist who led the Obama administration's effort, says about 150 reputa-

## Measuring the Harm of Climate Change

The social cost of carbon, the harm caused by carbon dioxide emissions, varies according to discount rates and whether domestic or global damages are included.

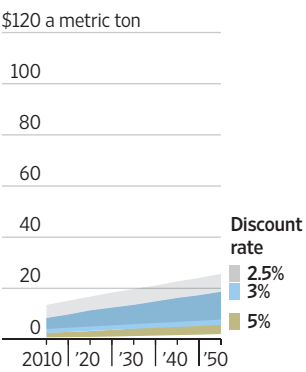
Global social cost of carbon\*



\*In 2017 dollars

Sources: White House Interagency Working Group 2016 (social cost of carbon), Climate Impact Lab at the University of Chicago (studies)

Domestic social cost of carbon\*



ble studies of climate damage have been released since 2009 and they would appear to justify an even higher cost: "The evidence so far is that the damages are greater than we understood" for example due to heat-related deaths in India.

And uncertainty alone doesn't justify inaction. Military and terrorist attacks are also highly uncertain, yet the U.S. spends more than 3% of national income to prevent them on the theory that spending nothing makes an attack more likely. Moreover, their consequences are asymmetric: peace in the best case

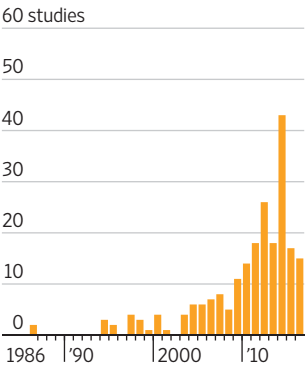
scenario, nuclear annihilation in the worst.

The consequences of global warming are similarly uncertain and asymmetric.

Robert Pindyck, an economist at the Massachusetts Institute of Technology, argues climate policy should be geared to preventing extreme scenarios rather than the unreliable base-case projections of models. According to his survey of experts, to eliminate even a small risk of a 20% loss of future global income would require a social cost of carbon equal to \$80 to \$100 per ton.

Another controversy is

Number of studies of climate change damage



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over the rate at which the benefit of preventing future harm is discounted. As in all of finance, the lower the discount rate, the greater the value in today's dollars. Federal guidance in 2003 required regulators to discount benefits at both 3% (the real, or after-inflation return, on government bonds) and 7% (the return on private investments). The Obama administration used only 3%. Critics note 7% would have produced a far lower figure. Yet with time, the lower discount rate looks ever more sensible. In 2003 government bonds

yielded 2% after inflation; today, just 0.5%.

The most valid criticism of the social cost of carbon is that the Obama administration calculated the harm U.S. emissions cause to the entire world, departing from the convention of considering harm only to U.S. residents, which would slash the \$42 cost per ton of CO<sub>2</sub> to as little as \$3.

There was a logic to this. The harm that carbon dioxide causes to any country, unlike acid rain or mercury, is the same no matter where on earth it originates.

Yet holding the U.S. to a global benchmark could cause high carbon industries to move to countries that don't adopt the same standard, leaving emissions unchanged and Americans worse off.

That doesn't sit well with Mr. Trump's "America first" worldview.

If the global cost of carbon is mostly a tool for inducing other countries to cooperate, Mr. Trump could turn this to his advantage. Chinese President Xi Jinping will likely press him this week to abide by the 2015 emissions limits. Mr. Trump could respond that if China subjects all its decisions to the social cost of carbon, the U.S. will do the same. First, though, he has to decide he cares.

## Jerusalem Prepares for Passover



HERE I COME: An ultra-orthodox Jewish boy emerges from sacks of onions at a charity food distribution site in Jerusalem ahead of Passover, which begins Monday.

## APPLE

Continued from Page One  
tions, including security concerns about the service, retailers that don't accept it, and Apple's relatively paltry marketing.

The pace of Apple Pay adoption has been "disappointing even to conservative expectations," said Gene Munster, managing partner at Loup Ventures, a venture-capital firm specializing in tech research. Just 13% of the estimated 680 million iPhone users have used Apple Pay, according to the research firm. Eddy Cue, Apple senior vice president in charge of internet software and services, said the service has been adopted faster than other payment systems and he believes it will eventually replace cash, debit and credit cards as the primary payment system.

"Does it matter if we get there in two years, three years [or] five years?" Mr. Cue said in an interview. "Ultimately, no."

The service requires users to upload their credit or debit card to their iPhone wallet by scanning an image of it. To pay at the checkout line, they hold the phone—or Apple Watch—above a contactless payment terminal that uses a technology known as near-field communication to transmit the card's information. Fingerprint verification is required for security. The service can also be used to pay in apps and online.

Many U.S. consumers remain wary of such a service, according to technology research firm Creative Strategies: 40% are concerned about the security risks of

adding a credit or debit card to their phone, and more than 60% aren't familiar with contactless payments.

Compounding Apple Pay's challenges, only a third of U.S. stores accept it as a form of payment, according to the Nilson Report. The payment-industry trade publication notes, however, that the service's rate of acceptance has more than doubled since 2015.

"If you can't use it everywhere, why are you going to switch?" said Braden More, Wells Fargo & Co.'s head of partnerships and industry relations, who is surprised more retailers haven't embraced mobile payments. He expects acceptance and usage to grow.

Big names including Walmart Stores Inc. and Kroger Co. haven't yet enabled Apple Pay, due in part to technical hurdles, and even at stores that do use the service, users say cashiers often aren't familiar with it.

Paul Davis said he recently had to inform a McDonald's cashier in Cincinnati that the burger chain accepted Apple Pay and show her how. "It

happens all the time," he said.

Vice President of Apple Pay Jennifer Bailey said Apple has a team working with merchants to instruct cashiers and add instructions to check-out manuals. She said more than half of the biggest 100 merchants in the U.S. have adopted Apple Pay, including Best Buy Co., Kohl's Corp. and Starbucks Corp.

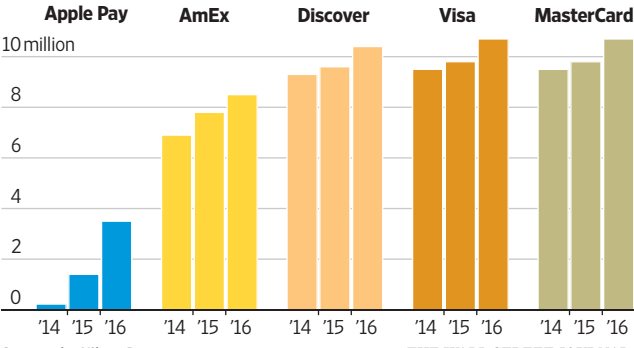
Loup Ventures' Mr. Munster, a longtime Apple analyst previously with brokerage Piper Jaffray Co., estimates Apple Pay last year handled \$36 billion in transactions, far less than the \$207 billion he had predicted by 2016 after Apple started the service.

Apple doesn't disclose the number or value of Apple Pay transactions, but Chief Executive Tim Cook recently said the number of users has tripled over the past year and transaction volume increased more than sixfold last year.

Apple Pay brought in \$30 million in revenue last year, according to Sanford C. Bernstein—a fraction of the \$24.35 billion generated last fiscal year by Apple's services unit, which also comprises Apple's App store and iTunes.

## Apple's Pay Predicament

The number of U.S. merchants accepting Apple Pay lags behind major credit cards.



Source: the Nilson Report

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The company announced in January it aimed to double its services revenue by 2021. Apple Pay generates revenue from charging banks a slice of each transaction, often 0.15% per credit-card transaction and a half cent per debit-card purchase.

Shortly after Apple Pay was introduced, rivals Samsung Electronics Co. and Alphabet Inc. introduced similar payment services. Samsung Pay is more broadly accepted than Apple Pay because of proprietary technology it uses, while Android Pay is accepted by roughly the same number of retailers as Apple Pay, according to the Nilson Report.

Still, U.S. consumers are about twice as likely to have used Apple Pay as rivals, according to First Annapolis Consulting, Inc., a payment adviser.

Nilson Report publisher David Robertson said that with about a third of U.S. retailers adopting it, Apple Pay is on the cusp of broad acceptance. "It's going to become so ubiquitous that we will all do it," he said.

Apple expected consumers to embrace Apple Pay as energetically as they did iTunes—an instant hit when it launched in 2003—because executives felt it was faster and safer than existing payment systems, a former employee on the project said. When retailers didn't support it initially, the person said, Apple executives were reluctant to promote it and invest in retail terminals that would spur adoption.

Apple developed two commercials touting Apple Pay, which aired in 2015, though banks also have advertised the service. It has invested in other promotions like free

shipping for Apple Pay purchases online and processing-fee discounts for smaller merchants. It also added the service to devices like its newest laptop, integrated it into the Safari browser for online shopping, and the service is now available in more than a dozen countries, including Japan and Spain.

Accelerating Apple Pay's reach is important for Apple as it negotiates extensions of three-year agreements with banks and credit-card issuers this year, said James Wester, a research director at IDC Financial Insights. Apple Pay's fees cut into issuers' roughly 2% share of transactions, he said.

Mr. Cue said he was confident banks would renew because they "can see the growth."

## CORRECTIONS & AMPLIFICATIONS

The Heinz Endowments is a private foundation, created by members of the Heinz family. A Technology article Tuesday about Uber Technologies Inc.'s operations in Pittsburgh, incorrectly described the foundation as an arm of the ketchup conglomerate.

A photo on Wednesday with a Management article about companies providing services to their expectant employees showed maternity concierges Jessica Hanson on the left and Michelle Long at the center. The photo caption incorrectly transposed their names.

Readers can alert The Wall Street Journal to any errors in news articles by emailing [wsjcontact@wsj.com](mailto:wsjcontact@wsj.com).

## Eurozone Shows Faster Growth

By PAUL HANNON

A gauge of activity in the eurozone's manufacturing and services sectors rose less sharply in March than initially estimated, but still points to a pickup in economic growth during the first three months of the year.

Data firm IHS Markit on Wednesday said its composite purchasing managers index for the eurozone, based on a survey of 5,000 companies, rose to 56.4 in March from 56.0 in February, reaching its highest level in almost six years. A reading above 50 signals an increase in activity, while a reading below signals a decline.

The final figure was lower than the estimate of 56.7 provided last month, but leaves the average measure for the first quarter at its highest since the first three months of 2011, before the eurozone economy entered a slowdown caused by its government debt crisis. It only emerged from that slowdown in mid-2013.

IHS Markit said the first-quarter average was consistent with a rise in gross domestic product of 0.6%, which would be an acceleration from the 0.4% quarter-to-quarter growth rate recorded at the end of 2016, and the strongest three-month period since early 2015.

According to the surveys, the acceleration was led by Germany. The surveys also point to a pickup in Italy, long the growth laggard among the eurozone's larger members.

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WORLD NEWS

Islamic State, in Retreat, Hits Iraqi City

Deadly attack in Tikrit underlines security challenge government faces in reclaimed areas

An overnight attack by Islamic State gunmen and suicide bombers disguised as police officers killed at least 35 people and wounded 40 others in the Iraqi city of Tikrit, officials said on Wednesday.

By Tamer El-Ghobashy in Erbil, Iraq, and Ghassan Adnan in Baghdad

The episode underlines the security challenge faced by Iraq's government even after it reclaims cities like Tikrit from the militants, who have proven capable of staging deadly attacks even in territory no longer under their control.

Tikrit was reclaimed from the group by the Iraqi military and allied militias in 2015, and has since been touted by both Iraqi and American officials as a model for repopulating, rebuilding and securing areas once held by Islamic State.

The gunmen were waved through a security checkpoint because they were wearing police uniforms, said provincial council member Mounir Hussein. They headed to the city's crowded Zuhour Street shopping district at about 10



p.m., killing four police officers before turning their weapons on civilians.

At least two Islamic State gunmen exploded suicide belts they were wearing, Mr. Hussein said. Three other militants were killed by responding police.

Islamic State claimed responsibility for the attack in a statement released by its official media arm.

The tactics and the attack's location in the heart of the city were unusual for the

Sunni Muslim militant group.

Since 2015, it has managed to stage sporadic small-scale suicide attacks against security forces and civilians on the outskirts of majority-Sunni cities it once controlled, including Tikrit, Fallujah and Ramadi. It also regularly targets Shiites in the capital Baghdad.

But the overnight attack involved coordination between multiple gunmen and "inghimasi," Islamic State gunmen charged with inflicting as

much damage as possible before blowing themselves up once cornered.

Its scale indicates the militant group could still maintain cells within cities lost to government forces, and is increasingly falling back on traditional guerrilla-style terror tactics as it adapts to the loss of its power centers.

Iraqi forces have since October been engaged in a fierce battle to expel Islamic State from Mosul, the extremists' remaining urban stronghold

in the country. The fight has been characterized by a ferocious resistance from the militants and mounting civilian casualties.

Iraqi officials estimate they have reclaimed some 75% of the city.

Holding reclaimed ground and preventing security breaches have been key concerns for the Iraqi government as it continues to win back cities from Islamic State.

Recent attacks on such territory—including suicide



Security forces near the site of this week's attack in Tikrit.

bombings in Fallujah since last summer, when it was declared liberated—have raised questions from lawmakers about whether Islamic State is taking advantage of corruption among security officials to breach checkpoints.

Mr. Hussein said the attackers in Tikrit identified a weakness at some checkpoints: police officers waving through anyone wearing a military or police uniform without properly checking their identity.

Iraqi officers do a thorough job checking civilians and should apply the same standards to people in uniform, he added.

"Once they see someone in uniform, they relax and never check," he said. "This is something being used by terrorists to breach security lines."

SHIFT

Continued from Page One tion said victims of the attack showed signs of exposure to a nerve agent.

Mr. Trump said former President Barack Obama's decision not to launch airstrikes in Syria after a prior Assad regime chemical weapons attack on civilians in 2013 was a mistake.

Before that earlier attack, Mr. Obama had said the Assad regime's use of chemical weapons was a red line that would elicit military action from his administration. He pulled back after the attack and instead cut a deal with the Assad regime, brokered by Russia, to remove Syria's chemical weapons stockpile.

"It is now my responsibility," Mr. Trump said.

Just days before the chemical attack, officials in Mr. Trump's administration said the U.S. would no longer prioritize regime change in Syria and that they expect Mr. Assad to remain in power.

Those comments drew criticism from lawmakers on Capitol Hill and diverged from the position taken by U.S. allies and the Obama administration that Mr. Assad would have to



President Trump addressed the suspected gas attack at an appearance with King Abdullah II of Jordan.

step aside as part of any political resolution to the conflict.

On Wednesday, Mr. Trump's ambassador to the United Nations, Nikki Haley, said that if the international body fails to respond to the chemical attack, the U.S. would be "compelled to take our own actions."

Speaking at an emergency meeting on Syria at the U.N. Security Council, she also criticized Russia, a close ally of Mr. Assad, for blocking past U.N. actions against the regime. It

wasn't immediately clear what she was referencing.

U.S. action outside of the U.N. could range from sanctions to military intervention, or to more actively helping the Syrian opposition eventually overthrow Mr. Assad. Such actions could put the U.S. at odds with Russia and Iran. Secretary of State Rex Tillerson is scheduled to visit Moscow next week.

Mr. Trump said on Wednesday he wouldn't reveal what his response to the chemical attack

might be. "I'm not saying I'm going to be doing anything, one way or another," he said.

Many diplomats at the U.N. have urged the U.S. to shape a policy toward the Syria conflict that goes beyond just fighting Islamic State.

"Frankly we need an America that is seriously committed to a solution in Syria and that puts all its weight behind it. If not, now when?" said François Delattre, France's U.N. ambassador.

South Africa's ANC Doubles Down on Zuma

By Gabriele Steinhauser and Joe Parkinson

JOHANNESBURG—The leadership of the African National Congress closed ranks around embattled President Jacob Zuma, seeking to show a united front amid calls for the president to step down.

ANC Secretary-General Gwede Mantashe told reporters on Wednesday that senior officials' dissent over Mr. Zuma's dismissal of respected Treasury chief Pravin Gordhan was "a mistake that should never happen again." He spoke following an extraordinary meeting of top party committees where factions loyal to Mr. Zuma appeared to comfortably outnumber those calling for his resignation.

Mr. Mantashe had been one of several top ANC officials to openly criticize the removal of Mr. Gordhan and eight other government ministers from the cabinet, saying the party's leadership hadn't been consulted. The public rebukes were echoed by the Communist Party and the powerful Congress of South African Trade Unions, key ANC coalition allies who called for the president's ouster.

Even Deputy President Cyril Ramaphosa, the onetime heir apparent to Nelson Mandela, pledged to renew Africa's most prominent liberation movement under leaders who won't "try to rob the people of this country."

But Wednesday's press conference appeared to cement Mr. Zuma's control over the ANC's top decision-making bodies—and his reputation as a shrewd political tactician—after arguably the worst week of his scandal-ridden eight-year presidency.

Hours later, Parliament Speaker Baleke Mbete said she would call back lawmakers for a special session on April 18 to debate a no-confidence motion against the president filed by opposition parties—a sign the ANC believes it has the votes

to shield Mr. Zuma.

Friday's sweeping shuffle prompted a firestorm of criticism and saw S&P Global Ratings cut South Africa's foreign-currency debt to junk status, becoming the first ratings firm to do so in 17 years. Sporadic street protests against Mr. Zuma have flared in cities across the country. Opposition parties have called for a national day of action on Friday.

Despite gathering internal dissent, Mr. Zuma has in recent months intensified efforts to stack the ANC's powerful party branches with loyalists ahead of a December conference that will choose his successor as party leader—and candidate for the 2019 national elections.

The 74-year-old former ANC intelligence chief has survived a long list of challenges including a ruling that he violated the constitution by refusing to repay public funds used to remodel his private home, and allegations that he let a wealthy family that is close to him choose cabinet appointments, which he has repeatedly denied.

"Mr. Zuma is a consummate chess player....In gaining control over the treasury the Zuma-aligned faction of the ANC has strengthened its position," said Frans Cronje of the South African Institute of Race Relations.

Mr. Ramaphosa, a union leader turned business tycoon favored by the ANC's urban and pro-business factions, has long made it clear he wishes to be South Africa's next president. Mr. Zuma's chosen candidate is his ex-wife, Nkosazana Dlamini-Zuma, who in February concluded her term as chairwoman of the African Union.

Some analysts said Mr. Zuma's success in papering over the party's cracks would give him time to push for Ms. Dlamini-Zuma's victory, but would be unlikely to heal the rifts tearing through the storied liberation movement.

Syria Gas Death Toll Hits at Least 85

By Raja Abdulrahim and Noam Raydan

BEIRUT—International medical organizations said the symptoms exhibited by victims of a suspected chemical attack widely blamed on the Syrian regime were consistent with exposure to a nerve agent.

The death toll from Tuesday's airstrike on the opposition-held town of Khan Sheikhoun rose to at least 85 people, all of them civilians, according to doctors and rescue workers. The bombs containing a foul-smelling gas also sickened nearly 600 people who fainted, vomited and foamed at the mouth, they added.

The victims had no external injuries and died quickly of suffocation, indicating it is likely they were exposed to a chemical attack, according to the World Health Organization.

A Doctors Without Borders medical team operating in a hospital near the Turkish border examined eight people with constricted pupils, muscle spasms and involuntary defecation, symptoms consistent with exposure to a nerve agent such as sarin gas, according to the medical group.

The medical team also visited other hospitals in northwest Syria treating victims of the attack and reported the smell of bleach, indicating a possible exposure to chlorine—a chemical used in numerous

regime attacks in the past.

The U.S. and other countries condemned President Bashar al-Assad's regime for the attack.

The Syrian army denied Tuesday using any chemical or toxic substances in the town, according to state media, and blamed "terrorist groups and those behind them." The Syrian government routinely refers to most opponents of the regime as terrorists.

In Russia, a crucial ally of Mr. Assad, the military said Wednesday that Syrian aircraft had struck a "terrorist ammunition depot" holding chemical weapons near Khan Sheikhoun. It said "terrorists" were producing chemical munitions at the site.

Russia provides air support to Mr. Assad's forces, and Moscow has consistently denied reports that Russian or regime warplanes target civilians.

The Assad regime has been accused of using sarin in past attacks as well. Doctors and rescue workers in and near Khan Sheikhoun described symptoms similar to those suffered by the victims of a 2013 sarin attack in the Damascus suburb of Eastern Ghouta, in which 1,429 people died, according to a U.S. government assessment based on local medical reports.

Following the 2013 attack, the Assad government officially joined the Chemical Weapons Convention and agreed to relinquish its chemical arsenal as part of a deal to avert the threat

of U.S. military action.

Since then the government has repeatedly been accused of using chemical weapons, with a U.N.-led investigation blaming it for at least three chlorine gas attacks in 2014 and 2015.

The intergovernmental Organization for the Prohibition of Chemical Weapons concluded in September 2014 that chlorine was deployed as a weapon "systematically and

The bombs containing a foul-smelling gas also sickened nearly 600 people.

repeatedly" in rebel-held villages in northwest Syria.

"We have long expressed concerns that the regime may not have destroyed all their stockpiles," a Western diplomat in the region said Wednesday.

The 2013 deal on dismantling the Syrian regime's chemical arsenal didn't specifically ban chlorine—a common household chemical—but its use as a weapon is prohibited under the Chemical Weapons Convention.

In the six years of the Syrian war, the Assad regime has deployed much of its military arsenal including Scud missiles, barrel bombs and chemical weapons as a means of meting

out collective punishment in areas under opposition control.

Though the use of chemical weapons has elicited an outpouring of condemnation, the regime has faced little real consequence for their continued use. Attacks by conventional weapons have killed far more Syrians in a war which has already claimed more than 400,000 lives, but chemical weapons breed a heightened sense of terror among civilians.

"There is an eerie silence," said Raed al-Fares, an opposition activist in Idlib province, where the town of Khan Sheikhoun is located. "People are afraid."

Some residents of Khan Sheikhoun and other towns fled north toward the Turkish border, hoping that would provide somewhat more security from regime warplanes, which continued to launch airstrikes on Idlib province Wednesday, anti-government activists said.

Abdul Hamid al-Youssef, 29, lost his 11-month-old twins, Ayah and Ahmed, his wife and two brothers. They were two of 23 children killed in the attack, doctors said. The twins stopped breathing and died as Mr. Youssef carried them out of their house in Khan Sheikhoun after the attack, he said Wednesday.

—Nathan Hodge in Moscow, Margaret Coker in Istanbul and Maria Abi-Habib in Beirut contributed to this article.



South African President Jacob Zuma has resisted calls to resign.

PHILL MAGAKO/AGENCE FRANCE PRESSE/GETTY IMAGES



WORLD NEWS

# India Builds Military Road to China

Prime Minister Modi ramps up work to defend contested Himalayan territory

By NIHARIKA MANDHANA

TAME CHUNG CHUNG, India—On the near-vertical slopes of the eastern Himalayas, workers are blasting and cutting treacherous rock faces to build a top-priority military asset: a 34-mile road to the country's disputed border with China.

Far away in the capital New Delhi—a six-day journey by foot, road, rail and air—Prime Minister Narendra Modi's office is monitoring their progress as he doubles down on a billion-dollar infrastructure plan in this contested region to strengthen India's hand against its powerful neighbor.

India is accelerating work on strategic roads to be able to move troops and supplies to the border faster and deploy sophisticated weapons if armed conflict breaks out. China already has extensive infrastructure on its side.

"It's not business as usual," a senior official overseeing the project said. "We have shifted gear."

Beijing claims 35,000 square miles of territory here, almost the entire Indian state of Arunachal Pradesh, and calls it South Tibet. The arrival this week of the Dalai Lama, Tibetan Buddhism's spiritual leader—who China calls a separatist—has stirred the rivalry, which goes deeper than the border dispute.

The Dalai Lama's itinerary in Arunachal Pradesh includes the Tawang Monastery, where he took refuge in 1959 when he fled China's crackdown in Tibet, beginning decades of exile in India, an enduring sore point between the countries.

China's foreign ministry said the trip would gravely damage border stability. Kiren Rijiju, India's junior home minister, responded: "As a free and democratic country, India doesn't restrict visits by religious leaders to areas that are



India is accelerating a project to build strategic roads in Arunachal Pradesh to be able to move troops and supplies to the Chinese border, and to do so must cut into mountains like this one. The precise location of much of the India-China border is a subject of dispute.

integral parts of the country." The precise location of much of the 2,200-mile India-China boundary, a fourth of which lies in this eastern Indian region, is a subject of dispute. Two weeks ago, not far from the cliff-face road-building venue, Chinese soldiers entered territory India considers its own, Indian officials said. The two sides shoved and jostled for hours until senior commanders intervened. The soldiers didn't leave until the next day.

To assert its sovereignty and develop Arunachal Pradesh—while strategically significant, it is sparsely populated—the Modi administration awarded \$900 million in road contracts in 2016-17, a fivefold jump from the two preceding years.

A new government company is acquiring land and hiring private builders to complete 400 miles by 2020.

On top of New Delhi's construction list is the 34-mile stretch to Taksing, a strategic border village at 8,000 feet above sea level where soldiers rely on helicopters and basket-wielding porters for fuel, eggs,



sugar and any other supplies. A government agency headed by a military general is tasked with the job.

Helicopter flights into Taksing are waylaid once in every five trips by unpredictable weather, a key reason military planners want a road.

The project's budget was doubled last year. Its deadline was advanced to 2018 from 2024. India is battling time, nature and geology to get there. The area is so remote, to deliver a bulldozer means dismantling it into nine parts and flying it

for 200 miles, piece by piece, slung from a military helicopter.

Fragmented rock and six-month monsoons make construction here hazardous. After blasting a craggy mountain-side, worker Taji Nacho watched with trepidation for hours as jagged overhangs threatened to break off and fall. Some days, his team progresses just 4 feet.

"The mountains here are deceptive, one layer after another," said Mr. Nacho, 20, who was recently injured by a shard. "You never know what will kill you."

# New Faster-Swimming Robot Has Softer Features

By DANIELA HERNANDEZ

Chinese scientists have engineered a flexible, remote-controlled robot that can swim through water almost twice as fast as previous similar robo-swimmers without being tethered, giving it more freedom to move around its surroundings, according to new research.

The robot moves thanks to bendable materials, rather than hard motors, a feat that had been challenging to achieve in unleashed systems, roboticists said.

While most commercial robots have hard bodies, scientists and engineers think the future of robotics is soft. Flexible robots are lighter and can be safer for humans to interact with, plus they can more easily squeeze into tight spaces or adjust to extreme environments like the deep ocean or disaster zones.

"This is a nice step towards low-powered, bioinspired swimming robots that may lead to improved robotic systems for search and rescue, and environmental-monitoring

applications," said Mike Tolley, an assistant professor of mechanical and aerospace engineering at the University of California, San Diego, who wasn't involved in the research.

Many soft roboticists take inspiration from soft-bodied creatures like octopuses, jellyfish and snakes in designing bendy machines.

The new ray-shaped silicone robot, which was described in a paper published on Wednesday in the journal Science Advances, can withstand a variety of cold and warm temperatures and can swim for about three hours on a single battery charge, according to the study.

"All these performance features are highly desirable for its operation in harsh environments," the authors wrote.

The transparent, lightweight robotic ray moves by flexing its "muscles," which are made up of so-called dielectric elastomers, a special type of flexible material that can harness electric currents to create movement. Attached to its underbelly is a rigid module containing a battery pack and



A new study describes a soft manta ray-like robot that uses bendable materials to move through water.

electronics, including remote-control circuits and amplifiers that deliver the electrical current. As current is applied, the shape of the flexible material changes, causing the ray's fins to flap up and down. That motion sends ripples through the bendier parts of the fins, helping the robo-ray to move forward. Its silicone tail serves as both a balance and rudder, helping to keep the robot stable and to make turns as needed.

The researchers' new underwater robot is "quite interesting" because it combines "standard soft robot technologies," like dielectric elasto-

mers, to come up with "novel solutions," according to Barry Trimmer, the director of the Neuromechanics and Biometric Devices Laboratory at Tufts University in Boston and the editor in chief of the journal Soft Robotics.

Still, soft robots have hurdles to overcome. Dr. Trimmer said. "Right now, they can be outperformed by traditional technologies," and "rigid" electronics and batteries like the device on the newly described "ray" still have to be attached to the body somehow. The next step in their evolution, he added, is show-

ing soft approaches can lead to cheaper, more robust and safer robots.

Several companies are already commercializing soft robots for certain uses in factories and medical devices, and research in the field is exploding. In July 2016, a group of Harvard University scientists engineered another ray-like robot that was powered by genetically engineered heart cells from rats. Other groups are selling flexible grippers to handle fragile or oddly shaped merchandise and exoskeletons to help injured soldiers and the elderly walk more easily.

## TRADE

Continued from Page One

it's essentially going to be a stalemate—agree to disagree on a lot of things," said Scott Kennedy, a China scholar at the Center for Strategic and International Studies, a think tank.

The visit will set the tone for a complex relationship, one Mr. Trump aims to redefine by combating what he and his trade advisers see as the dumping of products in the U.S. at below fair value and Beijing's broad policies of subsidizing industries from metals production to aviation at the expense of American competitors.

Some business leaders said they would like Mr. Trump to convey his concerns about China's business climate—including limits on investment and fights over technology and intellectual property—so that the countries can work to-

gether over the long term on resolving the issues rather than merely blocking each other's exports.

"While we don't yet know the strategy of the Trump administration, we do agree with its desire for significant

*Lawmakers and some lobbyists worry that limited deals aren't tackling big disputes.*

changes to Chinese policies that will result in a more-market-based and level playing field for American companies," said Jeremie Waterman, the China director at the U.S. Chamber of Commerce, the biggest U.S. business lobby.

A senior White House official told reporters on Tuesday that Mr. Trump intends to

work in a constructive manner to reduce trade and investment barriers in China. The topics haven't been decided on in advance, so the two leaders are set to bring up whatever is on their minds, with the aim of starting a framework for addressing disagreements rather than setting policy on tariffs or other areas, the official said.

Progress with China has slowed recently, and the Trump administration wants to make the relationship more "fair, balanced and based on the principle of reciprocity," the official said.

Adding to the uncertainty is the fact that the meeting is happening quite early in Mr. Trump's term. His pick for U.S. trade representative, Robert Lighthizer, hasn't been confirmed by the Senate, and the Trump team hasn't brought key officials on board to develop a detailed strategy for challenging

China's trade practices.

Moreover, members of his trade team hold disparate views on the issue. Some are closer to the traditional free-trade approach and others are pushing a harder line against Beijing to lower the trade deficit in goods with China, which stood at \$347 billion in 2016. China's ambassador has courted Trump adviser and son-in-law Jared Kushner, part of the former group, in an effort to lower tensions.

Some diplomats and experts on Beijing said Mr. Xi may seek to further calm the waters by offering to limit certain Chinese exports, announcing deals for Beijing's state-run companies to buy big-ticket American exports, or arranging to make large Chinese investments in the U.S.

"I bet you dollars to doughnuts that Xi is coming bearing a specific gift like that that Trump will tweet," said Max Baucus, the U.S. ambassador

to Beijing at the end of Barack Obama's presidency and a longtime Democratic senator overseeing trade issues.

But lawmakers and some business lobbyists in Washington are growing increasingly worried that limited deals with Beijing aren't tackling the big economic and business disputes between the two countries.

Mr. Obama went to considerable effort to strike a major climate deal with Mr. Xi, for example, but Beijing was able to gain commercial advantage from that deal through massive state-driven investment in solar and wind technology, Mr. Baucus said.

Some top officials in the Trump administration said China hasn't abided by previous trade commitments, so they are planning to press ahead with plans to bring major unilateral trade-enforcement cases that could hit Chinese industries with big tariffs.

# North Korea Tests A Missile

By JONATHAN CHENG

SEOUL — North Korea launched a medium-range ballistic missile off the east coast of the Korean Peninsula a day before U.S. President Donald Trump was scheduled to meet Chinese President Xi Jinping for the first time.

The launch of the missile, confirmed by U.S. Pacific Command in Hawaii and by South Korea's Joint Chiefs of Staff, took place Wednesday morning from Sinpo, a city on the east coast where North Korea has a shipyard and last year claimed the launch of a submarine-launched ballistic missile.

South Korea's Joint Chiefs said that the launch took place at about 6:42 a.m. Seoul time and that the projectile flew about 35 miles, a relatively short distance, before splashing down in the waters between Japan and the Korean Peninsula.

David Benham, a spokesman with U.S. Pacific Command in Hawaii, said the missile, identified as a KN-15 medium-range ballistic missile, was launched from a land-based facility near Sinpo. It traveled for about nine minutes before hitting the sea, he said.

While the U.S. hasn't used the KN-15 designation before, experts said the missile appeared to be the same type as one that North Korea launched this year that used solid-fuel, rather than liquid-fuel, technology, which enables North Korea to launch a missile more quickly and with more stealth than was possible in the past because it needs fewer support services.

## WORLD WATCH

EUROZONE

### Index Shows Growth Milder Than Estimate

A gauge of activity in the manufacturing and services sectors rose less sharply in March than initially estimated, but still pointed to a pickup in economic growth during the first three months of the year.

Data firm IHS Markit Wednesday said its composite Purchasing Managers Index for the eurozone, based on a survey of 5,000 companies, rose to 56.4 in March from 56.0 in February, reaching its highest level in almost six years. A reading above 50.0 signals an increase in activity, while a reading below signals a decline.

The final figure was lower than the estimate of 56.7 provided last month, but leaves the average measure for the first quarter at its highest since the first three months of 2011, before the eurozone economy entered a slowdown caused by its government debt crisis. It only emerged from that slowdown in mid-2013.

—Paul Hannon

NATO

### U.K. Urges Alliance To Meet New Threats

U.K. Defense Secretary Michael Fallon said the North Atlantic Treaty Organization needed to adapt to more effectively combat terrorism and cybersecurity threats and hoped that U.S. President Donald Trump would be convinced the alliance was serious about reforming itself and increasing its resources.

Mr. Fallon said in an interview Wednesday that the U.K. didn't agree with Mr. Trump's comments before he took office that NATO was "obsolete." It does think the alliance needs to become "fitter, faster and more adaptable" in dealing with new threats beyond Russian aggression, Mr. Fallon said.

"I hope we can reassure the president that NATO is serious about reforming itself as well as increasing the resources available to it," Mr. Fallon said.

Mr. Trump will attend his first meeting of NATO leaders in May in Brussels.

While stepping up NATO's commitment to fighting terrorism is a priority for Mr. Fallon and the Trump administration, Germany and France have opposed a larger role for NATO in the fight against Islamic State.

—Jenny Gross and Stephen Fidler



WORLD NEWS



Lawmakers voted in Strasbourg, France, on Wednesday for a resolution that toughens conditions for the U.K. to leave the European Union.

# European Parliament Votes To Toughen Brexit Stance

By VALENTINA POP

The European Union’s Parliament toughened its stance on upcoming talks about the U.K.’s divorce from the bloc, in an important vote on Brexit. With support from 516 out of 699 members, the European Parliament on Wednesday added more demands to the main principles laid out by the bloc’s negotiator, Michel Barnier, who is likely to take them into account during the talks. While the European Parliament has no direct say in the negotiations, its vote will be needed to cement the final divorce deal, as well as to approve any transitional agreements and a deal underpinning the U.K.’s future relationship with the bloc. “We will not give our consent if the conditions set in the resolution are not respected,” said Italy’s Gianni Pitella, who leads the socialist bloc in the European Parliament, during a debate preced-

ing the vote. The Parliament backed the EU negotiation principles laid out last week, after U.K. Prime Minister Theresa May sent her country’s official divorce notification. The Parliament set a three-year limit on transitional agreements covering the time between the U.K. leaving the EU and the start of the new relationship. Members of the European Parliament said the transition arrangements should be governed by the EU’s top court, a condition that may prove difficult for the U.K. government to accept, as Mrs. May has said that court’s jurisdiction will cease on the day her country leaves the bloc. On the disputed divorce bill, which EU officials expect to reach €60 billion (\$64 billion), European politicians said it should cover not just all commitments made by the U.K. during its time as an EU member, but also so-called off-balance sheet items. These items would include, for ex-

ample, the U.K.’s share of any losses made by the European Investment Bank during the U.K.’s time as a shareholder. Former U.K. Independence Party leader and longtime Brexit campaigner, Nigel Farage, who is a member of the European Parliament, said the bloc was acting like the Mafia, trying to hold Britain to ransom, with “a figure that has clearly been plucked out of the air.” His comments caused consternation in the assembly; in response, Mr. Farage said he could substitute the phrase “a bunch of gangsters” for “Mafia.” Mr. Barnier said “we don’t seek to punish the U.K., but simply ask to deliver on its commitments taken as a member.” He criticized the U.K. government for pursuing a “very risky approach” by pushing for parallel negotiations on the divorce and on the future relationship. Mr. Barnier said the bloc would insist on settling the divorce before moving on to talks on the

future relationship. “The sooner we agree on the principles of an orderly withdrawal, the sooner we can prepare our future relation in trade, a free and fair trade agreement, but also in security and defense,” Mr. Barnier said. The European Parliament also warned the U.K. not to pursue any bilateral deals with EU countries or nations outside the bloc for as long as Britain remained a member. Such efforts would result in U.K. representatives being kicked out of the bloc’s negotiations, the politicians said. The Parliament also said the U.K. shouldn’t use cooperation in security and defense in bargaining for trade relations. If the U.K. wants to participate in future EU programs, it must contribute to the EU budget and let itself be governed by the EU top court, the politicians said. However, the British government has ruled out any large future contributions to the EU budget.

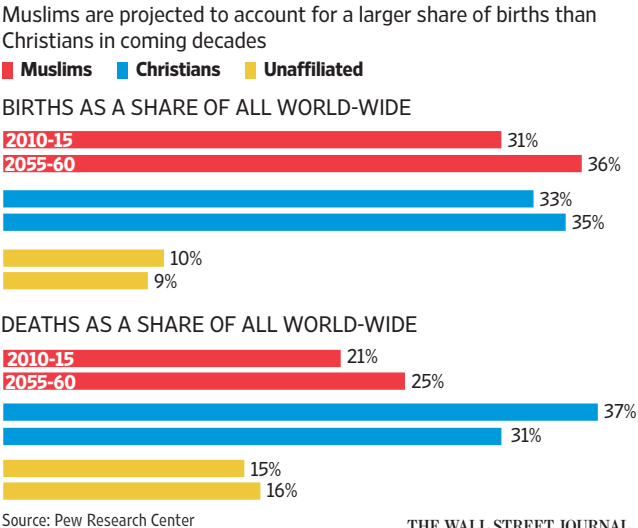
# Birth Rise Seen Making Islam World’s Top Faith

By IAN LOVETT

Within 20 years, more babies will be born to Muslim women than to Christian women worldwide, the latest sign of the rapid growth that could make Islam the world’s largest religion by the end of the century. Islam is already the world’s fastest-growing religion, according to a study released Wednesday by the nonpartisan Pew Research Center, with the Muslim population increasing by more than 150 million people between 2010 and 2015, to 1.8 billion. Christianity remains the world’s largest religion. It is growing more slowly, however, largely due to its declining numbers in Europe. As of 2015, there were 2.3 billion Christians. While Christians accounted for 33% of births world-wide in recent years—slightly outpacing the number of Muslim births—they also made up 37% of world-wide deaths, nearly twice the share of deaths from any other religion. “Christianity is literally dy-

ing in Europe,” said Conrad Hackett, the lead researcher on the study. In most European countries—including England, Germany, Italy and Russia—Christian deaths outnumbered Christian births from 2010 to 2015. The religion has been buoyed by continued growth in Africa and Latin America. “The heart of Christianity is moving from Europe to Africa,” Mr. Hackett said. The new report is an expansion on a major Pew Research study from 2015, which first projected that by 2050 the world-wide Muslim population would nearly equal the Christian population, perhaps for the first time in history. Wednesday’s study offers new details about birthrates in recent years. It also projects forward to 2060, when the Christian and Muslim populations will be nearly equal. The world-wide population of Muslims is projected to grow by 70% between 2015 and 2060. Christianity is expected grow by 34%.

### Changing Population



THE WALL STREET JOURNAL.

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# Journey Into the World of Wine

Join Will Lyons, fine wine advisor for Berry Bros. & Rudd and former Wall Street Journal wine columnist, for a journey into wine. Uncork six exceptional selections along the wine route, from France to the west coast of the United States, and back again, as Lyons shares his expertise on key wine styles and personal anecdotes from his travels.

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U.S. NEWS

# Senate Braces for ‘Nuclear Option’ on Rules

Showdown over the Gorsuch nomination reflects the chamber's growing polarization

By Kristina Peterson

WASHINGTON—A bipartisan group of 14 U.S. senators in 2005 ended a bruising fight over federal judgeships with a compromise agreement that stopped GOP leaders from changing the chamber's rules for confirming Supreme Court nominees.

Twelve years later, no such group has materialized to pull the Senate back from the brink in the battle over Judge Neil Gorsuch, President Donald Trump's nominee to the Supreme Court.

The country's increasing political polarization in the intervening years has hardened the stances of both Senate Democrats, who said this week they had enough votes to mount a filibuster to block a vote on Judge Gorsuch under the current, decades-old rules, and Republicans, who are expected on Thursday to permanently change the chamber's rules to confirm the GOP president's pick.

"The whole environment has dramatically changed," said Sen. John McCain (R., Ariz.), a member of the so-called Gang of 14 that averted a rules change in 2005.



Sen. John McCain said he reluctantly would join the GOP effort to alter the Senate's rules for confirming Supreme Court nominees.

This week, Mr. McCain said he reluctantly would join most, if not all, Republicans in voting to alter the Senate's rules so Supreme Court nominees could be confirmed with a simple majority, rather than the 60 votes currently needed.

One party moving unilaterally to change the rules is so contentious that it is referred to as "the nuclear option." It would leave the minority party without any ability to block nominees and enable the president to cater to his or her party's ideological extremes if

the Senate is controlled by the same party.

Sen. Brian Schatz (D., Hawaii) said: "There's no doubt we are moving into dangerous territory and we're putting ourselves in a position where if you're ever in the minority party, nobody has to talk to you."

Congressional experts said this week's expected Senate showdown reflects a widening gulf on Capitol Hill between the prevailing Republican and Democratic ideologies, as well as fewer centrist lawmakers.

Only three members of the

Gang of 14 who took action in 2005 are still in Congress.

Republicans and Democrats are now further apart ideologically on most issues.

The parties used to have strong internal, regional divisions, particularly between Northern and Southern Democrats, said Keith Poole, a political-science professor at the University of Georgia. The party's composition began to change after the passage of civil-rights legislation in the 1960s, as Southern voters abandoned conservative Dem-

ocrats for Republicans.

Mr. Poole, whose research has studied every congressional roll-call vote since 1789, said lawmakers' votes now fall largely along only one spectrum ranging from liberal to conservative, rather than also dividing along regional lines, making bipartisan compromises harder to achieve.

The rise in partisanship has fed an escalating feud between the parties over how to use the Senate's procedural tools to keep the other side in check.

Democrats, who were in the Senate minority when then-President George W. Bush, a Republican, was in office, sought to block a set of Mr. Bush's judicial nominees before the Gang of 14 agreement defused the tension.

Later, when Republicans were in the minority, their opposition to some of the judicial and executive nominees advanced by then-President Barack Obama, a Democrat, helped push Democrats, led by former Sen. Harry Reid of Nevada, to change the chamber's rules in 2013.

That change enabled the Senate to approve lower-court and executive nominees with a simple majority.

Then last year, Republicans, back in control of the Senate, declined to hold a hearing for Merrick Garland, Mr. Obama's nominee to the Supreme Court after Justice Antonin Scalia died. That stoked anger among liberal voters, who pressed Democratic senators this year to oppose Judge Gorsuch. The pressure from Democratic voters also was driven by resistance to Mr. Trump's early actions in office.

"This is like a troubled relationship where everybody has a grievance and everybody has a little bit of a reason to be angry, but the question becomes, what do we do next?" Mr. Schatz said.

—Natalie Andrews contributed to this article.

# Trump Aide Doesn't See Border Wall

By Dan Frosch  
And Laura Meckler

Homeland Security Secretary John Kelly told members of Congress that he doesn't envision a wall stretching the entire length of the U.S. border with Mexico, and would instead focus on building additional fencing where it was most feasible.

Mr. Kelly's remarks, made Wednesday before the Senate Committee on Homeland Security, run contrary to one of President Donald Trump's key campaign promises, to build a wall along the entire 2,000-mile border.

The administration is pursuing funding and bids to build a border wall, but the project faces significant political, geographical, legal and financial challenges.

Mr. Kelly said he was consulting with U.S. Customs and Border Protection officials about where additional fencing along the border was most needed, adding that he had been given "a lot of elbow room" on the issue.

"The president knows I'm looking at every variation on the theme," he said.

Mr. Kelly added, "I have no doubt when I go back to him and say...[A] wall makes sense here, high-tech fencing makes sense over here, technology makes sense over here...he will go tell me to do it."

The Homeland Security secretary faced tough questioning from Sen. Kamala Harris (D., Calif.), who pressed him on a policy being considered by Homeland Security that would separate parents and children caught trying to cross the border illegally.

Mr. Kelly said previously that he was weighing the approach to deter families seeking to come to the U.S. from

becoming ensnared in dangerous human-smuggling networks. But on Wednesday, he told the committee that the measure would generally only be undertaken if the child's life was in danger, "depending on what's going on, on the ground."

When pressed by Ms. Harris about whether his staff had been given a written directive on that issue, Mr. Kelly said he didn't need to because he had already given verbal commands to his staff.

"My staff knows already that they will not separate anyone unless I'm informed," he said.

He also faced sharp questioning from Sen. Claire McCaskill, the top Democrat on the committee, about his agency's plans for tough new vetting procedures. She called ideas under consideration "very un-American."

The Wall Street Journal on Tuesday reported the Trump administration was considering new vetting rules that would ask visa applicants to provide cellphone contacts and social-media passwords, as well as answer probing questions about their ideology. A senior Homeland Security official said the changes could apply to close U.S. allies, as well as visitors from other countries.

Much of the hearing, though, was focused on the border wall. Mr. Kelly's comments come a day after a deadline for companies to submit their initial designs for the project to U.S. Customs and Border Protection. The agency recently put out requests for proposals for a solid concrete wall and a wall made of alternative material—both at least 18 feet high.

Several hundred companies expressed initial interest in

bidding for the project, though it was unclear how many submitted actual plans before Tuesday's deadline. CBP said it hopes to winnow down the proposals in the coming months.

Responding to Mr. Kelly's testimony, Ms. McCaskill said at the hearing that Mr. Trump should stop talking about building a "wall from sea to shining sea" that would be paid for by Mexico.

"It's embarrassing. It's not going to happen. Everybody in Congress knows it's not going to happen," the Missouri senator said.

Some 650 miles of fencing already wind across portions of the southwest border. Mr. Kelly said on Wednesday that in some places it would be difficult to erect more barriers because of a variety of factors such as rugged terrain and environmental concerns.



Steve Bannon, above, is President Donald Trump's chief strategist.

# Bannon Removed From National Security Council

By Carol E. Lee

WASHINGTON—President Donald Trump's chief strategist, Steve Bannon, has been removed from the National Security Council's principals committee, and top U.S. intelligence officials have been restored as permanent members, according to a new presidential memorandum.

The decision was made by Mr. Trump's new national security adviser, Lt. Gen. H.R. McMaster, a senior administration official said.

The memorandum, reviewed by The Wall Street Journal, makes the director of the Central Intelligence Agency a permanent member of the principals committee and restores the chairman of the U.S. military's Joint Chiefs of Staff and the director of national intelligence as permanent members after they were initially downgraded from that status.

Mr. Bannon said in a statement: "Susan Rice operationalized the NSC during the last administration. I was put on to ensure that it was de-operationalized. General McMaster has returned the NSC to its proper function."

Ms. Rice was former President Barack Obama's national security adviser.

Wednesday's change means Mr. Bannon is no longer part of the National Security Council. He is still permitted to attend meetings but won't automatically be invited to each one.

Shortly after taking office in January, Mr. Trump took the unusual step of adding Mr. Bannon, a former media and financial executive who was an

architect of the Republican president's campaign strategy, to the principals committee, the National Security Council's most senior decision-making body. The principals committee consists of the administration's top national-security policy makers.

Republicans and Democrats questioned whether Mr. Bannon's addition would politicize the White House's national-security decisions. Mr. Bannon has attended one meeting of the principals committee, the senior administration official said.

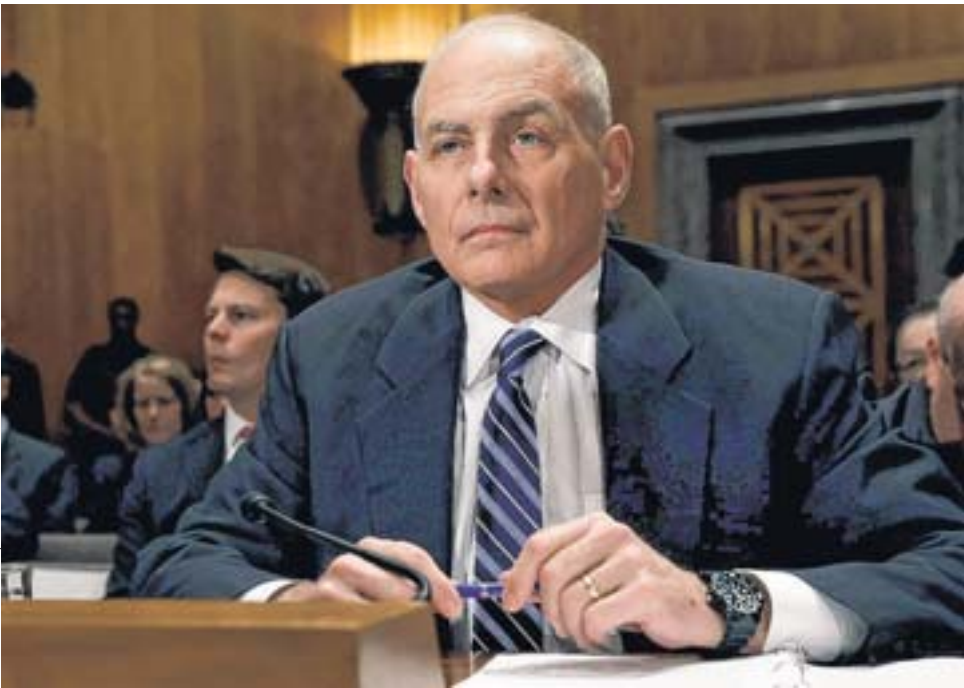
White House officials had said if Mr. McMaster wanted to change Mr. Bannon's status, he had the authority to do so, though it wasn't initially planned. The senior administration official said Mr. Bannon had worked with Mr. McMaster to implement changes in the council, and now that they were well under way, he could step aside.

Another senior administration official said Mr. Trump "signed off on all the changes."

"Steve was put there as a check on [Mike] Flynn," the second official said, referring to Mr. Trump's former national security adviser who was forced to resign in February over undiscovered contacts with Russia. With Mr. McMaster now in charge, "there was no longer a need [for Bannon] because they share the same views," the official said.

"The idea initially was to make sure Flynn implemented the vision they had talked about," the official said.

—Eli Stokols contributed to this article.



Homeland Security Secretary John Kelly arrives for a Senate hearing in Washington on Wednesday.

# Health Secretary Gets Payday on Shares

By James V. Grimaldi

Health and Human Services Secretary Tom Price more than tripled his investment when he sold shares in a small biotechnology company developing a multiple sclerosis drug that might one day seek approval from Dr. Price's agency, public disclosures show.

Dr. Price sold the shares of Innate Immunotherapeutics Ltd., of Australia, in February for about \$320,000, earning at least \$225,000 on a \$94,000 investment, according to an analysis of his disclosures to Congress and an ethics disclosure report filed Monday. The sales were made to comply with the ethics agreement he signed when he became the

health secretary.

Dr. Price told the Senate Finance Committee that he owned 461,238 shares of the stock, most of them purchased at a discount last year after a member of the board of the company, Rep. Chris Collins (R., N.Y.), told him about a privileged sale of the stock. Dr. Price, at the time a Republican congressman from Georgia, was one of fewer than 20 U.S. investors invited last year to buy discounted shares in Innate Immunotherapeutics.

A spokeswoman for Dr. Price said the health secretary did his own research into the company after hearing about it from Rep. Collins and "did not have non-public information when he decided to invest." She said, in an email, "Dr. Price

has complied with all divestiture requirements as stated in his Ethics Agreement."

Senate Democrats, who opposed Dr. Price's nomination, criticized the special arrangement. "The bottom line is that Congressman Price bought these shares for \$40,000 less than an average investor would have paid to buy the same amount of stock off the open market," Sen. Ron Wyden, top Democrat on the Senate Finance Committee, said before the Senate vote.

The Wall Street Journal reported last year that from 2012 through 2016, Dr. Price traded more than \$300,000 in shares of some 40 health-related companies while sponsoring and advocating legislation that poten-

tially could affect those companies' stocks.

Dr. Price's spokeswoman said all of Dr. Price's trades were made by a broker, except those involving Innate Immunotherapeutics.

In 2015, Dr. Price bought \$10,000 in Innate Immunotherapeutics shares for about 17 cents a share. In 2016, in two private placements, Dr. Price bought some \$84,000 in shares, at 18 cents a share in mid-June, representing a 12% discount to the average market price, the company said, and at 26 cents a share in mid-July, for a 14% discount.

Dr. Price sold them in two tranches in February when the price was about 70 cents a share.



U.S. NEWS

# FDA Nominee Commits to ‘Gold Standard’

By THOMAS M. BURTON

WASHINGTON—Scott Gottlieb, President Donald Trump’s nominee to run the Food and Drug Administration, emphasized in his confirmation hearing his belief “in the gold standard of safety and efficacy” at the agency and said he hopes to expand approvals of generic drugs to lower U.S. prices.

Dr. Gottlieb, who was nominated in March, said he sees the need for new laws and FDA regulatory action to get complex-formulation drugs—like those used topically or with inhalers—more quickly approved as lower-cost generics. While he also said there are ways to speed up some clinical trials, “I think there are ways to modernize clinical studies without sacrificing the gold standard.”

His comments on Wednesday appeared aimed at reassuring Democrats, who have been critical of the nomination because of Dr. Gottlieb’s extensive financial ties to drugmakers and his prolific, often conservative writings in which he has



Dr. Scott Gottlieb said he hopes to expand Food and Drug Administration approvals of generic drugs.

been critical of FDA regulation, often saying the agency should move faster.

The tension between speed and a focus on safety has been at the center of political debates over the FDA’s future. That has especially been the case under the Trump admin-

istration, since the president has said the FDA takes too long in approving drugs and medical devices.

In recent years, the FDA has hastened drug approvals, especially for cancer treatments. Mr. Trump also has urged staffing cuts across the govern-

ment and even has called for a budget cut at the FDA during the remainder of fiscal 2017.

Dr. Gottlieb’s nomination was being considered by the Senate Committee on Health, Education, Labor & Pensions.

Democrats on the panel expressed concern about Dr. Gott-

lieb’s previous consulting work for the industry. The committee’s top Democrat, Sen. Patty Murray of Washington, noted in an opening statement that the nominee has “unprecedented financial entanglements with the companies he would regulate as commissioner.” She also criticized his written position opposing extensive regulation by the FDA of the lab-testing industry.

She noted his financial ties to companies that, she said, have 60 drugs that could come before the FDA. He has recused himself for one year from decisions regarding those companies and, in any event, the FDA commissioner rarely becomes involved in specific product decisions.

Asked by Democratic senators if he would resist staffing cuts, he appeared to say he would, answering, “I’m going to be committed to advocate for a strong FDA, for strong resources at the FDA.” He added that he hasn’t been shy about expressing his views, including to bosses.

Dr. Gottlieb is deeply versed in the details of drug regula-

tion and law, and his views aren’t doctrinaire conservative ones. For instance, he has written that he hopes to get a wider range of so-called complex generic drugs on the market. Doing so could further a major goal of Democrats, lowering drug costs to American patients. He has been a venture-capital entrepreneur in recent years and has worked for the conservative think tank the American Enterprise Institute.

Dr. Gottlieb said in his opening statement that “I’ll lead the FDA as an impartial and passionate advocate for public health....I’ll be guided by the scientific rigor that the public deserves.”

Asked whether he would stand up to pressure from the Trump administration, he said, “I’m going to be guided by the science and by the expertise of the career staff.”

Dr. Gottlieb, a cancer survivor, is also a former deputy commissioner of the FDA under the George W. Bush administration.

The committee wasn’t expected to vote Wednesday.

## Fed Expects to Trim Portfolio This Year

By NICK TIMIRAO

Federal Reserve officials agreed at their March policy meeting that they would likely begin shrinking a \$4.5 trillion portfolio of Treasury and mortgage securities later this year, though they remained undecided on some important tactical questions, such as how quickly to reduce the holdings and to what level, according to minutes of the meeting released Wednesday.

The minutes of the March 14-15 meeting help to answer a question hanging over markets in recent months. The central bank has been telegraphing interest-rate increases for years but has been noncommittal on how it will handle the sizable securities holdings it acquired through asset-purchase programs during and after the 2007-09 recession. Those programs were meant to hold down long-term interest rates and to strengthen economic growth.

Shrinking the balance sheet is a delicate task because it could cause long-term rates to rise and undermine the expansion. The Fed’s holdings grew from less than \$1 trillion before the financial crisis to \$4.5 trillion. The central bank has been maintaining its holdings at a high level by reinvesting proceeds of maturing securities into new mortgage and Treasury bonds. Ceasing reinvestments will allow the portfolio to shrink.

“Most participants anticipated that gradual increases in the federal-funds rate would continue and judged that a

change in the [Fed’s] reinvestment policy would likely be appropriate later this year,” the minutes said.

The Fed’s balance-sheet strategy remains a work in progress. Staff economists have begun work on a paper that could help forge consensus over the technical details that have yet to be sorted out. Among the details not yet worked out in March was whether the Fed would phase out its reinvestment policy slowly or cease it all at once. Officials saw a slow phaseout as least disruptive to markets and the economy, but also possibly hard to communicate clearly, the minutes said.

Officials have been speaking out about the plan since the meeting. Under the emerging strategy that they have outlined in public comments and interviews, the central bank would raise short-term interest rates two more times this year and then potentially pause rate increases late in the year while setting in motion an effort to reduce the balance sheet. A pause would allow the Fed to watch for ill effects before resuming rate increases in 2018.

The planning to reduce the balance sheet comes against a backdrop of an improving economic outlook. Minutes showed officials see more upside risks to the outlook for economic growth—for example, from a possible fiscal expansion by the new Trump administration—and fewer downside risks from trouble spots overseas, including China and Europe.



The family of a couple who died in a fire aboard La Estrella Amazonica, shown in 2014, isn’t eligible for damages under current law.

## Why Deaths at Sea Are Different

By JOE PALAZZOLO

Christy and Larry Hammer, two retirees from Nebraska, were asleep in their cabin on La Estrella Amazonica, a riverboat built for adventure cruises on the Peruvian Amazon, when a power strip in their cabin caught fire and spread to their luggage and mattress. The smoke eventually killed them.

The riverboat’s fire alarm “did not operate at all,” and its crew, lacking training and equipment, took more than 20 minutes to enter the Hammers’ cabin, Peruvian authorities said in an October report on the fire, citing a litany of violations of the nation’s maritime regulations.

The Hammer’s surviving daughters, Jill Malott and Kelly Lankford, have come to believe their parents’ deaths could have been prevented, as more information has surfaced since the April 10, 2016, fire.

But because of a 1920 law known as the Death on the High Seas Act, the cruise industry enjoys broad immunity from damages in wrongful-death cases involving retirees and other passengers who have no financial dependents.

International Expeditions, the Alabama-based company that charters the cruise and

helped design the riverboat, has told the daughters through its lawyers that it has no financial obligation to the family under the law, according to Ms. Malott and her family’s lawyer.

The family’s search for accountability has revived a debate about a law enacted decades before the advent of the modern cruise industry, which serviced more than 11 million Americans in 2015, according to industry figures. Travelers aged 60 to 74 account for about a quarter of all North American cruise passengers.

While Congress and states have made it easier for families to recover damages for fatal accidents that happen in the air and on land, the Death on the High Seas Act treats boat passengers the same as it did nearly a century ago.

Congress intended the law to benefit the widows of seamen who died in international or foreign territorial waters. It permitted the widows to recover financial support their husbands would have provided, known as pecuniary damages.

Recoveries under the law end there. Cruise companies have no legal obligation to pay damages for the deaths of passengers who had no financial dependents. That leaves little recourse for families of retir-

ees, children and other cruise passengers who weren’t earning wages and providing financial support to anyone at the time of their death.

In the past five years, cruise lines have used the Death on the High Seas Act to shield themselves from lawsuits filed by the families of an infant who died after allegedly receiving poor medical treatment by ship doctors, a col-

*Congress intended the Death on the High Seas Act to benefit widows of seamen.*

lege student with no dependents who fell overboard, and a 17-year-old girl who was allegedly killed by bacteria-ridden food she ate aboard the ship.

Courts have held that the law prevents retirees from suing cruise lines for damages over the deaths of their spouses in accidents aboard ships. Many cases never make it to court. Ms. Malott said several lawyers turned her down, warning the law would pre-empt the family’s case.

Industry representatives

said the law reflects international norms. If Congress amended the Death on the High Seas Act to allow greater damages, the U.S. would attract droves of foreign litigants, “burdening an already crowded U.S. judicial system,” said Christina Perez, spokeswoman for the Cruise Lines International Association.

Ms. Perez said insurance rates for cruise ships would skyrocket, increasing prices and potentially jeopardizing thousands of jobs.

Van Perry, president of International Expeditions, said the company reached out to the family “on a number of occasions” to discuss the fire. Ms. Malott said the company and its insurer asked the family to sign a confidentiality agreement before meeting, a condition the sisters rejected.

International Expeditions, which said in its promotional materials that it helped design the riverboat, sent the Hammers’ daughters a check for the amount of their parents’ tickets: about \$10,000. Ms. Malott said they returned it.

“IE remains committed to cooperate with the authorities and shares the family’s desire for information as the Peruvian authorities continue their investigation,” Mr. Perry said in an emailed statement.



The Federal Reserve’s holdings grew from less than \$1 trillion before the financial crisis to \$4.5 trillion.

## U.S. WATCH

### JUSTICE DEPARTMENT

#### Agency’s Request to Delay Hearing Denied

A federal judge rejected the Justice Department’s request to delay a court hearing on a proposed agreement with Baltimore aimed at eliminating racially biased police practices, ruling the session will take place Thursday as scheduled.

“To postpone the public hearing at the eleventh hour would be to unduly burden and inconvenience the Court, the other parties, and, most importantly, the public,” U.S. District Judge James Breder wrote in an order.

The overhaul plan, which was reached in the final days of the Obama administration and still needs Judge Breder’s approval, grew out of a biting Justice Department investigation that found Baltimore police routinely engaged in unconstitutional practices.

On Monday, the Justice Department sought a 90-day delay of the hearing, saying it needed more time to review the proposed consent decree. The move was the latest sign the Justice Department under the Trump administration intends to scale back scrutiny of local police and focus instead on an uptick in violent crime.

The ruling’s scope was limited to the Thursday Baltimore hear-

ing, which is being held to give the public an opportunity to comment on the agreement.

—Scott Calvert

### CHICAGO

#### Man Charged in Four Gang-Related Killings

A 19-year old with an extensive juvenile arrest history was charged Wednesday with four counts of first-degree murder in a quadruple homicide on Chicago’s south side last week.

Police say Maurice Harris shot and killed four people at a restaurant in the South Shore neighborhood on March 30 in re-

taliation for the murder of his father, Jerry Jacobs, who was also fatally shot that week.

Mr. Harris has ties to area gangs, detectives said, as did his father and the four victims.

Mr. Harris hasn’t confessed or spoken to police, they said. A judge on Wednesday ruled he be held without bail, according to the state’s attorney’s office. A lawyer for Mr. Harris couldn’t be identified.

The relatively rare multiple murder charges connected to a single incident come at a time when Chicago police are making small gains in fighting violent crime in the city, which surged dramatically from 2015 to 2016

drawing repeated criticism from President Donald Trump.

—Shibani Mahtani

### ECONOMY

#### Private-Sector Jobs Rose in March

Private-sector hiring this year remained strong as employers reported adding more workers to their payrolls in March than expected, according to a report released Wednesday.

Private payrolls across the nation rose by 263,000 last month, said payroll processor Automatic Data Processing Inc. and forecasting firm Moody’s Analytics.

This was much better than a gain of 180,000 expected by economists polled by The Wall Street Journal. In February, ADP’s report showed the private-sector added 298,000 jobs. The report is based on data collected from ADP clients in addition to lagged behind government figures.

Goods-producing industries, which include construction and manufacturing, added 82,000 jobs. Meanwhile, service-providing sectors such as hospitality added 181,000 jobs in March. Most of the job gains came from small businesses, defined by ADP as companies with 49 or fewer employees.

—Joshua Jamerson



IN DEPTH

TARGET

*Continued from Page One*  
give shoppers a reason to come back. Target has now embarked on a multibillion-dollar revamp.

Mr. Cornell, 58 years old, expressed frustration about how the bathroom policy was publicized, and told colleagues he wouldn't have approved the decision to flaunt it, these people said. Target didn't adequately assess the risk, and the ensuing backlash was self-inflicted, he told staff. Now, it was too late to reverse course.

"You can't take it back," said one of these people, adding that Mr. Cornell "felt very stuck."

Mr. Cornell declined to be interviewed for this article. "We strive to make our guests and team members feel accepted, respected and welcomed," Target spokeswoman Dustee Jenkins said. "We know our guests have many different points of view on this topic and we respect that."

A few weeks after the post, Mr. Cornell defended the policy in a television interview, saying Target had a "long history of embracing diversity." He said Target's bathroom policy was similar to rivals'.

The post came in response to the 2016 North Carolina law, which required transgender people to use bathrooms in government buildings according to the sex on their birth certificates. It also disallowed laws that prohibited businesses from asking for proof of sex before people used facilities.

Many national retailers, including Wal-Mart Stores Inc., let people use bathrooms corresponding with their gender identities. "We value the privacy of our associates and customers," said a Wal-Mart spokesman, "and we strive to make accommodations like family bathrooms in some stores."

Most retailers, though, don't publicize their policies. Chains such as Target have customers with perspectives from across the spectrum. In a February online survey by consulting firm Frank N. Magid Associates of 2,500 people, nearly two-thirds of respondents said businesses should stay out of politics.

"Target picked a side and pretty much said to the rest of us that we don't matter," said Mary McCandless, a shopper in Winston-Salem, N.C. "They should have just left it as, 'don't ask, don't show, don't tell.'"

The 56-year-old financial analyst said she quit using her Target credit card and shifted most shopping online. "At least I don't have to worry about using the bathroom on Amazon.com."

Target had publicly waded into social issues before. In 2010, employees and customers protested a \$150,000 Target donation to a group that ran ads supporting a Minnesota gubernatorial candidate who opposed gay marriage. Target's then-CEO emailed



Shoppers in the back-to-school supply section of a Target in West Palm Beach, Fla., in July. The stores hurt the most by the recent backlash were in the South.

staff: "Target's support of the GLBT community is unwavering."

The 2016 bathroom backlash has defined the tenure of Mr. Cornell, a former Sam's Club and PepsiCo Inc. executive who was credited with helping Target regain footing after taking over in 2014 in the aftermath of a major credit-card breach.

After North Carolina enacted its legislation, the NCAA pulled tournament games from the state. Companies including Alphabet Inc.'s Google and American Airlines Group Inc. decried the law.

Target store workers began asking their bosses to clarify how to apply company policy, said the people familiar with the episode, who gave an account of the internal chain of events that followed.

Headquarters sent an internal memo to store managers reiterating its official stance, these people said. On April 15, a group Target calls its "risk committee" emailed executives informing them of a plan to post that message publicly and requesting approval to do so. Mr. Cornell, said one of the people, wasn't among the recipients of that email.

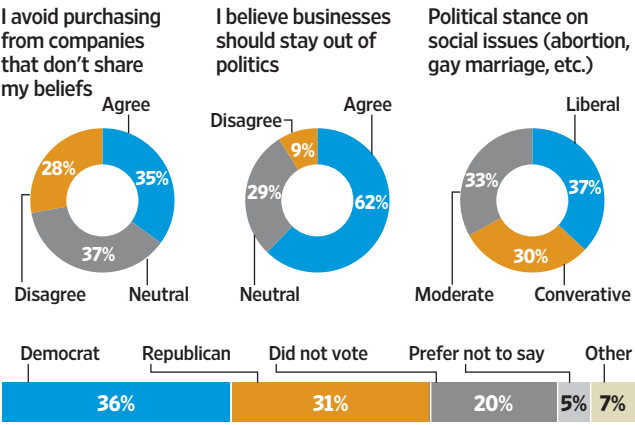
At least two of Mr. Cornell's lieutenants approved the post, including Target's chief risk officer, Jackie Rice, and its chief external-engagement officer, Laysha Ward. Both executives declined to comment.

The six paragraphs went live on the company blog, reading in part: "Given the specific questions these legislative proposals raised about how we manage our fitting rooms and restrooms, we felt it was important to state our position."

Several media outlets covered the news. People began clogging Target's Facebook, Twitter and Instagram pages and flooded Mr. Cornell's mailbox with messages of discon-

Shopper Preference

Target customers fall along a broad ideological spectrum when responding to questions about social and political leanings.



Note: Percentages may not total 100 due to rounding  
Source: Survey by Frank N. Magid Associates of 2,500 respondents in Feb. 2017

THE WALL STREET JOURNAL.

tent. Shoppers protested by filling carts inside Target stores and abandoning them.

Mr. Cornell, who was out of the office addressing vendors the day the post was published, returned to assess the damage. Retracting the statement wasn't an option, he decided—that might have worse consequences than standing by it. Left-leaning areas such as Los Angeles are among Target's fastest-growing markets.

The CEO defended the policy, saying it has a 'long history of embracing diversity.'

Inside the company, executives predicted the backlash would die down. It didn't, and foot traffic in several markets, particularly in the South, declined considerably in the months following the announcement.

A socially conservative group, LifeSiteNews, put up billboards in Oklahoma urging customers to #FlushTarget

and drove a truck with that message to stores near Target's headquarters in May. Protesters attended Target's June shareholder meeting to speak out against the policy.

Inside Target, executives analyzing the impact found that conservative families were angriest. Among moderates, white males were most angered—which the chain took as reassuring, given that its core customer is female.

The stores hurt the most were in the South and often located near Wal-Mart locations, they found. Executives realized many stores were physically worn down and weren't competitive on prices of commodity goods.

Target has since said it plans to invest \$7 billion to improve stores, launch exclusive brands and develop its

supply-chain and digital capabilities over the next three years, while sacrificing \$1 billion to cut prices and drive lower-margin digital sales. It plans to remodel 110 stores this year, one-third of those in the Dallas-Fort Worth area—a market that lost foot traffic after the bathroom pronouncement.

Executives also conducted focus groups to better understand customers in markets that appeared hardest hit by the bathroom issue. Mr. Cornell wanted ways to win back shoppers without agreeing to demands that Target retract its policy.

The company used promotions and direct mailings to focus on customers in those markets. It commissioned Dallas Cowboys quarterback Tony Romo to visit a Dallas Target store to help pick out Father's Day gifts.

Target said in August it would spend \$20 million to add private bathrooms to the stores that didn't have them, an investment executives viewed as a compromise.

Those moves didn't assuage shopper Tim Maxwell of Mansfield, Texas, who said he and his wife canceled their Target credit card. "It made me realize that even I can now go into the women's bathroom with my daughter," said Mr. Maxwell, 49, a project manager. "They opened the floodgates."

The Maxwells have taken their business to Amazon. "The ironic part," Mr. Maxwell said, "is that we are now realizing that we never really needed to go to Target to begin with."

Amazon.com Inc.'s policy is to let transgender employees and customers use whichever facility corresponds with their gender identities, an Amazon spokesman said.

Target executives have said any lost sales from the boycott weren't significant enough to

require reporting to investors.

In consumer surveys, most Target shoppers identify as moderate or liberal on social issues. Even some who support the American Family Association's boycott petition—it has gained roughly 1.5 million signatures—said they still shop there. "I tried not to go there, but it's hard when you like the store," said Mari Arnett, 62, a Colorado Springs, Colo., homemaker. "I just don't care too much for Wal-Mart."

Target's business nonetheless is in a funk. Sales at stores open at least a year have declined for three straight quarters. In February, Target issued a gloomy sales outlook.

Target has been squeezed by Amazon, as shopping moves online, and by Wal-Mart, which has remodeled stores and lowered prices. Target's stock has fallen about 25% this year; Wal-Mart's has climbed 4%.

The boycott "seemed to matter, but there are many crosscurrents in retail, and Target has other problems," said John Zolidis, a Buckingham Research Group analyst.

Under Target's new procedures, public pronouncements on hot-button issues may not be made without Mr. Cornell's consent. Executives are planning to avoid publicizing their bathroom stance and other controversial public-policy positions.

North Carolina's lawmakers in late March passed a bill dialing back the bathroom law that triggered the Target blog post. Democratic Gov. Roy Cooper signed it into law. Some LGBT advocates said it doesn't go far enough to prevent discrimination. The NCAA's board of governors said Tuesday it would consider the state as a host for future championships again.

This time, Target has stayed mum.

SOCCER

*Continued from Page One*  
ganda barrage only the day before, shouted at each other in vain as they struggled to communicate, waving their arms and pointing. Before long, their coach gave up trying to signal to them.

"I've heard about the women's team practices, but I didn't know they went through this much of an ordeal," said one of the referees, who summed up her experience as "painful."

During the first few practices, before the grounds crew adjusted the volume to about 75% of the maximum, one assistant coach said he had trouble staying focused, adding that his ears were "numb" throughout the practice session. "I couldn't concentrate at all at the beginning," said Kang Ga-ae, a goalkeeper for the women's team.

"It was an odd feeling," said Ji So-yun, a star midfielder who also plays professionally for Chelsea in the U.K. "I felt like we were in North Korea."

Women's soccer isn't a popular sport in South Korea and games rarely attract many spectators. In contrast, the April 7 match at Kim Il Sung Stadium is expected to draw more than 40,000 people.

There has even been chatter that North Korea's leader, Kim Jong Un, who has taken a keen interest in the North Korean women's soccer team, may show up. He once received the national team in person at Pyongyang's airport after they beat South Korea to win the 2015 Women's East Asian Cup.

It isn't unusual for international soccer coaches to try to prepare their players for unfamiliar environments. "When there is a match in a different region, say the Middle East, we also familiarize athletes on the types of cheers and sounds they can expect to hear," said Yun Young-kil, a sports psychologist who works with the South Korean women's team. But, he said, with North Korea, there is a "difference of intensity."

In the past, matches between teams from rival nations such as England and Germany, Mexico and the U.S. and East and West Germany have featured feral crowds whipped into a frenzy. In 1969, clashes between fans at a World Cup qualifier between Honduras and El Salvador helped spark an actual war that lasted for four days.

Korea was divided after the U.S. and Soviet Union each occupied one half of the country after the defeat of Japan in World War II. The rival Korean regimes both claim sover-

eignty over the entire peninsula, and remain technically at war with each other following the Korean War, which ended with an armistice agreement in 1953.

The North Korean women's soccer team has been the stronger of the two, winning 14 times in head-to-head matches and losing just once to the South Korean team since the South Korean team was established in 1990.

Friday's match in Pyongyang will mark only the second time in history that a South Korean national soccer

team will face off against North Korea north of the demilitarized zone that divides the peninsula.

Mr. Yoon, the coach, was a member of the first team to do that. Mr. Yoon's team lost that game, in 1990, but he's not willing to let history repeat itself.

The 1990 trip, he recalls, was "beyond imagination." North Koreans greeted the South Korean team all along the road from the airport to the hotel. The experience of playing before a crowd of about 150,000 at the Rungrado

May Day Stadium in Pyongyang—the world's largest stadium by capacity—was initially "overwhelming," he said.

"It was exhilarating," he said. "Something we had never seen in South Korea."

Mr. Yoon is trying to replicate some of that atmosphere with the loudspeakers, and by relocating training to Mokpo, where the artificial grass is most similar to the pitch inside Kim Il Sung Stadium.

"North Korea is a special situation for the athletes," said Mr. Yun, who teaches at Korea National Sport Univer-

sity. To succeed, Mr. Yun said, players need to approach the match as an "ordinary" game.

That may be easier said than done. Seoul's Ministry of Unification only allowed the team to play the game after Pyongyang offered written assurances guaranteeing the safety of the South Korean squad.

A men's soccer match slated to take place in March between North Korea and Malaysia in Pyongyang was postponed after Malaysia's soccer association requested that the game be moved somewhere safer.

North Korea and Malaysia imposed travel bans on each other's citizens following a diplomatic spat after the killing of Kim Jong Nam, the estranged half brother of North Korean leader Kim Jong Un, at Malaysia's main international airport in February. The match will now take place in June in another country to be decided.

The big question, of course, is whether Mr. Yoon's loudspeaker strategy will help his team focus on the field.

Cho So-hyun, South Korea's captain, who has played several matches against North Korea in third countries, said that at first she was thrown off by the prerecorded cheers—but not anymore.

"Now we sing along to some parts of the melody," she said.



A South Korean player covers her ears during a recent practice in Mokpo.

JOSH KIM/THE WALL STREET JOURNAL



# LIFE & ARTS

**THE MIDDLE SEAT** | Scott McCartney

## The Back-Door Route to Europe

Airlines are taking the Southwest blueprint across the Atlantic, with lower-cost flights from lesser-known airports

**THERE'S A SURGE OF NEW WAYS** to fly to Europe inexpensively this summer for travelers savvy enough to pick through schedules and find new airlines they've never heard of flying from new cities that hardly dreamed of having trans-Atlantic service.

New Orleans has had no European flights, but this summer will add nonstops to London and Frankfurt. Pittsburgh, adding Frankfurt and Reykjavik to its seasonal service to Paris, will have more nonstop flights across the Atlantic this summer than to the West Coast.

Pittsburgh ticket prices will be cheaper to Europe than to California, too. For a July 13-20 trip from Pittsburgh, WOW offers \$320 coach tickets to Reykjavik. (Like many discount airlines, fees will hit hard: A carry-on bag is \$40 extra. Advance seat assignment in the back is \$9.) Compare that to the United Airlines nonstop to San Francisco on the same dates for \$579. "It's a buyer's market this summer," says Christina Cassotis, the airport's chief executive.

This trans-Atlantic push is happening because new discount airlines are taking advantage of new freedom from restrictive treaties in international travel and new small- and medium-size airplanes that can make long trips at low costs. Their strategy: Copy some of the Southwest Airlines blueprint and fly to secondary cities, creating demand with low fares.

Some of the flights are downright mind-bending: Stewart Airport near Newburgh, N.Y., averages just seven flights a day to five U.S. cities. But come summer it will have nonstop Norwegian Air Shuttle flights to five airports in Europe, including Bergen, Norway, gateway to the fiords. Providence, R.I., will get a similar Norwegian schedule.

Norwegian started selling tickets with \$65 one-way fares including taxes. Those have long since sold out. But the prices available this week for July trips are still startling—roughly half what big airlines offer for summer trips to Europe. A July 13-21 trip from Stewart, 60 miles north of New York City, to Bergen was priced at \$390 round-trip including taxes.

"It's been way too expensive to fly across the Atlantic, way too expensive," says Bjorn Kjos, founder and CEO of Norwegian Air

Shuttle. "If airlines can lower the cost they will ramp up the volume."

Other new flights present new opportunities to reach even the major European cities without the traditional routes of going to big hubs on big planes. Edelweiss, the leisure subsidiary of Swiss International, will fly twice a week between Zurich and San Diego starting in June.

To find the new flights, pay attention to billboards: The airports with new service usually pay to market the new service. Book direct or use a broad search engine like Kayak, Google Flights, Skyscanner or

Momondo that will pick up discount airlines that may not list flights in central travel agency computers. Be flexible with your dates. Some of these new flights won't run daily.

Norwegian will start flights in June from Barcelona to Los Angeles, Newark, N.J., Fort Lauderdale, Fla., and Oakland, Calif. It will fly more this summer between London and both Los Angeles and Oakland, as well as its

Paris flights to New York and L.A.

In all, consultant Craig Jenks counts a net 30 new trans-Atlantic flights this summer, mostly on European airlines. Last summer saw 24 new flights, many of which are continuing.

"I think you can probably make a case that some of this is not going to last. But why not take it while it's on offer?" says Mr. Jenks, president of Airline/Aircraft Projects in New York.

Airlines say many of their new flights are seeing more bookings from the U.S. side than from Europe. And European inbound travel to the U.S. could take a hit from possible new Trump administration rules on "extreme vetting" of visitors. So far, airlines say summer bookings are strong.

Bigger European rivals are taking the discount invasion seriously, creating their own low-cost subsidiaries to try to fight back. The upstarts believe what's really happening is the second phase of the world-wide discount airline evolution: Southwest, JetBlue, Ryanair, EasyJet and other low-cost carriers rearranged how we travel on short trips. Now there's a similar strategy on long routes.



Discount airlines like WOW, below, and Norwegian Air are offering low prices to European destinations like Iceland, above, and Barcelona, left, often from smaller U.S. airports.



Just like the original discounters, long-haul startups say small airports have lower costs, and many offer incentives such as dollars to market new service in the U.S. and Europe.

Norwegian says one key to its strategy is new, fuel-efficient airplanes that have the range to make long trips. Norwegian's main weapon across the Atlantic is the Boeing 787 Dreamliner. This summer it will launch Boeing's latest version of the 737, called the 737 MAX, on small-city flights.

Norwegian will be the first airline to take delivery of the 737 MAX, probably in June. It will have 189 seats, making for tight quarters on long trips.

Some of Norwegian's new routes are already attracting a competitive response, opening up a plethora of seats for travelers. The cheapest way to London this summer could be going through smaller cities like New Orleans, Fort Lauderdale or Oakland.

British Airways is launching flights from London to all three cities, longtime favorites of Southwest, four times a week. Norwegian has already been flying from London to Oakland and Fort Lauderdale. Norwegian will start flying this summer between Barcelona and Los Angeles, Newark, Oakland and Fort Lauderdale. BA parent company IAG announced plans to launch a new low-cost unit this summer flying between Barcelona and both Oakland and Los Angeles.

From New Orleans, a July 12-19 trip to London priced at \$983 on British Airways site this week. A trip from Houston to London on the same dates cost \$1,586.

"These passengers that are traveling for the first time across the pond in either direction, I'm convinced they will want to come back. They will have good experiences and that will generate more stable, permanent demand," says British Airways chief executive Alex Cruz.

CLOCKWISE FROM LEFT: ROBERTO LOPEZ/VW PICS/ZUMA PRESS; ALEXANDER SCHEUBER/GETTY IMAGES; LARRY MACDOUGAL/ASSOCIATED PRESS

### BOOKS

## NEW BOOKS EXPLORE BENEFITS OF SOLITUDE



BY ELLEN GAMERMAN

**IT'S TIME** to go it alone, whether finding strength in self-imposed exile, surviving at sea without a soul in sight or fixing a marriage without help from a spouse.

This year, a spate of new books offers amazing feats of solitude. The titles in part respond to the live-out-loud era of social media, where anyone with a device always has some form of company. A result of this obsessive interacting,

the books argue, is diminished self-knowledge, compromised inner resources and an inability to spend meaningful time with oneself.

"You could call it crowd sickness," said Michael Harris, author of "Solitude: In Pursuit of a Singular Life in a Crowded World," which hit shelves this week. "It's the sense of being overwhelmed by one's thousands of contacts and the desire that people occasionally have to just run away from it all and go into the woods."

The moment would appeal to any hermit—and yes, there's a new bestselling book about one of those, too. "The Stranger in the Woods: The Extraordinary Story of the Last True Hermit," by Michael Finkel, is a biography of a man who lived alone in the forest for 27 years. It seems fitting that such books arrive in the year marking the 200th birthday of Henry David Thoreau, author of the ultimate loner's guide, "Walden," a classic just reissued by Gibbs Smith.

In 2012, nonfiction hits like Susan Cain's "Quiet: The Power of Introverts in a World That Can't Stop Talking" and Cheryl Strayed's "Wild: From Lost to Found on the Pacific Crest Trail" put value on retreating inward. "There's more urgency to that need to escape now," said Chris Schluep, a member of the team that curates Amazon's book recommendations. "I think a counterpart to all these solitude books are the books about technology. They're two sides of the same coin."

Retreating from the everyday bustle appears as a therapy in "The Nature Fix: Why Nature Makes Us Happier, Healthier, and More Creative," a nonfiction work by Florence Williams published in February that explores nature's restorative benefits to the brain. "Lead Yourself First: Inspiring Leadership Through Solitude," a defense of alone time by Raymond M. Kethledge and Michael S. Erwin that comes out in June, argues that solitude enhances clarity, creativity, emotional balance and moral courage. Joe Moran's "Shrinking Violets: The Secret Life of Shyness," which came out in the U.S. in February, is a cultural history of that human trait.

Taking a psychological twist on solitude and self-reliance: "It Takes One to Tango: How I Rescued My Marriage with (Almost) No Help from My Spouse—and How You Can, Too," by marriage and family therapist Winifred M. Reilly. The book, published this week, argues that unhappy spouses can fix their relationships alone. "A therapist tells you that

you can't really be the one who changes a marriage by yourself, but why not?" Ms. Reilly said. "Why not be the one working harder? In the work world we call that being a leader."

Solitude is terrifying and awe-inspiring in "Alone: Lost Overboard in the Indian Ocean," which comes out in the U.S. this fall. It describes the near-death ordeal of 54-year-old co-author Brett Archibald, who was swept off a charter boat in a storm four years ago. In an interview, Mr. Archibald described the vessel leaving him in the darkness: "I've read the Oxford Dictionary from front to back to try to find one word in the English language to describe the horror of that moment," he said. In the book, he describes taking control over his panicking mind as he bobbed in the ocean, slowing his racing heart through breathing, figuring his position by looking at the stars, spending time in imagined conversations with childhood friends. He was rescued after 28 hours.

When Mr. Archibald returned to Cape Town, South Africa, he re-evaluated his life. "It's not easy for us to step back and think about what's important for us, for us to have that aloneness," he said. "I find it so sad that at the age of 50 I only learned this."

Today, collaboration is a cultural buzzword. In "Solitude," Mr. Harris describes Nobel prize-winning physicist Peter Higgs observing that his revolutionary work would not be possible today because the peace and quiet of the 1960s research world is gone.



OPINION

REVIEW & OUTLOOK

Mr. Trump Meets Mr. Xi

President Trump has warned that the Mar-a-Lago summit with Chinese President Xi Jinping this week will be “difficult,” and it’s hard to know what that means. Mr. Trump likes to stake out tough negotiating positions but back down later, while the Chinese like to offer cosmetic concessions to mollify foreigners while relentlessly advancing their interests over time. The real measure of this summit will be whether Mr. Xi comes away thinking Mr. Trump means what he says or can be pushed around like President Obama.

In that sense Mr. Trump’s warning not to expect immediate deliverables is a positive sign. After eight years of the Obama Administration papering over major disagreements between the U.S. and China, Mr. Trump may win Chinese respect with a tougher approach. But subtly, hardly the U.S. President’s strong suit, will be needed to keep the relationship constructive while pressuring Beijing to change its aggressive and mercantilist ways.

On North Korea, the most pressing issue, the two sides are poles apart. Mr. Trump says correctly that China could use its economic leverage to rein in North Korea’s nuclear and missile programs but has failed to do so. Beijing believes the U.S. forced Pyongyang to build nuclear weapons by threatening its existence. The Chinese view is that Washington can and should resolve the standoff by making the Kim regime feel more secure.

Mr. Trump is trying to overcome Beijing’s reluctance to help by suggesting that if it refuses, the U.S. will solve the problem itself—a hint of potential military force. The U.S. will also continue to improve Japanese and South Korean missile defenses and other capabilities, which infuriates Beijing. Mr. Trump is justified in impressing on Mr. Xi that the American people can’t accept the North deploying a nuclear missile capable of hitting San Francisco.

It’s hard to predict how China will react to this pressure. It could recognize that the risk of war between two nuclear powers in its neighborhood is too dangerous and try to install a more pliable regime in Pyongyang. But even in that case Mr. Xi would avoid the appearance of acting under U.S. duress. He is more likely to push back hard and accuse the U.S. of destabilizing the Korean Peninsula.

On the South China Sea, Trump officials have made hawkish statements about rolling back China’s base-building, yet the U.S. Navy is still

having trouble getting approval from the Pentagon to conduct freedom-of-navigation patrols. Mr. Trump needs to decide on his red lines, communicate them to Mr. Xi and stick to them.

On trade there is greater room for compromise, although an immediate breakthrough is unlikely. Mr. Trump brandished big sticks in the campaign by promising to declare China a currency manipulator and impose punitive tariffs. But this would hurt the U.S. as much as China. U.S. officials now concede that a better approach is to target areas where China fails to grant Americans the market access that Chinese enjoy in the U.S.

So if China declares internet industries off-limits to foreign investors, Chinese companies will be blocked from buying similar American firms. If Tesla is hit with high tariffs on its U.S.-made cars, then Chinese cars will face higher duties in the U.S. Exports from firms that receive state assistance under the “Made in China 2025” industrial-policy plan could be blocked or subject to countervailing duties.

That won’t change the bilateral trade balance much, and tit for tat exchanges have a way of escalating. But such a policy would address the reality that after benefitting from access to Western markets, China in the past decade began to harass or close its door to foreign companies. The recent report by the European Union Chamber of Commerce in China is a non-American summary of this systematic bias. The Chinese should recognize that America’s political tolerance for such mercantilist behavior is waning, and the resonance of Mr. Trump’s protectionist campaign is a warning.

\* \* \*

The Obama Administration often rewarded China’s poor behavior, or protested rhetorically without taking credible action. Meanwhile, allies like Japan, South Korea and Taiwan were given too little attention. Mr. Trump has begun to rectify this mistake, for instance, by inviting Japanese Prime Minister Shinzo Abe as his first foreign guest at Mar-a-Lago.

The U.S. goal this week should be to show Mr. Xi that the new Administration will be hard-nosed but constructive. If Mr. Trump masters his briefing books, he could lay the foundation for future deals. But nobody, least of all Mr. Trump, should expect the Chinese to agree to new bilateral terms at the first meeting. The Chinese are impressed by firmness and consistency, not rhetoric.

official? Unmasking is typically the job of professional intelligence analysts, not senior White House officials.

The press corps buys her story that ‘unmasking’ was no big deal.

Ms. Rice was also at pains to say that unmasking is not the same as leaking to the press and that she “leaked nothing to nobody, and never have.” But she hasn’t been accused of leaking the name of

the Trump official. She is responsible for unmasking a U.S. citizen, which made that name more widely disseminated across the government and thus could have been more easily leaked by someone else. Mike Flynn lost his job as Mr. Trump’s national-security adviser because of leaks about his conversations with the Russian ambassador to the U.S.

Meanwhile, Democrats and the Beltway press are rallying to defend Ms. Rice by claiming that it isn’t news for a senior White House official to unmask the name of a political opponent of an incoming Administration. Thanks, guys. If you want to cover only one side of the Trump-Russia-intelligence story, we’ll be happy to cover both.

stockpiles that Mr. Assad claimed not to have. But U.S. intelligence believed the regime was holding some weapons in reserve, and the use of chlorine gas has become almost routine. Tuesday’s attack seems to have been a deadlier gas, perhaps sarin that was used in 2013.

The Russian defense ministry, which is Mr. Assad’s military patron, dismissed reports of the attack as “absolutely fake,” but the victims on video from Syria look real enough. The attack again shows the folly of relying on arms-control promises from men like Messrs. Assad or Putin. The Russian is violating the INF treaty by introducing new missiles in Europe, so why would he fret about more poison gas in Syria?

A State Department official said the facts suggest the attack is a war crime, and White House spokesman Sean Spicer said “these heinous actions by the Bashar al-Assad regime are a consequence” of the Obama Administration’s “weakness and irresolution.” He’s right, but Donald Trump is now the President. The attack comes after the Administration has been publicly signaling that deposing Mr. Assad is no longer a goal of U.S. policy. It’s possible the regime took those comments as license to unleash more hell.

Mr. Trump inherited a mess in Syria, but if he doesn’t want to preside over endless civil war and more war crimes, he’ll need a better strategy than Mr. Obama’s default of moral denunciation and trusting Russia.

A New China Debate



POLITICS & IDEAS  
By William A. Galston

When President Trump meets this week with his Chinese counterpart, Xi Jinping, he should keep in mind that the relationship between Washington and Beijing will shape international relations for years to come. The talks will focus on urgent matters, especially North Korea and the massive bilateral-trade imbalance. But even-larger issues loom.

For four decades, U.S. policy has been guided by the idea that China’s integration into the global economic, diplomatic and security architecture would serve both countries’ interests. Does this proposition remain valid?

Changes in China’s conduct have forced this question onto the agenda, as argued in a February task-force report sponsored by the Asia Society and the University of California, San Diego. Since 2008 Beijing has embraced protectionism, boosting state-owned enterprises, discriminating against foreign-owned firms and pushing multinationals to transfer intellectual property to Chinese entities as the price of admission to the Chinese market.

On foreign policy, the report says, “China started asserting territorial and maritime claims in the South China Sea and East China Sea in an increasingly coercive manner that rattled the region and raised questions about its ultimate intentions.” Beijing, expecting a leadership transition in North Korea, increased its support to Pyongyang and rejected strong action against Kim Jong Un’s nuclear program for fear of destabilizing his regime. At home, China cracked down on foreign media and nongovernmental organizations while ratcheting up pressure on internal dissent.

Yet the task force adheres to the long-dominant view that relations between the U.S. and China can be mutually beneficial. Its report identifies policies the Trump administration can use to “defend US interests and encourage China to act in ways that respect the interests of the United States and other countries.”

We aren’t fated to replay the drama between Athens and Sparta that made conflict inevitable, it concludes: “A rising power need not become an adversary of the established power if its rise is restrained in manner and if the established power is open to sharing responsibility with the rising power.”

A 2015 report from the Council on Foreign Relations takes a different view. Authors Robert Blackwill and Ashley Tellis argue that American administrations have enabled China’s rise even though the policy’s original justification—Soviet containment—no longer applies. U.S. support for China’s entry into the global

trading system, for example, has “accelerated its rise as a geopolitical rival.” Now we are faced with the high probability of a “long-term strategic rivalry between Washington and Beijing.” Over the coming decades, China will remain America’s “most significant competitor.” This competition, the authors argue, is playing out on many fronts.

A core Chinese aim—the pacification of its “extended geographic periphery”—cannot succeed unless Beijing delegitimizes the U.S. alliance system in Asia. China wants to recover from America the “primacy” it once enjoyed in Asia as a “prelude to exerting global influence.” The U.S. cannot have it both ways, they contend, accommodating Chinese concerns about America’s ability to project power while continuing to defend vital national interests in the region.

The status quo may not be sustainable, but conflict isn’t inevitable.

These facts warrant a fundamental re-orientation of U.S. policy toward China, Mr. Blackwill and Ms. Tellis conclude. Washington should focus more on meeting the strategic challenge and be “less preoccupied with how this more robust US approach might be evaluated in Beijing.”

A Pew Research Center report released on Tuesday suggested that Americans would support a tougher stance toward China. Although their worries about Chinese economic competition have declined over the past five years, their concern about China’s military power has increased. Fifty-eight percent of Americans, including 52% of Democrats, support the use of force to defend their Asian allies against a Chinese attack.

Mr. Xi is as determined to make China great again as Mr. Trump is to make America great again. The difference is that while the American president defines greatness principally in domestic terms, the Chinese president sees greatness in regional—even global—terms. Canceling the Trans-Pacific Partnership has already given China the opportunity to write the economic rules for East Asia. If Mr. Trump accepts 19th-century spheres-of-influence thinking, an outlook to which he often seems drawn, the Chinese could regain hegemonic power throughout the region.

Which of the competing perspectives summarized here should guide U.S. policy toward China? I don’t know, but a debate is necessary. Ducking basic questions and muddling through will mean the victory, by default, of current assumptions, with dire consequences for the U.S. if the challengers turn out to be right.

It’s Worse for Putin



BUSINESS WORLD  
By Holman W. Jenkins, Jr.

Dick Cheney unburdening himself on Russian meddling in the U.S. election has already been lost in the flood of new revelations of the past few days. “In some quarters,” the former vice president overstated to a New Delhi audience last week, Russia’s action “would be considered an act of war.”

Mr. Cheney’s statement is one more reason it’s increasingly hard to imagine that Vladimir Putin judges the outcome to be anything but a disaster.

His hacking adventure has turned even Democrats into Cheney-like anti-Russia hard-liners. The chances of the U.S. removing sanctions now are nil. Western governments no longer can cover up for Mr. Putin to make him an acceptable interlocutor. The Brits failed to keep a lid on the Litvinenko murder. The Dutch haven’t kept a lid on the MH17 shoot-down. In The Hague, Russia’s annexation of Crimea is on trial.

Marco Rubio, in a Senate hearing, publicly aired the most dangerous dirty linen of all, a possible secret-police role in terrorist bombings that propelled Mr. Putin to his first presidential election.

Even Rep. Adam Schiff was demanding the CIA open its files on Mr. Putin’s corruption until he decided the real opportunity to position himself for Dianne Feinstein’s Senate seat was to attack Mr. Trump.

None of this remotely represents a “win” for the U.S. either. U.S.-Russia relations are spiraling, if not out of control, then into a state of hostility that likely won’t be relieved as long as Mr. Putin (age 64) remains in power.

Two bombshells landed Monday in relation to the competing partisan scandal quests here.

The Washington Post claims a typically dubious Trump hanger-on, with help of an Arab government, arranged a meeting with an unnamed Putin associate to see if Russia could be lured away from its alliance with Iran and Syria.

Not that the idea is a bad one, but everything about the episode, including the Trump White House’s response to the disclosure, was characteristically amateurish.

The other big revelation was that then-Obama aide Susan Rice plucked legitimate “foreign intelligence” in search of possibly illegitimate intelligence on the Trump campaign.

The quality most lacking in media coverage of these events has been judgment. Paul Waldman in the Washington Post

has shown himself ready to believe unsubstantiated allegations about Mr. Trump, and now defends Obama spying on the Trump campaign, fairly shrieking that such monitoring is justified because “we’re talking about associates of a presidential candidate communicating with representatives of a foreign power.”

Huh? Really? Doesn’t the Washington Post, like The Wall Street Journal, communicate incessantly with “representatives of a foreign power”?

Between 1994 and 2013, U.S. presidents made 14 trips to Russia, dragging along hordes of U.S. business leaders to schmooze with “representatives of a foreign power.”

Though partisanship and idiocy are rampant in D.C., this is no ‘win’ for Russia.

Isn’t the likelihood that *any* presidential candidate would have associates who “communicated with representatives of a foreign power” virtually 100%?

Perhaps the most truly useful revelations of the past 48 hours are those concerning so-called Trump adviser Carter Page, whom a Russian agent apparently called an “idiot.”

Mr. Page, it turns out, was “Male 1” in U.S. Attorney Preet Bharara’s 2015 prosecution of a Russian spy ring centered on the New York office of government-owned Vnesheconombank. Google the details of the criminal indictment for an idea of the lameness of Russian espionage efforts in the U.S. these days. Read the long Politico magazine article on the vaporous wannabe Mr. Page.

Now reframe your thinking on the competence of Russian intelligence as it handed the fate of Moscow’s diplomatic interests over to hired hackers from Russia’s cybercrime netherworld.

When the chaff is boiled away, the real story will be the one U.S. institutions are still choking on: Donald Trump—ignorant of and contemptuous of the byways of America’s governing class—is president. A decisive part of the U.S. electorate decided he couldn’t be worse than the alternatives.

In this context, one Trump-Russia connection really does leap out. Present at his 2005 wedding was a man who would soon raise \$140 million from parties variously associated with the sale of a U.S. uranium business to the Putin government. His wife controlled a U.S. agency that gave a needed approval of the deal.

That wedding guest was Bill Clinton.



OPINION

# Fake News and the Digital Duopoly

By Robert Thomson

‘Fake news’ has seemingly, suddenly, become fashionable. In reality, the fake has proliferated for a decade or more, but the faux, the flawed and the fraudulent are now pressing issues because the full scale of the changes wrought upon the integrity of news and advertising by the digital duopoly—Google and Facebook—has become far more obvious.

Google’s commodification of content knowingly, willfully undermined provenance for profit. That was followed by the Facebook stream, with its journalistic jetsam and fake flot-sam. Together, the two most powerful news publishers in human history have created an ecosystem that is dysfunctional and socially destructive.

## Google and Facebook have created a dysfunctional and socially destructive information ecosystem.

Both companies could have done far more to highlight that there is a hierarchy of content, but instead they have prospered mightily by peddling a flat-earth philosophy that doesn’t distinguish between the fake and the real because they make copious amounts of money from both.

Depending on which source you believe, they have close to two-thirds of the digital advertising market—and let me be clear that we compete with them for that share. The Interactive Advertising Bureau estimates they accounted for more than 90% of the incremental increase in digital advertising over the past year. The only cost of content for

these companies has been lucrative contracts for lobbyists and lawyers, but the social cost of that strategy is far more profound.

It is beyond risible that Google and its subsidiary YouTube, which have earned many billions of dollars from other people’s content, should now be lamenting that they can’t possibly be held responsible for monitoring that content. Monetizing yes, monitoring no—but it turns out that free money does come at a price.

We all have to work with these companies, and we are hoping, mostly against hope, that they will finally take meaningful action, not only to allow premium content models that fund premium journalism, but also to purge their sites of the rampant piracy that undermines creativity. Your business model can’t be simultaneously based on both intimate, granular details about users and no clue whatsoever about rather obvious pirate sites.

Another area that urgently needs attention is the algorithms that Silicon Valley companies, and Amazon, routinely cite as a supposedly objective source of wisdom and insight. These algorithms are obviously set, tuned and repeatedly adjusted to suit their commercial needs. Yet they also blame autonomous, anarchic algorithms and not themselves when neofascist content surfaces or when a search leads to obviously biased results in favor of their own products.

Look at how Google games searches. A study reported in The Wall Street Journal found that in 25,000 random Google searches ads for Google products appeared in the most prominent slot 91% of the time. How is that not the unfair leveraging of search dominance and the abuse of algorithm? All 1,000 searches for “laptops” started with an ad for Google’s Chromebook—100% of the time. Kim Jong Un would be envious of results like that at election time.



ISTOCK/GETTY IMAGES

And then there are the recently launched Google snippets, which stylistically highlight search results as if they were written on stone tablets and carried down from the mountain. Their sheer visual physicality gives them apparent moral force. The word Orwellian is flagrantly abused, but when it comes to the all-powerful algorithms of Google, Amazon and Facebook, Orwellian is underused.

As for news, institutional neglect has left us perched on the edge of the slippery slope of censorship. There is no Silicon Valley tradition, as there is at great newspapers, of each day arguing over rights and wrongs, of fretful, thoughtful agonizing over social responsibility and freedom of speech.

What we now have is a backlash with which these omnipotent companies are uniquely ill-equipped to cope. Their responses tend to be political and politically correct. Regardless of your own views, you should

be concerned that we are entering an era in which these immensely influential publishers will routinely and selectively “unpublish” certain views and news.

We stumble into this egregious era at a moment when the political volume in many countries is turned to 10. The echo chamber has never been larger and the reverb room rarely more cacophonous. This is not an entirely new trend, but it has a compounding effect with the combination of “holier than thou” and “louder than thou.”

Curiously, this outcome is, in part, a result of the idealism of the Silicon Valley set, and there’s no doubt about the self-proclaimed ideals. They devoutly believe they are connecting people and informing them, which is true, even though some of the connections become conspiracies and much of the information is skimmed without concern to intellectual-property rights.

## The Era of Zombie Banks in Ukraine Is Over

By Valeria Gontareva

The International Monetary Fund announced this month that it has approved the fourth instalment of its \$17.5 billion funding package to Ukraine. This decision will benefit the people of Ukraine for many years to come and underlines the success of the current Ukraine-IMF cooperation program.

Ukraine’s economy has been struck by a recession that saw its gross domestic product contract by 17.6% in the first quarter of 2015 compared to a year earlier. Russia’s annexation of Crimea and the escalation of the military conflict in Donbas has only exacerbated our troubles.

Our financial system has also suffered from old oligarchic practices that have benefited a tiny, superrich minority at the expense of every other level of society. Appealing to the international community and securing further IMF funding was a vital step toward implementing structural reforms and will help kick-start Ukraine’s economic recovery.

One condition of IMF funding was the fundamental reform of banking in

Ukraine. These reforms, while often unpopular, are essential to maintaining stable and transparent banks in the country.

The task was daunting. Cleaning up Ukraine’s banks meant identifying and closing down the country’s many so-called zombie banks. These were the institutions that failed to observe international banking norms and were effectively serving as private banks to the oligarchs. Many were heavily involved in criminality. Some were simply funding vehicles for shareholder businesses. Others stole customer deposits.

The National Bank of Ukraine initiated rigorous stress tests, flushed out hidden related-party lending and performed asset-quality reviews of the top banks across the country. The level of malpractice in some cases was shocking. Fake correspondent accounts, accounts opened with fictitious passports, huge discrepancies on balance sheets, sham collateral, banks that conducted more money laundering than banking—we saw it all. Many banks themselves had non-transparent ownership structures, compounding the problem.

Banks that weren’t involved in money laundering and fraud were given every opportunity to reform. We allowed them three years to improve their capital-adequacy ratios. Where malpractice was detected and went unaddressed, we took action.

## A tough round of reforms shut down almost half of the nation’s banks and led to a state takeover of the country’s largest privately owned bank.

In December, NBU and the Ministry of Finance led the state takeover of PrivatBank, the nation’s largest privately owned bank. This was a systemically important bank, holding approximately 34% of the Ukrainian population’s deposits and executing 60% of all retail transactions. However, it failed a series of stress tests and the owners repeatedly failed to recapitalize the bank. We were eventually

forced to intervene in order to protect depositors and fulfill a condition of further IMF funding. Our investigations found PrivatBank insolvent and so we took it under state control.

Further inspection revealed a capital shortfall of \$5.6 billion on PrivatBank’s books. An astonishing 97% of the bank’s corporate loans had gone to companies linked to the two main shareholders through sophisticated schemes. Now that PrivatBank is in the government’s hands, the deposits of 20 million Ukrainians, including pensioners, students and vulnerable households, are protected.

In addition, the NBU closed down 88 out of the country’s 180 banks. The era of zombie banks in Ukraine is over.

To ensure financial stability is maintained, we have imposed tougher regulations on banks. These include capital-ratio requirements, legislation that restricts lending to related parties or nonoperational companies, and regulations targeting the overvaluation of collateral and the concealment of other shortfalls.

Complying with international standards, rather than merely apply-

ing internal pressure, is essential to implementing best practices and securing the long-term faith of our foreign creditors such as the World Bank, the European Bank for Reconstruction and Development as well as the IMF.

Looking ahead, the NBU must be able to expand its capacity in order to function at the level of its European counterparts. This, along with the continued implementation of reforms, will help us ensure that we keep the international support that we need.

Further legislation is also required to raise banking regulation and supervision to EU and international standards. Deep reforms of nonbanking financial institutions must also be undertaken.

In short, this is only the beginning of our journey. But our banking reforms have now guaranteed a stable foundation for growth and investment, which will help our economy recover and allow us to build a better future for Ukraine and its people.

*Ms. Gontareva is the governor of the National Bank of Ukraine.*

## Trump’s Challenge: Wooing China to Drop Its Tariffs

By Bill Lane

There’s a Civil War story about a farmer who wakes up one morning to find his house wedged between large Yankee and Rebel armies. In an effort to extricate himself from the predicament, he puts on blue pants and a gray coat before walking outside under the white flag of truce. But he doesn’t get far. The Confederates shoot him below the waist while the Union troops shoot him above it.

That’s the risk of trying to split the difference—a lesson worth keeping in mind this week as President Trump meets China’s President Xi Jinping. Some of Mr. Trump’s supporters want him to restrict im-

ports from China sharply. Yet many Americans fear that doing so may spark a trade war. So how to avoid putting on the blue pants and the gray coat?

The answer is economic growth. Presidents Trump and Xi, as the leaders of the world’s two largest economies, must certainly realize that robust growth at home would be the best answer to their respective critics. Better to coordinate policies to stimulate prosperity than to cause a confrontation and risk an economic downturn.

A central issue during the meeting this week will be America’s bilateral trade deficit with China of about \$350 billion—more than half of the overall U.S. trade deficit. Whether

one is a free trader, a managed trader or a protectionist, there is no denying that trade between the U.S. and China is out of balance. The average American spends 17 times as much on Chinese products as the other way around.

Economists come up with all sorts of benign-sounding reasons for this imbalance: China saves too much; the U.S. doesn’t save enough; Americans simply like to buy inexpensive stuff. Others suggest more sinister causes: currency manipulation, trade barriers or cheating. But regardless of whether the U.S.-China trade imbalance is economically sustainable, the 2016 election demonstrated that it isn’t politically sustainable.

That’s where the opportunity comes. President Trump has a chance to recenter America’s economic relationship with China not by the saber but through flattery and mutual respect.

Beijing joined the World Trade Organization in 2001, nearly two decades ago, on terms that made sense

then. Since that time, however, no country has more enthusiastically embraced economic change. Mr. Trump encourages America to do big things, yet China has been practicing what he preaches—from the Three

## Beijing joined the WTO in 2001 on terms that no longer make sense for an industrial powerhouse.

Gorges Dam to its network of high-speed trains. America’s top universities are full of the best and brightest Chinese students. These massive investments in infrastructure and education have made China dramatically more competitive.

But global trade rules haven’t changed. As an industrial powerhouse, China no longer needs to hide behind double-digit tariffs. In the old days, these weren’t consid-

ered a big deal because new rounds of negotiation under the General Agreement on Tariffs and Trade were held every decade or so to revise the rules. The expectation was that greater trade liberalization would be coming.

Today revising WTO rules is perceived as too difficult, so the world is stuck with an outdated framework. This particularly affects trade with the countries that have changed the most—China in particular. What’s surprising is that Beijing knows it, but has generally taken the attitude of “why change unless you have to?”

President Trump should point out that China has options. It can further open its markets to the U.S. via bilateral, regional, multilateral or, best of all, unilateral action. But Beijing has to act with a sense of urgency, as the status quo is no longer politically acceptable.

President Xi made eloquent comments at January’s economic summit in Davos about the virtues of free trade. President Trump insists he is a free-trader, too, albeit with caveats. Maybe this is the right time for the two leaders to cut a deal to slash Chinese trade barriers. This would give Chinese consumers increased access to U.S. products, while Mr. Trump could claim a victory for American exporters and their workers. And the whole world would benefit as the U.S. and China—the twin engines of global economic growth—start pushing once again in the same direction.

*Mr. Lane is a retired director of global government affairs at Caterpillar Inc.*

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LIFE & ARTS

STREET ART

# A War on Graffiti in Brazil

A new mayor cracks down on São Paulo’s distinctive pixo; Preparations are underway for the Street Art Museum

BY SAMANTHA PEARSON

São Paulo

**DJAN IVSON HAS BEEN** prosecuted seven times for vandalism. It’s becoming an occupational hazard. The 33-year-old is Brazil’s most vocal practitioner and defender of “pichação,” known as “pixo,” a distinctive form of calligraphic graffiti that covers everything from skyscrapers to burnt-out cars here in South America’s biggest city.

“We’ve always been demonized by the authorities, but now we’re public enemy number one,” he says, sitting on the curb of a street in downtown São Paulo.

Since taking office in January, the city’s multimillionaire mayor, João Doria, has declared war on the angular cryptic lettering of pixo (pronounced “pea-shoe”) in one of the biggest crackdowns on graffiti in São Paulo since the end of the country’s dictatorship in 1985.

Mr. Doria, who hosted Brazil’s version of “The Apprentice” TV show and bankrolled much of his own campaign, drawing comparisons to U.S. President Donald Trump, introduced a new anti-pixo law late February in an attempt to eradicate the practice. Offenders can now be fined up to 20,000 Brazilian reais (\$6,430).

He has also vowed to clamp down on more figurative graffiti, confining it to a “Street Art Museum” that is expected to be ready in June. The museum will consist of a series of walls across the city where selected artists, sponsored by private companies, will be allowed to paint.

“We are not against urban art, but it is also in need of restraint,” said Mr. Doria in an interview.

When graffiti is authorized or commissioned by the owner of the space it is considered a mural, such as the vast kaleidoscopic images created by Eduardo Kobra, one of



PATRICIA MONTEIRO FOR THE WALL STREET JOURNAL

Brazil’s most famous muralists.

Pixo, however, is almost always illegal and generally considered vandalism. Distinctive to São Paulo, it consists of jagged signatures typically painted in thick black lines, reminiscent of the tar or “piche” originally used. It was inspired by the lettering of 1980s heavy metal album covers and bears a resemblance to the ancient Runic alphabet. In 2009, Paris’s Fondation Cartier showed a series of work by Brazil’s “pichadores,” as its practitioners are known.

Mayor Doria’s tough policies, from cracking down on bureaucracy to shrinking the city’s bloated government, have won favor in this chaotic megalopolis of more than 12 million people. But when city workers in January painted over swathes of colorful graffiti in gray on São Paulo’s main May 23 Avenue, considered Latin America’s biggest open-air mural, protesters blocked part of the avenue. A judge issued an in-

junction preventing City Hall from painting over any more graffiti without the consent of the department for cultural heritage. Mr. Doria got the ruling overturned 10 days later.

Known for being ugly, gray and polluted, São Paulo has long prided itself on its rich street art—itself a form of visual protest against the city’s austere Brutalist concrete architecture. Inspired by the U.S. hip-hop scene, Brazil’s graffiti artists began developing their own style in the mid-1980s, taking advantage of the freedom afforded by the end of military rule in the country.

Relatively lax law enforcement allowed the scene to flourish. High crime rates prompted residents to erect towering walls around their properties, turning the city into an endless canvas for graffiti.

Brazil’s most famous duo Os Gêmeos, identical twin brothers who are known for their dreamlike paintings of yellow-skinned char-



Many buildings like this one in downtown São Paulo, far left, are covered in ‘pichação’ or ‘pixo.’ A mural, above, by Os Gêmeos, twin brothers, who sell work on canvases for over \$100,000 at galleries around the world. Djan Ivson, left, one of São Paulo’s most vocal defenders of pixo.

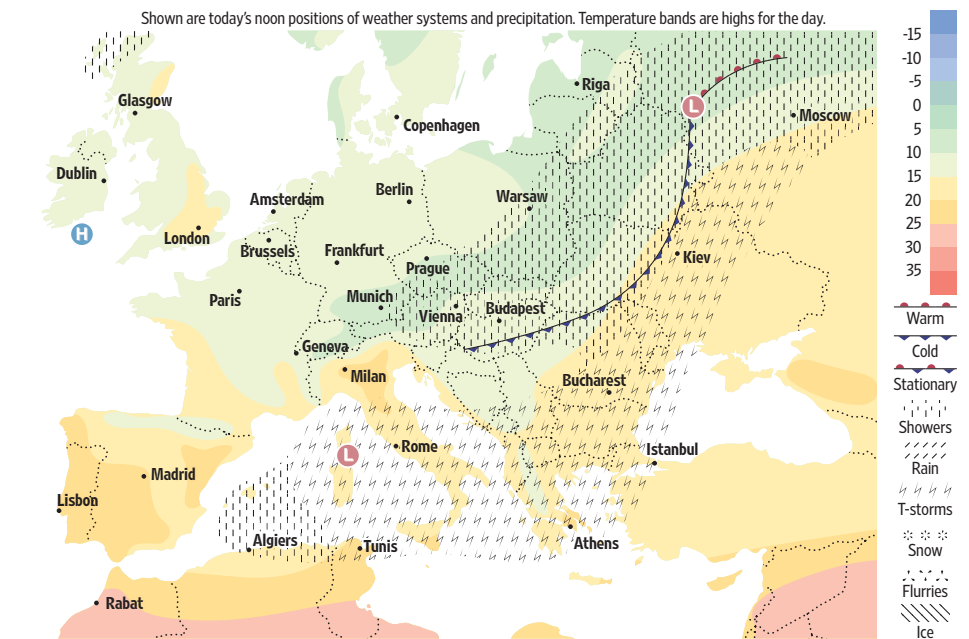


acters, now sell work on canvases for over \$100,000 at galleries around the world.

“Many artists have felt under attack,” said Fabio Ribeiro, nicknamed Binho Ribeiro, another of Brazil’s well-known graffiti artists, as he rushed to finish a mural in the bohemian neighborhood of Vila Madalena before taking part

in a recent exhibition in Miami. He was still seething over the loss of his 6-foot painting of a turtle, one of the images removed on May 23 Avenue. While Mr. Doria says his team only covered up paintings that were already ‘vandalized’ with pixo, Mr. Ribeiro says his was in perfect condition. Brazil’s worst recession on record has widened the already stark gap between São Paulo’s haves and have-nots. As scores of Brazil’s politicians stand accused of stealing public money from state-controlled oil company Petrobras for private gain, practitioners of illegal graffiti in São Paulo—be it pixo or paintings in unauthorized locations—view their work as a way to reclaim public space in a city that they believe has also been appropriated by private interests.

Weather



Global Forecasts

s...sunny; p...partly cloudy; c...cloudy; sh...showers; t...tstorms; r...rain; sf...snow flurries; sn...snow; i...ice

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	11	6	c	13	6	c
Anchorage	7	-1	c	7	-1	s
Athens	20	13	c	20	12	pc
Atlanta	15	6	c	16	5	s
Baghdad	29	17	s	30	15	s
Baltimore	19	7	r	12	4	c
Bangkok	33	26	c	34	26	t
Beijing	27	11	s	23	14	pc
Berlin	13	7	c	12	8	sh
Bogota	21	8	pc	22	10	pc
Boise	19	10	c	19	7	r
Boston	9	7	r	11	5	c
Brussels	11	4	c	13	4	c
Buenos Aires	23	16	s	24	18	c
Cairo	30	16	s	26	16	s
Calgary	16	1	c	15	1	sh
Caracas	32	25	s	31	25	pc
Charlotte	16	4	pc	15	3	pc
Chicago	8	1	sn	13	2	s
Dallas	25	10	s	26	15	pc
Denver	18	3	s	24	8	pc
Detroit	6	1	sn	9	0	c
Dubai	32	23	s	33	25	s
Dublin	12	3	pc	14	4	pc
Edinburgh	13	5	pc	12	4	c
Frankfurt	13	4	c	15	7	c
Geneva	14	3	pc	17	5	s
Hanoi	29	23	t	31	24	pc
Havana	31	20	pc	27	17	s
Hong Kong	25	21	c	26	22	pc
Honolulu	29	23	s	29	22	sh
Houston	26	11	s	27	13	pc
Istanbul	16	9	pc	14	8	c
Jakarta	31	24	t	31	25	t
Johannesburg	26	12	t	22	12	c
Kansas City	14	0	pc	16	9	s
Las Vegas	29	18	pc	28	18	pc
Lima	26	21	pc	26	21	pc
London	16	6	pc	16	6	pc
Los Angeles	25	12	c	21	14	c
Madrid	21	6	s	22	6	s
Manila	33	25	s	34	26	s
Melbourne	25	14	pc	26	17	s
Mexico City	26	11	pc	26	12	pc
Miami	32	17	pc	26	15	s
Milan	21	9	s	20	8	pc
Minneapolis	12	0	pc	15	7	s
Montreal	27	13	pc	28	14	pc
Montreal	7	3	r	8	2	r
Moscow	16	7	pc	10	3	sh
Mumbai	33	25	pc	33	25	pc
Nashville	15	5	sh	16	2	s
New Delhi	38	17	pc	34	17	pc
New Orleans	22	12	s	23	13	s
New York City	13	7	r	10	6	sh
Omaha	15	1	pc	18	9	s
Orlando	27	11	pc	24	10	s
Ottawa	5	3	r	5	-2	r
Paris	13	4	pc	17	6	s
Philadelphia	17	7	r	12	4	c
Phoenix	33	17	s	33	17	pc
Pittsburgh	13	1	r	5	0	c
Port-au-Prince	35	21	pc	33	22	sh
Portland, Ore.	15	9	c	14	6	r
Rio de Janeiro	36	24	pc	32	24	r
Riyadh	32	19	s	36	22	pc
Rome	18	9	t	19	8	pc
Salt Lake City	22	13	c	21	9	t
San Diego	22	14	pc	21	15	pc
San Francisco	20	13	c	18	10	t
San Juan	30	23	s	30	23	pc
Sao Paulo	31	21	pc	31	22	pc
Sao Paulo	28	19	c	25	19	r
Seattle	13	7	c	14	6	r
Seoul	14	7	c	21	10	c
Shanghai	24	15	sh	21	14	c
Singapore	31	26	pc	32	26	pc
Stockholm	11	0	pc	9	1	pc
Sydney	22	16	pc	23	17	pc
Taipei	28	21	c	28	21	pc
Tehran	19	8	s	20	11	pc
Tel Aviv	26	15	s	21	12	pc
Tokyo	18	14	c	20	15	r
Toronto	8	0	r	5	-2	c
Vancouver	12	7	r	13	6	r
Washington, D.C.	19	7	r	11	4	c
Zurich	12	1	pc	15	3	s

The WSJ Daily Crossword | Edited by Mike Shenk

1 2 3 4 5 6 7 8 9 10 11 12 13

14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51

NO RESPECT | By Kurt Krauss

Across

1 Ides honoree

5 Flu symptom

9 Warned of

14 Lion in the "Madagascar" movies

15 Chief

16 2016's "The Red Turtle," e.g.

17 What a jealous baron might do?

19 Frankincense, e.g.

20 Qualifies

21 Doesn't keep a straight face

22 No-win situations?

23 Trumpet for Triton

24 Like the Amazon, of all rivers

27 Fit perfectly

30 Cherokee Strip Conference Center setting

31 Weighty works

32 Character from Aristophanes?

33 Zebra's kin

34 What an outspoken teetotaler might do?

36 Flying the rainbow flag, perhaps

37 Tom and Jerry component

38 Kaffiyeh sporters

39 Org. with a leaping bunny logo

40 Place of refinement

42 Choice bit

44 Capability

45 Cowboys quarterback Tony

46 Away from home?

48 It takes its toll

52 Prolonged attack

53 What a beauty pageant loser might do?

54 Biplane piece

55 "Not to mention..."

- 56 Sch. whose student body is about 80% Hispanic

57 Spring settings

58 Bright color

59 Small drinking glass

Down

1 Makeup of many Qing dynasty carvings

2 Lena of "Chocolat"

3 Brooks Brothers buy

4 Fired up

5 Charm

6 Walkers' cousins

7 Box score figure

8 Dash lengths

9 Lack of ornamentation

10 Like Wilde's "Salome"

11 What an angry babysitter might do?

12 Vent

13 Lairs for bears

18 Company that trademarked "escalator"

21 Curiosity on Mars, e.g.

23 Results of some traumas

24 Models, say

25 Briefly

26 What an overworked Senate page might do?

27 House-elf freed by Harry Potter

28 Prince song "\_\_\_ U"

29 Stalwart

31 Nicholas II and his predecessors

34 Collections of computer records

35 Worth of the theater

39 Braces

41 Play group?

42 Mitt Romney, e.g.

43 Dodge model of the 1980s

45 Costner's "Tin Cup" co-star

46 \_\_\_ buco

47 Congresswoman Lowey from New York

48 Game piece

49 Analogy words

50 Penetrating

51 Spot

53 Judo level

Previous Puzzle's Solution

O	H	S	O	A	L	D	A	U	R	B	A	N
H	E	A	P	T	O	O	L	N	O	I	S	E
M	A	K	E	I	T	O	R	B	R	E	A	K
S	T	E	N	C	H	M	A	O	D	I	A	S
S	E	A	R	M	E	I	N					
L	O	V	E	I	T	O	R	H	A	T	E	I
A	P	I	A	N	O	I	A	N	A	L	A	B
R	I	D	S	M	E	Z	Z	O	F	I	R	E
D	U	E	D	A	N	Z	A	S	E	N	S	E
M	O	V	E	I	T	O	R	L	O	S	E	I
P	A	W	N					D	A	R	T	
A	W	O	L	S	I	T		S	T	I	L	T
T	A	K	E	I	T	O	R	L	E	A	V	E
O	W	E	N	S				T	I	E	R	
M	A	R	S	H				A	G	E	S	
								S	T	E	W	

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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Thursday, April 6, 2017 | B1

Euro vs. Dollar 1.0660 ▼ 0.14% FTSE100 7331.68 ▲ 0.13% Gold 1245.40 ▼ 0.76% WTIcrude 51.15 ▲ 0.24% German Bund yield 0.261% 10-Year Treasury yield 2.352%

## Paint Makers Joust Over Takeover

A \$24 billion, trans-Atlantic standoff between two of the world's biggest paint makers—and two of its oldest companies—is heating up.

By Ben Dummett, Christopher Alessi and Andrew Tangel

PPG Industries Inc. Chief Executive Michael McGarry said the Pittsburgh-based paint giant isn't ruling out a sweetened offer, or a hostile takeover, in its push to buy Dutch rival **Akzo Nobel NV**. "We're not taking any options off the table," Mr. McGarry said in an interview Wednesday, adding that there are a number of steps to go before making a decision. He said any richer offer from PPG depends on the companies agreeing to friendly talks.



Samples of Akzo Nobel color formulas on display. The paint maker has maintained that PPG's bid undervalues Akzo.

"In regards to whether we would do any higher offer, the bottom line is the parties need to get together in a private,

collaborative, substantive manner," Mr. McGarry said. In a separate interview Wednesday, Akzo Chief Execu-

tive Ton Büchner said he still saw no value in talking to PPG. After deciding he would sell or spin off Akzo's specialty-chemical business amid the PPG pursuit, Mr. Büchner said the Dutch company itself might start looking for a paint company to buy. He called the latest offer from PPG "unacceptable," but declined to say what price would bring him to the table. "It's not our job to advise on how an unsolicited offer should be improved in any way," Mr. Büchner said. The company has maintained that PPG's bid undervalues Akzo and doesn't adequately take into account the interests of employees and customers. Mr. Büchner said investors welcomed Akzo's decision to separate the chemicals division, saying the move

would allow the company to create more value for shareholders—both organically and through acquisitions. The CEO crossfire followed on the heels of a statement by PPG on Wednesday that underscored its commitment to making a public offer to all Akzo shareholders, as required by Dutch law, following its initial approach to Akzo last month. PPG said it expects to submit a draft of the public offer no later than June 1. Mr. McGarry's comments went further, promising specific commitments on jobs should the two eventually tie up, while also leaving open the possibility of a hostile bid—a rare move in recent trans-Atlantic deal making that analysts say would be difficult to pull off. Please see DEAL page B2

## Syngenta Deal Gets Europe's Approval

By NATALIA DROZDIK

BRUSSELS—China National Chemical Corp. won EU approval for its roughly \$43 billion takeover of Swiss seed and pesticide maker **Syngenta AG**, on condition ChemChina divests itself of large parts of its European businesses for pesticides and products that regulate crop growth. The European Commission's announcement on Wednesday came a day after the U.S. cleared the deal—the largest overseas acquisition by a Chinese company to date—on condition ChemChina sells three crop chemical businesses to a rival.

The green lights from the European Union and U.S. will further consolidate the agro-chemical market amid a wave of multibillion-dollar deals in the industry. The EU last week cleared **Dow Chemical Co.** and **DuPont Co.**'s merger, leaving an agreement between **Bayer AG** and **Monanto Co.** as the last of the sector's three major deals still awaiting approval from the European Union and other regulators.

In the ChemChina-Syngenta deal, the EU said the companies offered to divest themselves of a significant part of ChemChina's pesticides business, manufactured by Adama Agricultural Solutions Ltd., an Israel-based ChemChina subsidiary that focuses on generic chemicals.

The companies also intend to sell a significant part of Adama's plant-growth regulator business for cereals in a number of EU countries, the commission said.

In addition, the companies agreed to sell 29 of Adama's generic pesticides under development and grant third parties access to studies and field-trial results for the products. From Syngenta, the companies plan to sell some of the firm's fungicides and herbicides, the EU said.

To win U.S. approval, ChemChina has already pledged to sell several of Adama's pesticide assets to American Vanguard Corp., the Federal Trade Commission said.

In a written statement, ChemChina confirmed the EU had approved the deal, but didn't provide details about any planned divestments. The company said it expected to complete the transaction in the second quarter.

"This marks an important step toward the success of the transaction," ChemChina said. —Brian Spegele contributed to this article.

## Trump Golf Properties Struggle to Make Par

Amid industry slump, clubs' assessed value fails to keep pace with spending on upgrades

Trump International Golf Club in West Palm Beach, Fla., boasts 27 holes, a three-level driving range and, since Jan. 20, a pretty decent chance weekend visitors will run into the president of the United States.

By Jean Eaglesham, Lisa Schwartz and Rebecca Ballhaus

Trump-branded golf properties have benefited from a burst of free publicity this year, with TV cameras rolling as President Donald Trump's motorcade rumbles in and out of the gated estates nearly every weekend.

The extra attention comes at an important moment for Mr. Trump's clubs: Amid a general slump in the golf industry, the value of those properties hasn't kept pace with the amount of money he has invested to make long-term upgrades, according to documents obtained by The Wall Street Journal through public-records requests. A number of the golf clubs have frozen or reduced initiation fees in recent years, employees say.

The Trump Organization's 18 golf clubs in the U.S. and overseas are a core part of his business empire, which the president continues to own via a trust run by his adult sons. The properties account for more than half the total revenue Mr. Trump reported last year in a federal financial disclosure filing.

The golf industry overall continues to suffer from the aftereffects of the 2008 recession, as well as declining participation. The number of people playing in the U.S. has



President Donald Trump was serenaded upon arrival at the Trump International Golf Club in West Palm Beach, Fla., on Feb. 5.

dropped from a peak of 30 million in 2005 to 24.1 million in 2015, according to the National Golf Foundation.

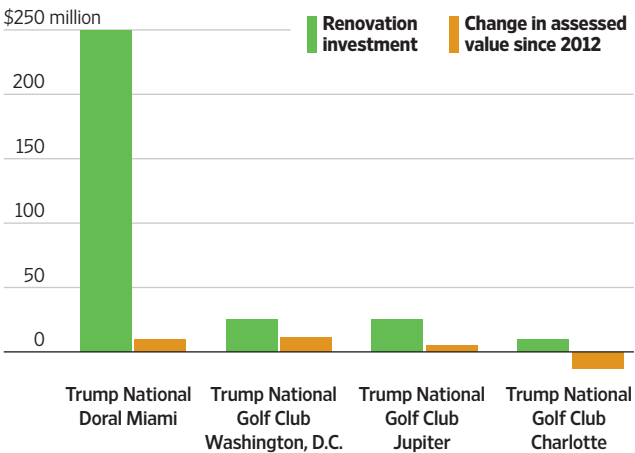
"Golf is a tough business," said Larry Hirsh, a founder of the Society of Golf Appraisers, which estimate the values of golf courses on behalf of property owners, local governments and others. "There are clubs where memberships are going back up...but they've had to drop their fees."

The finances of Mr. Trump's U.S. clubs are private. But their values are assessed each year by local governments for tax purposes. In most states, the main criteria include a club's revenue and expenses.

The most recent valuations of Mr. Trump's 10 U.S. clubs with tax assessments—most of them for 2016—total \$266 million, according to local property and tax records reviewed

### In the Rough

The Trump Organization's investment in golf resorts in the last five years appears to have outpaced the increase in values assessed for local tax purposes.



Note: Assessed values reflect the outcome of any decided appeals. The preliminary assessed value for the Doral resort (before appeals) increased \$5 million from 2012 to 2016. Sources: property and court records; Trump Organization; media reports

THE WALL STREET JOURNAL.

by the Journal. That is up \$24 million, or about 10%, from their value in 2012.

But that increase in value falls well short of the \$310 million that Mr. Trump's company has said in news releases or media reports it has spent on renovating the properties during that same period, including \$250 million on upgrading the Doral resort in Miami. That means the net value of the clubs after investment has declined significantly over the last five years.

A White House spokeswoman referred questions to the Trump Organization. A spokeswoman for the Trump Organization said it was proud of its work with the properties and that it would continue to invest in "the game of golf."

"Our clubs are performing incredibly well and we have Please see GOLF page B2

## Bad Day for Panera Short Sellers

The short slayer has struck again, and investors betting against **Panera Bread** are its latest victims.

The restaurant chain is the latest acquisition of European investment fund JAB Holding, which said Wednesday it was buying Panera for \$7.5 billion, including debt. The deal is also the latest in a long line of blows

JAB has dealt to short sellers of highly valued shares of food and beverage companies, including **Keurig Green Mountain**, **Krispy Kreme Doughnuts**, **Caribou Coffee** and **Peeet's Coffee & Tea**.

At 41 times forward earnings and 16.5 times estimates for this year's earn-

ings before interest, taxes, depreciation and amortization, JAB's offer for Panera seems eye-popping. But it was particularly painful for the large number of investors who had wagered Panera's stock would fall. As of Tuesday, 17.8% of Panera's float was out on loan, presumably to short sellers, according to IHS Markit. That compares with an average of around 2.5% for the S&P 500. One hedge fund labeled Panera "a landmine to shorts."

Some short sellers are still smarting over JAB's deal for Keurig Green Mountain, announced Dec. 7, 2015. Roughly 11% of the coffee company's shares were out on loan that day, and the deal ruined a good year for some hedge funds.

Among the victims was David Einhorn's **Greenlight Capital**, which had taken a public

short position in the stock. And this wasn't the first time a bet against Green Mountain had gone awry. About 19% of its shares were out on loan on Feb. 5, 2014 when **Coca-Cola** said it would take a stake in the brand.

Indeed, the closely held JAB may be willing to pay up for these companies for the same reason Coca-Cola was interested in buying a stake in Green Mountain: growth is difficult to come by in the food-and-beverage sector. JAB has the added benefit of not having public shareholders to answer to.

Short sellers beware: a bet against a company that falls into JAB's areas of interest—coffee, consumer goods and food—is a dangerous one.

◆ Panera Bread agrees to \$7.16 billion buyout..... B3

## Uber's Sole Female Director Drives Changes to Culture

By GEORGIA WELLS

Media mogul Arianna Huffington is taking a starring role in **Uber Technologies Inc.**'s effort to overcome recent scandals.

The results could set her up to be a hero to women in the tech industry—or risk her credibility if the ride-hailing company doesn't change.

Ms. Huffington, the only woman on Uber's board and an investor, is helping drive an investigation into allegations of sexual harassment at the company. She has also pledged sweeping changes to Uber's culture, which employees say fosters fierce competition for management approval while tolerating bad behavior by high performers.

Her friendship with Uber's



Arianna Huffington is tackling complaints of workplace sexism.

founder and chief executive, Travis Kalanick, means she has his ear. She is also positioned to call for broad changes, such as her comment last month that Uber will exclude "brilliant jerks" in its search for a

new executive to work with Mr. Kalanick.

But her ties as well could diminish the independence necessary to tackle Uber's problems. In what experts see Please see UBER page B4



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GE Seeks Lighting-Unit Sale

By DANA MATTIOLI AND THOMAS GRYTA

The company that pioneered lightbulbs now wants to turn off the switch.

General Electric Co. is weighing a sale of its consumer-lighting business, which for decades defined the company following its co-founding 125 years ago by Thomas Edison, the inventor of the first viable incandescent lamp.

The Boston-based industrial conglomerate has been interviewing investment banks to sell the unit, which could fetch around \$500 million, according to people familiar with the

matter. There is no guarantee there will be a deal.

The business GE is considering selling consists of residential LED lighting and connected-home technology in North America. The company would hold on to a separate business, called Current, that provides commercial LED lighting.

The lighting business, including the commercial portion, had about \$2.2 billion in revenue last year, or less than 2% of GE's total.

A sale would mark the latest move in a pivot away from consumer businesses that once were core to GE.

DEAL

Continued from the prior page

While the two companies sell well-known paint brands, neither is a corporate household name even in their home markets. But both come with rich corporate histories. Akzo, which traces its roots to a Swedish foundry started in 1646, is an amalgamation of European industrial companies, including one founded by dynamite inventor Alfred Nobel.

PPG was founded in 1883 as the Pittsburgh Plate Glass Co., one of the first companies to commercialize plate-glass manufacturing in the U.S. It now mostly makes paints, including brands like Pittsburgh Paints and Olympic.

Despite pressure from some of its biggest shareholders, Akzo has refused to engage in talks with PPG. Shareholders including Causeway Capital Management LLC—Akzo's biggest investor—and activist investor Elliott Management Corp. have publicly urged Akzo to talk with PPG.

Analysts say a hostile bid by PPG would be a long shot, con-

sidering takeover protections provided in Akzo's Dutch corporate structure. Elliott, though, has threatened to use rules particular to Akzo's structure to call a special shareholders meeting and force Akzo's board to talk with PPG.

To achieve that goal, Elliott has said it would need 10% shareholder support. Elliott holds a 3% Akzo stake, and Causeway holds 6.8%. But experts have said it would still be a struggle to force the appointment of new board members open to a deal at the shareholder meeting.

PPG's Mr. McGarry said the company's most recent offer to acquire Akzo for €88.72 (\$94.74) a share was "compelling." The offer, made last month, came after an earlier offer of €83 a share was rejected.

He said PPG was willing to make commitments concerning issues such as jobs and maintaining Akzo's locations, and research and development. He ruled out relocating Akzo's manufacturing operations across the Atlantic. "We're not going to move plants to the U.S.," he said. "That's not going to happen."

BUSINESS & FINANCE

Schools Woo Entrepreneurs

M.B.A. programs try to lure young founders and those who intend to start a business

By KELSEY GEE

Millennial entrepreneurs are starting to hear an unlikely piece of advice when their ventures stall: consider an M.B.A.

Graduate business programs from Columbia University in New York to University of California at Berkeley's Haas

School have spent millions of dollars building innovation centers

and creating venture-capital funds in recent years. They are adding new courses and deploying industry veterans to teach, all in an effort to recruit more would-be founders.

A quarter of prospective M.B.A. students aimed to start a business in 2015, according to the latest Graduate Management Admission Council survey, up from 20% in 2010. Even so, academia has been slow to adapt, with fewer than 10% of graduate business programs offering degrees in entrepreneurship last year, according to the Association to Advance Collegiate Schools of Business.

The ballooning resources for student ventures reflect a streak of opportunism among young entrepreneurs in need of funding and university admissions officers, who can proudly plug graduates' startups on their schools' websites. Some administrators hope the growing interest among millennials to create companies—rather than pursue traditional post-M.B.A. careers like investment banking—will reinflate a shrinking pool of applicants to U.S. business schools.

"More of our students have started multiple businesses already by the time they arrive,"



Rena Pacheco-Theard started a test-preparation venture while she was a business student at MIT.

said Sara Neher, assistant dean of admissions at the University of Virginia's Darden School of Business. "For those that have failed, when they talk to us about why they're applying, it's often 'I didn't have the business skills to make it work.' "

Ahead of the pack, Darden admissions officers now host M.B.A. recruiting events at startup incubators in New York City, San Francisco and Washington. The school pitches perks like free tuition for a handful of seasoned founders. Recruiters also are using social-media platforms like LinkedIn and Facebook to target prospective students, searching profiles for terms like "founder" and "entrepreneur."

Once they are on campus, student entrepreneurs can enter competitions for seed "money with no strings attached," said Ms. Neher.

Tapping into the market of hopeful founders, the Univer-

sity of Texas in Austin's McCombs School of Business invites prospective students to a "Shark Tank" style pitch competition for as much as \$20,000 in scholarships to cover tuition. Annual applications have doubled to 30 since the scholarship's 2013 launch, and all but one of the nine winning entrepreneurs have chosen to enroll.

Business degrees have become an easier sell for would-be founders as schools now teach how to build small businesses, in addition to managing large ones, said Steve Blank, an entrepreneur and lecturer at Haas and Columbia's business school.

Rena Pacheco-Theard applied for a master's degree in business at Massachusetts Institute of Technology's Sloan School of Management as the company she started with her husband Dan Driscoll floundered.

"I knew I wanted to do work

with high social impact, but the business side of my resume was missing," said Ms. Pacheco-Theard, who had a graduate degree in public affairs at the time.

During her second semester at MIT, she started a new venture called Prepify, which provides test preparation services to low-income high schoolers. She used roughly half of her business-school class time to fine-tune the startup's model. She left MIT last spring with a degree, a co-founder classmate and a total of \$15,000 in funding from the school. "Becoming a real entrepreneur became a distinct reality for the first time at Sloan," said Ms. Pacheco-Theard.

Administrators say the hard part isn't always recruiting, but getting students to focus on schoolwork—especially at programs like Stanford University's, where roughly 15% of each class launches a business shortly after graduation.

A Top McDonald's Marketer Exits

By JULIE JARGON

McDonald's Corp.'s top marketer in the U.S. is expected to leave the company as part of another management shake-up aimed at reviving the burger chain's fortunes, according to people familiar with the matter.

Deborah Wahl, the chain's U.S. marketing chief for the last three years, is expected to be replaced by Morgan Flatley, formerly chief marketing officer of Global Nutrition at PepsiCo Inc. In addition, two other top U.S. executives are expected to leave. Lance Richards, head of U.S. menu, is expected to be replaced by Linda VanGosen, a former Starbucks Corp. vice president. Julia Vander Ploeg, head of U.S. digital, is expected to be replaced by Farhan Siddiqi, who most recently served as vice president of global digital experience at McDonald's.

They are the latest management changes being made by Chief Executive Steve Easterbrook, who has to strengthen the business in McDonald's biggest market. The chain ex-

perienced a sales lift immediately following the launch of all-day breakfast last year, but the growth tapered off before falling in the fourth quarter as it lapped the daylong breakfast anniversary. The company last week said it plans to switch to fresh beef in its Quarter Pounders next year. The move was seen as a way for McDonald's to be more competitive with fast-food rival Wendy's Co., which has always served fresh beef, as well as with fast-casual burger chains.

McDonald's recently said it plans to embrace its identity as an affordable fast food company rather than chasing customers who just won't go to a McDonald's. The chain has been working on improving its core products, like removing preservatives from its chicken nuggets, switching to real butter in its Egg McMuffins and coming out with new Big Mac sizes—all of which it has been focusing on in its advertising.

Mr. Easterbrook made a series of management changes last year, including choosing Kraft Foods Group Inc. executive Chris Kempczinski to head



Deborah Wahl

the U.S. business. Several other top-ranking executives retired last year, including its chief field officer, chief administrative officer and the executive in charge of customer experience. Last month, the company tapped Bob Rupczynski, a Mondelez International Inc. executive, to be its new global vice president of media and customer relationship management. McDonald's is trying to

better target customers with an improved loyalty program and roll out mobile ordering and payment in its biggest markets.

The company has been trying to showcase the integrity of its food, with ads showing that it only adds salt and pepper to its beef and that it actually cracks real eggs in its restaurants.

McDonald's also has been using photos of how the food really looks, with lettuce out of place, cheese oozing out and sesame seeds falling off the buns, rather than using shots of perfect-looking food in an effort to appear more authentic to young customers in particular, who Ms. Wahl said in a recent interview are particularly difficult to influence because of their mistrust of anything staged.

Last year, Ms. Wahl orchestrated a move to consolidate its creative agency business with Omnicom Group to create an "agency of the future," ending McDonald's 35-year relationship with Publicis Groupe's Leo Burnett agency in the U.S.

—Suzanne Vranica contributed to this article.

GOLF

Continued from the prior page  
amazing teams working hard to provide the ultimate luxury golf experience," the spokeswoman said.

Since his Jan. 20 inauguration, Mr. Trump has paid 14 visits to his golf clubs, often bringing with him members of his cabinet or foreign leaders.

The Palm Beach golf club "has the ultimate perk—the president is going to show up," said Sid Dinerstein, a former Palm Beach County Republican Party chairman. He said a recent all-you-can-eat seafood buffet at the club, attended by Mr. Trump, was "overflowing" with paying guests hoping to catch a glimpse of the president.

Mr. Trump bought many of the clubs after prices crashed in the 2008 recession. In the past, he has said the property assessments don't reflect the clubs' true market value, including the development potential of the underlying land.

In some cases, owners of golf courses try to persuade

assessors to lowball clubs' value to minimize tax bills. The values of Mr. Trump's properties sometimes reflect a compromise between one number calculated by the taxing authority and a lower figure argued by Mr. Trump's team.

A rare glimpse of a Trump U.S. club's income and expenses came in a tax appeal by the Trump Organization last

In New York, the assessed value of the Trump golf club in the Hudson Valley fell 23% last year to \$4.6 million from \$6 million in 2015—after the Trump Organization argued the true value was just \$2 million.

John Hickman Jr., supervisor for the Town of East Fishkill, N.Y., said the reduction reflected lower revenue in the industry. "People aren't golfing

The golf industry overall continues to suffer from the aftereffects of the 2008 recession.

year when his Doral resort near Miami disclosed an operating loss of \$2.4 million for 2014. That figure doesn't include payments on \$125 million of loans on the property.

The Doral club in March was offering a 20% discount on its joining fee, cutting it to \$40,000 from \$50,000, according to a Doral employee. Such end-of-season offers are common in the golfing industry, according to a person close to the Trump Organization.

a lot and we're pretty saturated with golf courses these days," he said.

Unlike Mr. Trump's U.S. clubs, those in Scotland and Ireland issue public financial statements. All three reported losses in their most recent reports. The losses were attributed to development work.

Mr. Trump's recent upgrades aren't necessarily translating into higher membership fees, the Journal found.

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BUSINESS NEWS

# Costco Still Loves In-Store Sales

Wholesale chain takes contrarian stance on e-commerce tactics; shipping mayo is costly

By Sarah Nassauer  
And Laura Stevens

**Costco Wholesale Corp.**, which built an empire selling products in bulk, hasn't felt the need to transfer that winning strategy online.

"We want to get you into the store because you're going to buy more," Costco finance chief Richard Galanti said last month, when asked during the company's earnings call about its e-commerce growth. Costco attributes much of its success to the treasure-hunt atmosphere it creates in its 725 stores by cycling through new products to spur impulse buys.

But in an era where people are shopping online for giant packages of products as diverse as dog food and disposable diapers, more investors and analysts are pressing Costco to focus on e-commerce. Meanwhile, online retailers such as **Amazon.com** Inc. and newer players like **Boxed.com** are making inroads with consumers looking to purchase in bulk.

"They are in an OK spot for now, but I don't think that will last forever," said Tim Campbell, a Kantar Retail analyst covering warehouse chains. "They need to get ready to compete with Amazon."

Wholesale chains have been slow to embrace home deliv-



A Miami Costco store last year. Investors and analysts are urging the chain to focus on e-commerce.

ery for online orders. Shipping half-gallon tubs of mayonnaise is expensive—especially as carriers move to charge by size in addition to weight—and profit margins are low on many household staples.

"We are a little late to the game on purpose," said Mr. Galanti in an interview. "We recognize there are things we can do or should be doing."

Costco's contrarian stance on e-commerce is supported by its strong store sales at a time when many brick-and-mortar chains have floundered. But as e-commerce grows in importance, Costco's online sales growth has

slowed. It hovered around 10% in recent quarters, lower than comparable figures by Amazon and Wal-Mart Stores Inc. Online sales account for about 4% of Costco's \$119 billion in annual revenue.

Costco is making some moves, adding more products to its website, such as cosmetics and clothes, and investing in distribution centers to speed delivery. It now sells about 10,000 products online and 3,700 in a typical store.

The company lets nonmembers buy most items it sells online, generally at a 5% upcharge, Mr. Galanti said. "We want them to see the site and

hopefully become a member."

BJ's Wholesale Club Inc., with 214 stores in the eastern U.S., said it is also emphasizing online efforts that ultimately get shoppers into stores. It sells about 10,000 products online, though much of the food and household products listed are only available for store pickup.

One complication for selling Costco-size packages via a website is the move by carriers like United Parcel Service Inc. and FedEx Corp. to charge based on package size as well as weight.

A \$13 tub of mayo could cost a big retailer \$5 to \$8 to

ship from Los Angeles to the Las Vegas area, depending on how remote the buyer's address is, according to a cost analysis by consultants Spend Management Experts. A smaller retailer would likely pay about double.

To make up for shipping costs, warehouse chains sometimes charge more for products online or sell larger quantities. Costco sells only two-packs of its popular store brand Extra Fancy Mixed Nuts online for \$38.99, including shipping, but it sells the same product for \$33.98 in stores, as well as a \$16.99 single pack.

Some online upstarts say the economics can work. **Boxed**, based in New York, presents shoppers with a selection of items that encourages them to buy more at once. The goal is for a customer to spend about \$100 on 10 items, said Chieh Huang, the firm's chief executive.

"Three years ago we were extolling the virtues of buying toilet paper online, and people were looking at us like 'that's the stupidest idea ever,'" said Mr. Huang. "It's a full-on race now." The company had more than \$100 million in revenue last year and is unprofitable.

Amazon is encouraging shoppers to buy smaller, higher-margin products along with bulk items shipped in a large box. Dubbed Prime Pantry, the service allows Amazon to sell groceries and household products that its website says are "cost-prohibitive to ship for free individually."

# Walgreens Remains Upbeat On Merger

By Sharon Terlep  
And Joshua Jamerson

**Walgreens Boots Alliance** Inc.'s chief executive said he expects the drugstore chain's long-delayed tie-up with **Rite Aid Corp.** to be approved in the next few months.

U.S. antitrust regulators have been scrutinizing the deal, struck in October 2015, and the companies have since agreed they would sell hundreds of stores to **Fred's Inc.**, a regional drugstore chain, to allay concerns.

"I am still positive on this deal," Walgreens CEO Stefano Pessina said in a call with analysts on Wednesday. "I believe we have a strong argument to defend this deal."

*Walgreens Boots Alliance said its pharmacy business picked up in the U.S.*

He said the merger is still expected to close by the end of July, an extension of the initial January 2017 deadline. Investors have grown increasingly uneasy that the deal could fall apart.

Among the antitrust concerns is that the resulting drugstore giant—which would challenge CVS Health Corp.—would be able to bully pharmacy-benefit managers, who steer corporate and government drug plans.

Walgreens and Rite Aid agreed in January to reduce the amount Walgreens would pay by at least \$2 billion. They also said they might sell a few hundred additional Rite Aid stores. Under those new terms, the deal would value Rite Aid at \$6.8 billion to \$7.4 billion, depending on how many stores the pair ends up shedding.

Walgreens, which on Wednesday announced financial results for its fiscal second quarter ended Feb. 28, said its pharmacy business picked up in the U.S. with the highest quarterly prescription growth in years. Overall, Walgreens earned \$1.06 billion, or 98 cents a share, compared with \$930 million, or 85 cents a share, a year earlier, as sales fell 2.4% to \$29.4 billion.

# Panera Bread Agrees to \$7.16 Billion Buyout

By Julie Jargon

**Panera Bread Co.** plans to be acquired for roughly \$7.16 billion, excluding debt, by European investment fund **JAB Holding Co.**, a firm with a fast-expanding collection of brands including Caribou Coffee and Jimmy Choo shoes.

The chain of about 2,000 cafes serving pastries, coffee and sandwiches would be taken private in the deal.

Panera's shares rose 14% to \$312.94 on Wednesday in New York. JAB has agreed to pay \$315 a share in cash for the company.

Started 36 years ago as Au Bon Pain Co., Panera has managed to continue increasing sales even as other businesses in the so-called fast-casual segment struggle to attract

customers amid fierce competition.

Company founder and Chief Executive Ron Shaich said in an interview Wednesday that becoming a private enterprise would help Panera maintain its improved level of customer service. "I think businesses operate better in a private setting. I think this deal gives us a competitive advantage," he said.

The deal with JAB would allow Mr. Shaich to continue operating the firm. "Their whole philosophy is to give us space," he said. "There are no expected management changes."

JAB declined to comment, through a spokesman.

Panera pioneered the fast-casual segment, which offers fast service and freshly made food. The chain bakes bread

every day in its restaurants. Over the past decade it has been reformulating its food to be free of artificial ingredients and this year converted to an entirely "clean" menu.

Restaurants in general are experiencing the worst performance since the recession as fewer people eat out, finding it is cheaper and easier to eat at home.

The gap between restaurant and grocery prices is the widest it has been in more than 50 years and there are more dining options than ever, ranging from meal-kit delivery services to prepared meals at convenience stores.

The planned acquisition of a restaurant chain operating at the top of its game came as a surprise to investors who saw no reason for Panera to be a

target. And with its stock trading at a record, it wasn't a cheap buy.

The agreed-upon purchase price represents a 20% premium to Panera's closing price on March 31, the last trading day before news reports about a potential deal surfaced. The transaction also includes the assumption of about \$340 million of Panera's debt.

Some analysts said Panera was attractive because of the possibility of gleaning even better returns by franchising more of its restaurants. Many restaurant companies are moving to a fully franchised model, which provides more stable revenue and less risk for the parent company at a time of rising wages. Analysts also say that while Panera is relatively lean, there is probably room

# Subaru Plumps Up Its Sales Incentives

By Adrienne Roberts

**Subaru Corp.**'s U.S. winning streak is getting more expensive to maintain. That means buyers frustrated by long lines and a lack of deal-making on Outbacks or Foresters are in line for relief.

The Japanese maker of rugged wagons and all-wheel-drive passenger cars hoisted its 64th consecutive monthly sales gain in March, but the company had to ratchet up discounts to notch an 11% gain amid a wider market decline and rising dealer stocks.

Because Subaru has long been considered among the most disciplined car companies regarding incentive spending and inventory, even slight changes in its approach to the market can trigger alarm.

Subaru executives are warning dealers that it treads a slippery slope trying to maintain growth in a weakening U.S. auto industry, particularly as the company keeps production lines humming.

"This flat market situation is going to test our ability to create value in the minds of our customers, some of whom will be expecting larger deals based on what the competition is doing," the company's management said in a memo sent this week to dealers.

Spending on incentives increased 60% in March to an average of \$907 per car sold, according to Autodata Corp., reflecting a similar increase for Subaru in the first quarter.

A Subaru spokesman declined to comment on specific

incentive data.

Incentive spending across industry touched a new March record last month, according to J.D. Power. The average discount offered by auto makers hit \$3,777—four times what Subaru dished out. Big increases by Subaru peers including Honda Motor Co. and Toyota Motor Corp. suggest that a seven-year hot streak for the U.S. car business faces a roadblock.

"Higher incentives have pushed demand about as far as it can go," Joseph Spak, an RBC Capital Markets analyst, said in an investor note on Tuesday. "Sales growth has stalled."

Production levels remain high as several auto makers race to fill sport-utility-vehicle and pickup demand that remains brisk amid low gasoline prices.

Subaru is in the process of squeezing as much production as it can from its one U.S. factory, in Indiana, where output is up 18% in 2017, according to WardsAuto.com

Subaru had 38 days' supply in U.S. inventory as of the end of March, according to WardsAuto.com. That is lower than the industry average of 72 days' supply, but higher than the 20 days' it carried in the same period last year.

Some markets remain red hot for Subaru. Galpin Motors in Los Angeles has a maximum of two weeks' supply of Subarus. "It's a bit of a mystery to us" why Subaru is offering steeper discounts, said Brian Allan, senior director at the dealership group.

# PepsiCo Pulls Ad Following Outcry

By Jennifer Maloney

**PepsiCo Inc.** is yanking a commercial that united liberals and conservatives in a backlash that swept across social media.

The 2½-minute spot, developed by Pepsi's in-house Creators League Studio and released online Tuesday, focuses on racially diverse protesters marching with signs declaring "Love," "Peace" and "Join the Conversation." A star of the ad is Kendall Jenner, a model and personality on the reality-television show "Keeping Up with the Kardashians," portraying a model in a photo shoot who peels off her blond wig, wipes off her lipstick and joins the protesters as they approach a line of stone-faced police officers.

At the ad's climax, she hands an officer a can of Pepsi. He cracks it open, and the crowd cheers.

Criticism of the commercial erupted online almost immediately, before the ad aired on TV. Some critics called it a tone-deaf depiction of the Black Lives Matter movement, while others accused it of being slanted against law enforcement.

"Pepsi was trying to project a global message of unity, peace and understanding. Clearly we missed the mark, and we apologize," a Pepsi spokesman said. "We did not intend to make light of any serious issue. We are removing the content and halting any further rollout. We also apologize for putting Kendall Jenner in this position."

Networked Insights, a research firm that mines social-media sites, said it found



The ad, featuring Kendall Jenner, center, was assailed for trivializing the Black Lives Matter movement and for being slanted against police. 'We missed the mark,' says a Pepsi spokesman.

roughly 110,000 comments about the Pepsi ad on Twitter, YouTube and other social platforms as of Wednesday morning. About 24% of the comments were negative; 8% were positive and 68% were neutral, the firm said.

For an ad, 24% negative is extremely rare, said Jamie Bruguera, vice president of analytics at Networked Insights. In a typical year, only a handful of ads get this kind of negative response, he said.

The Pepsi ad comes as more marketers are attempting to tackle sensitive social issues without alienating part or all of their audience. **Anheuser-Busch InBev NV**, for example, raised hackles with a commercial touching on immigration,

while **Audi AG** sparked controversy with an ad about the gender pay gap.

"Marketers are trying their best to stay relevant by tapping into the cultural zeitgeist," said Susan Cantor, chief executive of branding firm Red Peak.

In Pepsi's case, she said, it appeared the company tried to capitalize on both Ms. Jenner's fame and a hot-button social issue, but the attempt fell flat because Ms. Jenner isn't known for championing social causes.

"It's an oversimplification of the issue and a dumbing-down of a serious conflict that is plaguing America today," Ms. Cantor said. "It seems trite, frankly, for a beverage

manufacturer to take this on, unless they're going to take it head-on and take a position."

Spoofs of the ad have been circulating on social media, including historical photos of protesters being subdued by police accompanied by captions saying "Quick, Kendall! Get him a Pepsi!"

In what was unfortunate timing for PepsiCo, Tuesday was the anniversary of Martin Luther King Jr.'s assassination.

Bernice King, the daughter of the civil-rights leader and chief executive of the King Center in Atlanta, tweeted about the ad: "If only Daddy would have known about the power of #Pepsi."

—Suzanne Vranica  
contributed to this article.



# Zoox Hires Safety Expert

Enigmatic self-driving-car startup brings an Obama administration veteran on board

By TIM HIGGINS

One of the buzziest startups in Silicon Valley, **Zoox Inc.**, says it is taking a different path in the race to build self-driving cars: It is preaching safety first.

The secretive company used its first major announcement this week to tout the hiring of one of America's foremost safety officials, Mark Rosekind. Until January, he oversaw the National Highway Traffic Safety Administration, an agency responsible for ensuring vehicle safety. Now he is Zoox's chief safety innovation officer.

"There have been other startups that have been, in various ways, cavalier with safety," said Tim Kentley-Klay, Zoox's chief executive and co-founder, in a rare interview late Tuesday, without naming any competitors. "That's not our culture. We take this very seriously. This appointment...demonstrates that."

Other self-driving car makers say they take safety seriously. But the Silicon Valley ethos of moving fast and breaking things is often on display as companies experiment with the technology on public roads.

A crash last month by an Uber Technologies Inc. auton-



Mark Rosekind, Zoox's chief safety innovation officer.

omous test vehicle in Arizona renewed concerns about the safety of yet-to-be-proven self-driving vehicles, even as local police and the company said its car wasn't at fault. Uber already drew the ire of California regulators when it tried to test its vehicles on San Francisco streets without a city permit.

Lawmakers at statehouses across the U.S. are debating the safety of self-driving cars as they consider legislation that could decide how such technology is used and who can use it. Some bills have proposed that testing be done only by auto makers, a hurdle that would hinder upstarts from Silicon Valley.

Those are the kinds of issues Mr. Rosekind tried to tackle during his time at the

NHTSA under the Obama administration, where he pushed through guidelines for automated vehicles aimed at helping encouraging the development while also balancing safety.

"People are going to need to trust and accept this technology if it's to go forward, and that's only going to happen when everyone believes that safety is included and respected from the very beginning," Mr. Rosekind said in an interview.

Zoox is somewhat of an enigma in the rough-and-tumble world of autonomous-vehicle development.

Unlike other startups that are loudly staging demonstrations of their technology, Zoox has remained under wraps even after raising almost \$300

million at a valuation of \$1.55 billion. It has never released details about the engineers and professionals hired from Tesla Inc., Alphabet Inc. and Apple Inc.

Mr. Kentley-Klay, Zoox's CEO, isn't a Silicon Valley wunderkind or a Motor City engineer—he is an Australian designer—and was lured to the startup by co-founder Jesse Levinson, who made a name for himself at Stanford University's self-driving car program. Mr. Kentley-Klay rarely speaks in public and is coy about Zoox's business strategy beyond reimagining what automobile travel could be like if humans don't take the wheel.

Mr. Kentley-Klay said Zoox is working to develop a fully autonomous vehicle system that can run as a taxi service in cities and operate in harsh weather. He is targeting 2020 to deploy the mobility service in the first city.

"We don't sell the hardware product, like a car, we sell the service," he said, without providing more details.

Mr. Kentley-Klay declined to specify how Zoox would implement a safety playbook. But he did reveal that Zoox is exploring technology that could remotely operate the vehicles when they encounter hazards they can't handle, such as obstacles in the roadway. Other companies, including Nissan Motor Co. and startup NuTonomy have suggested they are developing remote operating systems.

# Sony Plans Spread Of PlayStation VR

By TAKASHI MOCHIZUKI

**Sony Corp.** plans to expand marketing of its PlayStation VR virtual-reality headset to commercial customers including entertainment facilities in Japan, people familiar with the matter said, after the technology took hold among consumers at a slower-than-expected pace.

The Japanese group's videogame arm said last month that it had set up a "location-based entertainment" unit, without giving details. The people said that unit would lead the VR initiative and look for partners in various industries. The plan doesn't call for Sony to run its own facilities, at least for now, they said.

Since its introduction in October, Sony's PlayStation VR has been the most popular high-end headset for homes, research firm IHS Markit says, but its adoption has mostly been limited to gadget-savvy game fans. The technology remains unfamiliar to many general consumers.

Sony Interactive Entertainment, the Sony arm in charge of the PlayStation business, said in February it had sold 915,000 units of PlayStation VR in the first four months. The company described the figure as better than expected, but analysts said the number might not be enough to trigger the early momentum that game-machine makers need to drive interest on the part of

software developers. Some PlayStation users who bought the virtual-reality headset have said they put it aside because of the shortage of new games designed for virtual reality.

Sony's location-based entertainment initiative is partly designed to address the issue by raising awareness and giving people a chance to try out the headsets.

Possible locations for the commercial VR business include videogame arcades, which long ago passed their peak in most countries but remain a niche market in Japan, as well as theme parks and special events, said the people familiar with the matter. Non-game applications might also be studied.

Separately, Sony's music arm in Japan struck a partnership deal in February with Tokyo-based startup Hashilus, which specializes in virtual-reality technology, to offer entertainment content aimed at public spaces such as museums, landmark buildings and theme parks.

Sony's rivals in virtual reality have also pursued business-to-business-to-consumer sales for applications such as virtual tours and theme-park attractions. Other virtual-reality devices include **Facebook Inc.**'s Oculus Rift and **HTC Corp.**'s Vive, as well as the lower-end gadget Gear VR by **Samsung Electronics Co.**

# Boeing Sets Up a Venture-Capital Division

By DOUG CAMERON

**Boeing Co.** is establishing a venture-capital arm as part of a broader push to capture technology that includes innovations that could be used beyond its core aerospace and defense sectors.

The company announced the new Boeing HorizonX unit Wednesday alongside its first two minority investments and a pledge to deploy tens of millions of dollars a year worldwide in pursuit of technology that might be deployed in the next five to 15 years.

Boeing is following a path taken by rivals including Air-

bus SE and **Lockheed Martin Corp.** as well as other big manufacturers such as **General Motors Co.**, all of which have reorganized their innovation efforts under a single umbrella with the ability to make minority investments.

Steve Nordlund, who will lead the new unit, acknowledged Boeing was responding to moves in the marketplace but said it wasn't playing catch-up, with the establishment of HorizonX coming as it prepares to launch another stand-alone operation tasked with securing a bigger share of aftermarket and services.

"The big difference is we're

moving this entire effort to the enterprise level," said Mr. Nordlund, formerly vice president of strategy at Boeing's defense unit. He will report to Greg Smith, chief financial officer and strategy chief.

Boeing's efforts to boost productivity of its jetliner production have included borrowing techniques from the auto industry. One of the two initial investments is in Upskill Inc., a Washington firm that makes software for wearable devices that use augmented reality to perform tasks more efficiently. It also is taking a minority stake in **Zunum Aero**, a Kirkland, Wash., company develop-

ing electric aircraft-propulsion systems. JetBlue Airways Corp., an Airbus jet operator that set up its own VC arm, also is taking a stake. Mr. Nordlund said Boeing's pipeline included a mix of stand-alone deals and those with strategic partners.

Similar to peers, Boeing is targeting areas such as artificial intelligence, machine learning and additive manufacturing, but Mr. Nordlund said there were capabilities within Boeing such as preventing tampering with hardware that could be married to external technology and sold outside the aerospace industry.



An internal survey at Uber showed 'widespread stress and burnout,' an issue the firm is addressing.

# UBER

*Continued from page B1*  
as a misstep, she surmised from interviews with staff members in late March that sexual harassment wasn't a "systemic problem"—before the investigation was complete. The probe is expected to conclude this month.

"Saying something isn't a systemic problem right off the bat is not a judgment that indicates an investigation is impartial," says Y-Vonne Hutchinson, founder of ReadySet, a diversity consulting firm that works with many Silicon Valley tech companies.

People close to Ms. Huffington say she stands up to Mr. Kalanick. "Anyone who knows Arianna—I do—knows she doesn't pull punches," says Rosabeth Kanter, a professor of strategy and management at Harvard Business School. "The more important question is whether the CEO and other key executives will listen and take new actions."

"I have told Travis and the management team I will be holding their feet to the fire," Ms. Huffington said on a recent conference call about the steps Uber is taking in re-

sponse to allegations of sexual harassment and sexism.

The allegations were sparked by a blog post written in February by former Uber engineer Susan Fowler Rigetti. Mr. Kalanick condemned the behavior described by Ms. Rigetti, and said it was the first he had heard of the allegations. "What she describes is abhorrent and against everything Uber stands for and believes in," he said. Uber declined to comment on the sexual-harassment allegations and the continuing probe.

The allegations have shined light on Uber's workplace culture, which critics say is particularly toxic to women. That has pointed to the need, experts say, for a strong advocate for women within the company, along the lines of Sheryl Sandberg at Facebook Inc., and Ms. Huffington has accepted that challenge. Uber's head of human resources, Li-ane Hornsey, has also taken a public role since joining the company in January.

"Clearly there is a lot of work that needs to be done," Ms. Hornsey said in reference to Uber's culture on the recent media call. Uber declined to comment on allegations of systemic sexism.

Ms. Huffington immediately

jumped to action after the blog post, announcing on Twitter the same day that she would be helping with an investigation of the claims "starting now."

The first day of work after Ms. Rigetti's blog post, Ms. Huffington met with employees at Uber's weekly all-hands meeting. She also invited employees to schedule talks with her in a conference room in Uber's San Francisco headquarters, according to emails viewed by The Wall Street Journal. She has since met with "hundreds" of employees, one-on-one and in groups, she has said.

Ms. Huffington, 66 years old, has run her own businesses, including co-founding the Huffington Post, which was sold to AOL Inc. for \$315 million in 2011. In parallel, she has weighed in on women's issues for decades.

"The Female Woman," a best seller she published in 1973 at age 23, attacked what she described as a branch of the women's liberation movement that "would transform only the lives of women with strong lesbian tendencies." In a statement early this week, Ms. Huffington said she was contrasting "the worst aspects of the women's liberation

movement —hating men and denigrating the choice to become a mother—and arguing for what has become the current concept of feminism, including equal pay and equal access to every profession and the top of every profession."

She has continued to weigh in on social and workplace issues. She wrote a book in 2006, "On Becoming Fearless...in Love, Work, and Life," that was meant to empower women. Her 2014 book "Thrive" placed blame on companies that expect employees to be wired in and responsive around the clock—something employees have said of Uber.

Ms. Huffington began talking to Uber about "changing the burnout culture at Uber" shortly before the allegations of sexism. An internal survey showed "widespread stress and burnout," Ms. Huffington said in an email.

Mr. Kalanick and Ms. Huffington met at a tech conference in 2012. They socialized and dined together frequently in the following years. In April 2016, he visited her home in Los Angeles to persuade her to join his board. They discussed Uber for 4½ hours while he paced her dining room, eating an omelet she had made for him, Ms. Huffington wrote in a Huffington Post story about why she joined Uber's board.

When asked on the conference call whether Mr. Kalanick could be replaced, Ms. Huffington said, "It isn't something that has been addressed because it hasn't come up and we don't expect it to."

In recent weeks, Ms. Huffington has amended some of her views. After claiming there wasn't a "systemic" sexual-harassment problem at Uber, she offered a clarification, saying in an email to employees and on the media call that the "ultimate decision of what is or isn't a systemic problem" would be determined by former U.S. Attorney General Eric Holder and his team conducting the company investigation.



The PlayStation VR headset will be marketed to commercial customers as Sony tries to increase awareness of the devices.

## BUSINESS WATCH

AMAZON

### Company to Refund Up to \$70 Million

**Amazon.com Inc.** can begin refunding as much as \$70 million to consumers for in-app purchases made by children, following the end of a legal battle with the U.S. Federal Trade Commission.

The FTC on Tuesday said it and the Seattle-based retailer agreed to end appeals related to a federal-court decision last year that found Amazon was liable for in-app purchases children made over the course of about five years without their parents' authorization because of the lack of sufficient safeguards.

The court also ruled last year that Amazon had implemented sufficient safeguards since the case began, rejecting the FTC's attempt to require more consent from Amazon customers.

An Amazon spokesman declined to comment.

—Laura Stevens

VERIZON COMMUNICATIONS

### Coming Oath Unit Takes Heat Online

Not since **Tronc** has a new corporate moniker drawn as much criticism as Oath, the media and advertising unit in which **Verizon Communications Inc.** plans to house **Yahoo** and **AOL**.

Those brands won't disappear, Verizon said, they will simply be under the Oath umbrella once the acquisition closes. Business Insider reported the name earlier this week.

The internet hasn't been kind since then. A representative comment on **Twitter**: "How

about 'Meh'?"

Still, the name received so much attention, even though it was negative, that it was probably worth \$50 million in free marketing, AOL Chief Executive Tim Armstrong said in an interview with Bloomberg TV.

"It turned out to be a huge benefit for us," Mr. Armstrong said, calling the unit's name a reflection of the business's "oath to building brands," its intended focus.

—Mike Shields and Ryan Knutson

NFL

### Amazon Signs Deal To Stream 10 Games

Amazon is ready for some football.

The National Football League has reached a deal to stream 10 Thursday night games with **Amazon.com Inc.**, the online retailer that is aggressively attempting to position itself as a premier source of entertainment content.

The latest agreement is valued at roughly \$50 million, according to people familiar with the matter. That price tag represents a fivefold increase over the NFL's agreement with Twitter Inc. for the same number of games last season.

While Twitter streamed the games on its free social network site, Amazon's games will be available only to its 60 million Amazon Prime members.

The games will continue to be available on television as well. The Thursday night package is split between CBS and NBC. The NFL Network also carries Thursday night football games.

—Joe Flint and Shalini Ramachandran



FINANCE & MARKETS

Pimco  
Regains  
A Bond  
Laurel

By JUSTIN BAER

A Pacific Investment Management Co. fund is once again the largest of its kind in the world. For the first time the bond manager claimed the crown without any help from co-founder Bill Gross.

Pimco's Income Fund overtook TCW Group Inc.'s Metropolitan West Total Return Bond Fund in March as the biggest actively managed bond fund, according to data out Tuesday. That title was held for years by Mr. Gross's Total Return Fund, which lost billions of dollars in assets after he was pushed out in 2014.

Pimco's Income Fund, managed by Chief Investment Officer Daniel Ivascyn, had \$79.1 billion in assets under management as of March 31, the firm said Tuesday. TCW's MetWest Total Return Bond Fund had \$78.6 billion, according to the firm and research company Morningstar Inc.

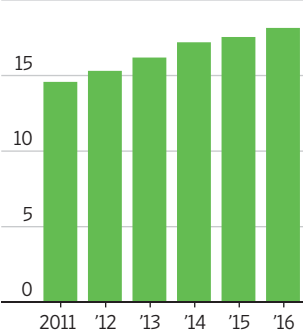
"Congratulations on the recent performance," Mr. Ivascyn told a meeting with fellow money managers on Monday, according to a person who attended the gathering.

Making peace with Pimco's past has been a priority for Chief Executive Emmanuel Roman since his arrival in November. He played a critical role in ending the feud with Mr. Gross with a settlement of \$81 million, people familiar with the matter said. Mr. Gross left Pimco in September 2014 after heated disagreements with his colleagues. In 2015, he sued the firm for at least \$200 million in damages.

Paying Up

Fees received by U.S. merchant processors for credit- and debit-card transactions

\$20 billion



Source: The Nilson Report  
 THE WALL STREET JOURNAL.



A Wells Fargo branch in New York. The bank has fired dozens of employees of its merchant-services division in the past two years.

Wells Fargo Uncovers More Abuses

Internal probe found false reporting in card-processing work done for small businesses.

By EMILY GLAZER  
 AND RUTH SIMON

Wells Fargo & Co. has overhauled its credit-card-processing business after an internal probe found some employees falsely reported customers' sales and pushed small firms into costly contracts they didn't understand.

The bank has fired at least two dozen employees of Wells Fargo Merchant Services LLC in the past two years for those and other bank-policy violations, according to current managers. Wells Fargo also restructured the unit last fall to reduce the incentives for using aggressive sales tactics, the executives said.

The actions, which haven't been previously reported, show how Wells Fargo's sales-tactics problems extended beyond its consumer bank. That business was hit by last fall's revelation that employees opened as many as 2.1 million

consumer-banking accounts without customers' knowledge to meet lofty sales goals.

Wells Fargo discovered the full scale of abuses in the merchant-services business after undertaking a broad examination of the bank's business practices in light of the account-opening scandal.

Wells Fargo said in a statement it has taken "significant steps" over the past several years to strengthen Wells Fargo Merchant Services, its merchant-processing unit for credit- and debit-card payments. The bank had fired some merchant-processing employees before the wider scandal broke last fall. After taking a deeper look into the business in the wake of those problems, it terminated several other employees and revamped the unit.

Merchant processing, which involves helping businesses handle debit- and credit-card transactions for customers, might seem like a mundane business. But small-business owners and industry participants say high-pressure sales tactics are common. They add that complex pricing structures and costly early-termina-

tion penalties that can lock customers into contracts are also prevalent.

Merchant processors collected about \$18.15 billion in debit- and credit-card fees from merchants in 2016, according to the Nilson Report, a newsletter tracking the payments industry. Banks such as Wells Fargo, Bank of America Corp. and J.P. Morgan Chase & Co. are among the biggest players.

Wells Fargo fired some staff in this business for policy violations after uncovering evidence employees coached branch bankers to put false information into the bank's systems about small-business customers' sales, the current managers said.

Firms with annual sales of less than \$750,000 seeking to open accounts were automatically routed to call centers, under Wells Fargo policies at the time. So to earn commissions, sales representatives sometimes inflated sales figures so they surpassed the threshold.

As part of its broader overhaul of sales tactics last fall, the bank ended the practice of allowing retail-branch bankers

to refer small-business customers to merchant-services employees without manager consent. That has caused referrals to the merchant-services unit to fall by more than 50%, a former employee said.

Around October, Wells Fargo moved the merchant-processing division into a new payments unit from its wholesale division. It was earlier housed in the community-banking unit prior to late 2015. In November, it named a new head overseeing small business for merchant services, current executives said. The moves were made, in part, in response to the findings of the internal investigation.

Besides the problems the bank unearthed, small-business customers have also complained about sales practices and fees, both at Wells Fargo and other banks. But Wells Fargo's issues have taken on added urgency in light of its other sales-tactics problems.

When Drake Louks and a partner launched Arizona Tech Advisors' retail store in 2015, a Wells Fargo sales representative and regional trainer showed up at the ribbon cutting. Mr. Louks listened to

their pitch but told them he didn't want to pay \$400 for a terminal.

Payment options vary but small-business owners typically sign a contract for payment processing that may include a terminal lease, monthly fees and other costs.

Mr. Louks said he agreed to sign up with Wells Fargo after bank representatives promised to waive the \$400 payment and said it would charge the Flagstaff-based computer-services firm a 1.5% transaction fee plus a small per-swipe charge.

But he said he later discovered that the transaction fee didn't include a payment to the credit-card companies and other charges that pushed his costs to 3% or more. Wells Fargo agreed to refund \$193 charged on two transactions after Mr. Louks complained.

Wells Fargo said it doesn't comment on individual customers. The bank did say it is reaching out to customers The Wall Street Journal brought to its attention and is addressing their concerns. Wells Fargo has offered full refunds to some customers and financial assistance to others.

Loan Program Draws Scrutiny

By KIRSTEN GRIND

Momentum is building in the U.S. Senate to rein in a popular government-supported loan program used to finance energy-saving home improvements.

Sen. Tom Cotton (R., Ark.) introduced legislation Wednesday that would require private lenders in a loan program known as Property Assessed Clean Energy, or PACE, to be regulated much like traditional mortgage lenders. The bill's co-sponsors include Sen. Marco Rubio (R., Fla.) and Sen. John Boozman (R., Ark.).

If the bill is successful, it would represent a major change for private lenders such as Renovate America Inc., Renew Financial Group LLC and Ygrene Energy Fund Inc., which make high-interest-rate loans on solar panels, air-conditioning units and other energy-efficient appliances.

Companies say they support the addition of consumer protections to the PACE program. "There is no question that PACE should have disclosures and other requirements that are robust, if not more robust, than other types of consumer finance," said Cisco DeVries, who founded the program in 2007 in California and now is chief executive at Renew Financial.

PACE lenders face few restrictions compared with traditional lenders and are minimally supervised through a patchwork of state and county oversight. Partly as a result, PACE loans have become the fastest-expanding type of loan in the U.S.

The proposed legislation follows reports in The Wall Street Journal this year detailing numerous problems arising from the program. Lenders rely on contractors such as plumbers to broker loans and don't do credit checks, causing problems for some borrowers who didn't understand the loan terms and can't afford the debt. Lenders have sprung up because of a lack of financing for energy-saving home improvements and a nationwide push to "go green."

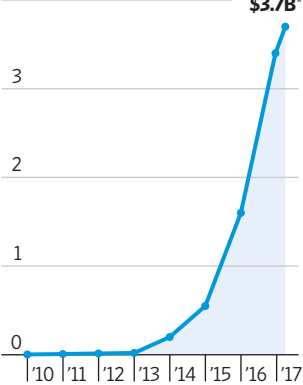
Institutional investors have bought tens of millions of dollars of bond deals backed by the loans.

The bill, called the PACE

Home Improvement

Cumulative PACE financing for residential projects

\$4 billion



\*Through March 31  
 Source: PACENation  
 THE WALL STREET JOURNAL.

Act of 2017, aims to amend the Truth in Lending Act, a chief regulation governing big banks and mortgage companies, to include PACE lenders. If the bill is passed, PACE lenders would be forced to disclose to borrowers the amount they would owe over the lifetime of the loan and come up with a standard way for reporting loan terms to borrowers.

Lawmakers say they are optimistic the legislation will pass because it is a small change to existing regulation and it has bipartisan support.

They will also be moved under the purview of a federal regulator—likely the Consumer Financial Protection Bureau—for the first time. A similar bill is scheduled to be introduced this week by Rep. Brad Sherman (D., Calif.).

"Predatory green-energy lenders are out changing state and local laws ultimately to trick seniors and other vulnerable Americans to take out high-interest-rate loans, without proper disclosure of interest rate or fees," Sen. Cotton said.

Sen. Rubio said "PACE loans should have to play by the same rules as other forms of home financing." Sen. Boozman said homeowners need more information on the loans "to protect themselves so they don't risk financial ruin." A spokesman for Mr. Sherman didn't return a request for comment.

Last year, the PACE industry made \$1.6 billion in loans, up about 28% from 2015, ac-

cording to an industry trade group. Lenders have made a total of \$3.7 billion of loans since the industry was founded. By comparison, conventional mortgages increased about 15% in 2016, according to Inside Mortgage Finance.

PACE loans are placed on a homeowner's tax bill as an assessment and average about \$25,000. In the event of a default, they are given priority over a homeowner's mortgage.

States, enticed by offering clean energy to constituents, first must pass legislation allowing the program to operate. Then, local governments, which ultimately will collect a homeowner's taxes, vote to sign on.

PACE lenders have spent years lobbying federal government agencies, the White House and state and local legislators to facilitate the program's nationwide expansion, according to state records and local officials. But PACE is facing mounting criticism nationwide from regulators, investors and government officials as borrower problems worsen.

In California, several state agencies have asked Gov. Jerry Brown to make regulatory and legislative changes to help fight against borrower abuse, say people familiar with the requests. A spokesman for the governor's office said it supports bolstering consumer protections and "discussions are under way with legislators, consumer groups and others to do just that."

One of private lender Renovate America's largest and oldest partnerships is with a collection of Southern California governments known as the Western Riverside Council of Governments. The group is starting to register concerns about its relationship with the company, according to emails released to the Journal through a public records request. The council is reviewing its partnership with Renovate America through an outside examiner, according to county records. Renovate America said it supports the review.

Some investors also are getting skittish. The New York-based Heron Foundation, with a goal of tackling poverty, said it divested of its PACE bonds after reading about borrower problems in the Journal.

FINANCE WATCH



Parts of Queensland were still flooded Wednesday after a cyclone hit Australia in late March.

INSURANCE

Storm to Hit Margins At Australian Firm

Insurance Australia Group Ltd. estimated it will be hit with about 140 million Australian dollars (US\$106 million) in claims costs for damages from the cyclone that struck eastern Australia last week, pushing it to lower its margin guidance.

IAG said it had lifted its forecast for natural-disaster claims costs to A\$850 million from A\$600 million for the year through June.

The increase in claim-cost assumptions means the company's reported insurance margin for the year is expected to be between 10.5% and 12.5%, compared with an earlier forecast of 12.5%-14.5%, the insurer said.

—Robb M. Stewart

ITALY

ECB Says Banks Qualify for Aid

The European Central Bank

told Italian lenders Banca Popolare di Vicenza SpA and Veneto Banca SpA they are eligible for state aid under so-called precautionary recapitalization rules and that their combined capital shortfall is €6.4 billion (\$6.8 billion), the banks said Tuesday.

Under these European rules, national governments can inject capital into ailing banks after losses have been imposed on shareholders and junior bondholders if regulators deem them solvent. Banks must also be found to be short of capital under the adverse scenario in stress testing, rather than under baseline conditions, indicating they are strong enough to survive in ordinary times.

The precautionary recapitalization regime allows for aid without forcing senior bondholders and uninsured depositors to take losses, as is generally required under European rules.

Veneto has €3.1 billion less capital than it needs, while Vicenza lacks €3.3 billion.

The banks are planning to merge and restructure.

—Giovanni Legorano

CRUDE OIL

Banks Expect Price To Stay Under \$60

Analysts expect oil prices to stay below an average of \$60 a barrel for a third consecutive year as the resurgence of U.S. shale drillers puts plans by the Organization of the Petroleum Exporting Countries to raise the price through output cuts in jeopardy.

A poll of 14 investment banks, surveyed by The Wall Street Journal in late March, predicted that Brent crude, the international oil-price benchmark, will average \$57 a barrel this year, unchanged from the previous survey.

On Wednesday, Brent settled at \$54.36 a barrel while WTI settled at \$51.15 a barrel.

Prices have risen by close to one-fifth since producers decided late last year to cut around 2% from global output in the first half of this year. On May 25, OPEC ministers will meet in Vienna to decide whether to extend that deal for another six months.

—Georgi Kantchev

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■ Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866								
Fax No: 65-6835-8865, Website: www.cam.com.sg, Email: cam@cam.com.sg								
CAMS-GIT Limited 01 01 M05 03/31 USD 311119.76 3.0 7.6 -2.4								

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## Nikkei 225 Index

## STOXX 600 Index

## S&P 500 Index

## International Stock Indexes







## Global government bonds

Coupon	Country/ Maturity, in years		Spread Over Treasuries in basis points				Yield			
		Yield	Latest	Previous	Month Ago	Year ago	Previous	Month ago	Year ago	
5.250	Australia	2	1.711	45.3	46.0	52.4	116.7	1.718	1.833	1.891
4.750		10	2.616	26.0	25.1	33.5	74.1	2.614	2.815	2.464
3.000	Belgium	2	-0.558	-181.6	-180.8	-185.0	-117.0	-0.550	-0.541	-0.446
0.800		10	0.782	-157.4	-157.5	-167.5	-137.1	0.788	0.805	0.353
0.000	France	2	-0.504	-176.2	-173.9	-179.7	-115.2	-0.481	-0.488	-0.428
0.250		10	0.922	-143.5	-144.1	-153.0	-127.6	0.922	0.950	0.448
0.000	Germany	2	-0.797	-205.5	-204.9	-212.3	-120.5	-0.791	-0.813	-0.481
0.250		10	0.261	-209.5	-210.2	-212.8	-161.9	0.262	0.352	0.104
0.300	Italy	2	-0.077	-133.5	-133.1	-135.8	-70.2	-0.073	-0.049	0.022
1.250		10	2.092	-26.4	-26.7	-37.6	-44.9	2.097	2.104	1.275
0.100	Japan	2	-0.190	-144.8	-143.6	-159.4	-94.4	-0.178	-0.285	-0.220
0.100		10	0.066	-229.1	-229.8	-240.6	-179.0	0.065	0.074	-0.066
4.000	Netherlands	2	-0.748	-200.6	-199.6	-209.7	-120.1	-0.738	-0.788	-0.477
0.750		10	0.495	-186.1	-186.0	-187.7	-153.1	0.503	0.603	0.192
4.450	Portugal	2	-0.155	-141.3	-140.6	-132.4	-48.0	-0.148	-0.015	0.244
2.875		10	3.623	126.7	123.3	143.1	122.5	3.597	3.911	2.948
2.750	Spain	2	-0.228	-148.6	-147.8	-161.1	-71.8	-0.220	-0.302	0.006
1.500		10	1.614	-74.3	-76.0	-88.1	-29.6	1.604	1.599	1.428
4.250	Sweden	2	-0.604	-186.2	-187.3	-190.3	-136.8	-0.615	-0.594	-0.644
1.000		10	0.586	-177.0	-179.4	-178.8	-102.7	0.570	0.692	0.697
1.750	U.K.	2	0.129	-112.9	-113.0	-121.6	-30.9	0.128	0.093	0.415
4.250		10	1.096	-126.0	-129.4	-129.6	-34.5	1.069	1.184	1.379
1.250	U.S.	2	1.258	...	...	...	...	1.258	1.309	0.724
2.250		10	2.356	...	...	...	...	2.363	2.480	1.724

## Commodities

Prices of futures contracts with the most open interest 3:30 p.m. New York time

**EXCHANGE LEGEND:** CBOT: Chicago Board of Trade; **CME:** Chicago Mercantile Exchange; **ICE-US:** ICE Futures U.S.; **MDX:** Bursa Malaysia Derivatives Berhad; **TCE:** Tokyo Commodity Exchange; **COMEX:** Commodity Exchange; **LME:** London Metal Exchange; **NYMEX:** New York Mercantile Exchange; **ICE-EU:** ICE Futures Europe. \* Data as of 4/4/2017

	Commodity	Exchange	Last price	Net	One-Day Change Percentage	Year high	Year low
	<b>Corn</b> (cents/bu.)	CBOT	364.50	1.50	<div><div></div></div> 0.41%	387.25	354.25
	<b>Soybeans</b> (cents/bu.)	CBOT	944.00	6.25	<div><div></div></div> 0.67	1,088.25	936.50
	<b>Wheat</b> (cents/bu.)	CBOT	429.00	2.00	<div><div></div></div> 0.47	477.00	416.25
	<b>Live cattle</b> (cents/lb.)	CME	109.575	0.275	<div><div></div></div> 0.25	114.200	103.150
	<b>Cocoa</b> (\$/ton)	ICE-US	2,116	4	<div><div></div></div> 0.19	2,270	1,879
	<b>Coffee</b> (cents/lb.)	ICE-US	137.00	-0.75	<div><div></div></div> -0.54%	159.30	136.20
	<b>Sugar</b> (cents/lb.)	ICE-US	16.12	-0.04	<div><div></div></div> -0.25	21.21	16.05
	<b>Cotton</b> (cents/lb.)	ICE-US	74.86	0.01	<div><div></div></div> 0.01	79.46	71.55
	<b>Robusta coffee</b> (\$/ton)	ICE-EU	2149.00	5.00	<div><div></div></div> 0.23	2,279.00	2,093.00
	<b>Copper</b> (\$/lb.)	COMEX	2.6805	0.0685	<div><div></div></div> 2.62	2.8360	2.4800
	<b>Gold</b> (\$/troy oz.)	COMEX	1256.10	-2.30	<div><div></div></div> -0.18	1,268.10	1,152.20
	<b>Silver</b> (\$/troy oz.)	COMEX	18.310	-0.013	<div><div></div></div> -0.07	18.540	16.000
	<b>Aluminum</b> (\$/mt)*	LME	1,949.00	-10.00	<div><div></div></div> -0.51	1,960.00	1,688.50
	<b>Tin</b> (\$/mt)*	LME	20,075.00	-55.00	<div><div></div></div> -0.27	21,225.00	18,760.00
	<b>Copper</b> (\$/mt)*	LME	5,750.00	-97.00	<div><div></div></div> -1.66	6,156.00	5,518.00
	<b>Lead</b> (\$/mt)*	LME	2,289.00	-18.00	<div><div></div></div> -0.78	2,445.00	2,022.00
	<b>Zinc</b> (\$/mt)*	LME	2,729.00	-38.50	<div><div></div></div> -1.39	2,958.50	2,555.00
	<b>Nickel</b> (\$/mt)*	LME	9,965.00	-65.00	<div><div></div></div> -0.65	11,095.00	9,430.00
	<b>Rubber</b> (Y.01/ton)	TCE	250.70	14.00	<div><div></div></div> 5.91	n.a.	n.a.
	<b>Palm oil</b> (MYR/mt)	MDX	2715.00	84.00	<div><div></div></div> 3.19	3,068.00	2,627.00
	<b>Crude oil</b> (\$/bbl.)	NYMEX	50.97	-0.06	<div><div></div></div> -0.12	57.50	47.01
	<b>NY Harbor ULSD</b> (\$/gal.)	NYMEX	1.5995	0.0072	<div><div></div></div> 0.45	1.7770	1.4825
	<b>RBOB gasoline</b> (\$/gal.)	NYMEX	1.7109	-0.0108	<div><div></div></div> -0.63	1.9065	1.5824
	<b>Natural gas</b> (\$/mmBtu)	NYMEX	3.260	-0.033	<div><div></div></div> -1.00	3.5070	2.3730
	<b>Brent crude</b> (\$/bbl.)	ICE-EU	54.22	0.05	<div><div></div></div> 0.09	59.89	50.00
	<b>Gas oil</b> (\$/ton)	ICE-EU	482.00	3.00	<div><div></div></div> 0.63	525.00	446.25

Sources: SIX Financial Information; WSJ Market Data Group

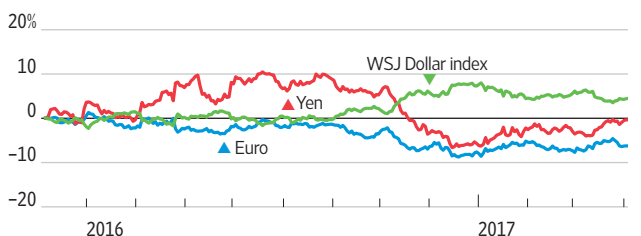
## Cross rates

	USD	GBP	CHF	JPY	HKD	EUR	CDN	AUD
Australia	1.3207	1.6482	1.3134	0.0119	0.1700	1.4077	0.9848	...
Canada	1.3413	1.6339	1.3339	0.0121	0.1726	1.4295	...	1.0154
Euro	0.9381	1.1709	0.9331	0.0084	0.1207	...	0.6994	0.7103
Hong Kong	7.7694	9.6952	7.7260	0.0699	...	8.2816	5.7926	5.8821
Japan	111.2110	138.7800	110.6100	...	14.3140	118.5400	82.9200	84.2100
Switzerland	1.0055	1.2549	...	0.0090	0.1294	1.0718	0.7497	0.7614
U.S.	0.8013	...	0.7969	0.0072	0.1031	0.8542	0.5974	0.6067
U.K.	...	1.2479	0.9945	0.0090	0.1287	1.0660	0.7456	0.7572

Source: Tullett Prebon

## Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency	US\$ vs.		YTD chg (%)	Country/currency	US\$ vs.		YTD chg (%)
	— Wed —	— per US\$ —			— Wed —	— per US\$ —	
<b>Americas</b>							
Argentina peso-a	0.0651	15.3614	-3.2	Hong Kong dollar	0.1287	7.7694	0.2
Brazil real	0.3234	3.0918	-5.0	India rupee	0.0154	65.4001	-4.3
Canada dollar	0.7456	1.3413	-0.2	Indonesia rupiah	0.000750	13334	-1.4
Chile peso	0.001519	658.20	-1.7	Japan yen	0.008992	111.21	-5.0
Colombia peso	0.0003498	2858.40	-4.8	Kazakhstan tenge	0.003208	311.69	-6.6
Ecuador US dollar-f	1	1	unch	Macao pataca	0.1254	7.9766	0.8
Mexico peso-a	0.0534	18.7320	-9.7	Malaysia ringgit-c	0.2257	4.3310	-1.2
Peru sol	0.3079	3.2477	-3.1	New Zealand dollar	0.6952	1.4384	-0.4
Uruguay peso-e	0.0350	28.540	-2.8	Pakistan rupee	0.0096	104.650	0.3
Venezuela bolivar	0.100150	9.99	-0.1	Philippines peso	0.0199	50.183	1.2
				Singapore dollar	0.7136	1.4013	-3.2
<b>Asia-Pacific</b>				South Korea won	0.000869	1127.49	-6.7
Australia dollar	0.7572	1.3207	-0.9	Sri Lanka rupee	0.006580	151.79	2.3
China yuan	0.1450	6.8956	-4.7	Taiwan dollar	0.03287	30.426	-6.3
				Thailand baht	0.02894	34.560	-3.5

London close on April 5

Country/currency	— Wed in US\$	per US\$	US\$, Ytdchg (%)
<b>Europe</b>			
Bulgaria lev	0.5450	1.8349	-1.3
Croatia kuna	0.1431	6.988	-2.6
Czech rep. koruna	0.0660	0.9381	-1.8
Danish krona	0.0394	25.371	-1.2
Denmark krona	0.1433	6.9762	-1.3
Hungary forint	0.003434	291.21	-1.0
Iceland krona	0.008887	112.53	-0.4
Ireland krona	0.1163	8.6019	-0.5
Poland zloty	0.2517	3.9726	-5.1
Russian ruble-d	0.01780	56.195	-8.3
Sweden krona	0.1114	8.9802	-1.4
Switzerland franc	0.9945	1.0055	-1.3
Turkey lira	0.2701	3.7029	5.1
Ukraine hryvnia	0.0368	27.1603	0.3
UK pound	1.2479	0.8013	-1.1

## Middle East/Africa

<b>Bahrain</b> dinar	2.6526	0.3770	-0.05%
<b>Egypt</b> pound-a	0.0556	19.9797	-0.7%
<b>Israel</b> shekel	0.2736	3.6552	-5.0%
<b>Kuwait</b> dinar	3.2809	0.3048	-0.3%
<b>Oman</b> sul rial	2.5974	0.3850	0.01%
<b>Qatar</b> rial	0.2747	3.641	0.02%
<b>Saudi Arabia</b> riyal	0.2666	3.7505	-0.01%
<b>South Africa</b> rand	0.0726	13.7683	0.5%
	Close	Net Chg	% Chg
<b>WSJ Dollar Index</b>	90.57	0.11	0.13
			-2.55%

Sources: Tullett Prebon, WSJ Market Data Group

Sources: Tullett Prebon, WSJ Market Data Group

## Key Rates

	Latest	52 wks ago
<b>Libor</b>		
One month	<b>0.98556%</b>	0.43900%
Three month	<b>1.15039</b>	0.63060
Six month	<b>1.42294</b>	0.89720
One year	<b>1.79594</b>	1.21160
<b>Euro Libor</b>		
One month	<b>-0.39786%</b>	-0.33357%
Three month	<b>-0.35929</b>	-0.25143
Six month	<b>-0.25357</b>	-0.13886
One year	<b>-0.12971</b>	-0.02043
<b>Euribor</b>		
One month	<b>-0.37300%</b>	-0.33900%
Three month	<b>-0.32900</b>	-0.24800
Six month	<b>-0.24100</b>	-0.13200
One year	<b>-0.11400</b>	-0.00500
<b>Yen Libor</b>		
One month	<b>0.01400%</b>	-0.06071%
Three month	<b>0.03521</b>	-0.00600
Six month	<b>0.04657</b>	0.01943
One year	<b>0.14829</b>	0.10557
	Offer	Bid
<b>Eurodollars</b>		
One month	<b>1.1000%</b>	1.0000%
Three month	<b>1.3000</b>	1.2000
Six month	<b>1.4000</b>	1.3000
One year	<b>1.7500</b>	1.6500
	Latest	52 wks ago
<b>Prime rates</b>		
U.S.	<b>4.00%</b>	3.50%
Canada	<b>2.70</b>	2.70
Japan	<b>1.475</b>	1.475
Hong Kong	<b>5.00</b>	5.00
<b>Policy rates</b>		
ECB	<b>0.00%</b>	0.00%
Britain	<b>0.25</b>	0.50
Switzerland	<b>0.50</b>	0.50
Australia	<b>1.50</b>	2.00
U.S. discount	<b>1.50</b>	1.00
Fed-funds target	<b>0.75-1.00</b>	0.25-0.50
Call money	<b>2.75</b>	2.25

Sources: WSJ Market Data Group, SIX  
Financial Information, Tullett

## Top Stock Listings

Cur	Stock	Sym	Last	% Chg	YTD Chg
Asia Titans					
HK\$	AlIAGroup	1299	49.70	0.61	13.60
	AstellasPharma	4503	1490.00	0.10	-8.22
AUS	AustNZBk	ANZ	31.68	-0.47	0.14
AUS	BHP	BHP	24.75	3.47	-1.24
HK\$	BankofChina	3988	3.77	-0.79	0.99
HK\$	CHK Hutchison	0001	95.45	—	8.59
HK\$	CNOOC	0883	9.42	1.29	-2.89
AUS	CSL	CSL	126.40	-0.07	25.88
US	Canon	7751	3502.00	0.03	2.68
US	CentralJapanRwy	9022	1856.00	0.60	-3.48
HK\$	ChinaConstructBk	0939	6.35	0.47	0.37
HK\$	ChinaLifeInsurance	2628	23.95	—	18.56
HK\$	ChinaMobile	0941	86.75	0.93	5.54
HK\$	ChinaPetroChem	0386	6.43	1.74	16.91
HK\$	CrimwithBkAust	CBA	85.99	0.07	4.34
US	EastJapanRailway	9020	9834.00	0.52	-2.63
US	Fanuc	6954	23185	2.91	17.01
US	Hitachi	6501	595.20	-0.30	-5.82
TW\$	Hon Hai Precision	2317	98.60	7.69	16.39
US	HondaMotor	7267	3210.00	-1.59	-6.00
US	HyundaiMtr	005380	150000	-1.32	2.74
HK\$	IndsCommt	1398	5.11	—	9.89
US	JapanTabacco	2914	3665.00	0.22	-4.66
US	KDDI	9433	2933.00	0.50	-1.13
US	Mitsubishi	8058	2426.50	1.50	-2.27
US	MitsubishiElectric	6503	1596.40	0.47	-2.06
US	MitsubishiUFJFin	8306	676.80	-0.95	-6.03
US	Mitsui	8031	1602.00	-0.06	-0.31
US	Mizuho Fin	8411	197.20	-0.95	-6.01
US	NTTDoCoMo	9437	2632.00	—	-1.16
AUS	NatAusBnk	NAB	32.91	-0.69	7.30
US	NipponTeleg	9432	4089.00	1.24	-0.47
US	NissanMotor	7201	1026.50	-1.30	-12.68
US	Panasonic	6752	1260.00	-0.24	0.93
HK\$	PingAnInsfOfChina	2318	43.30	—	11.60
US	RelianceIndsGDR	RIG	43.20	1.65	3.93
US	SamsungElectronics	005930	210700.00	0.14	16.93
US	SevenBldgs	3382	4526.00	0.91	1.64
US	SoftBankGroup	9984	796.00	2.70	2.51
US	Sony	6758	3655.00	-0.52	11.60
US	SumitomoMitsui	8316	3947.00	-0.50	-11.50
HK\$	ShanghaiKaIPwr	0016	117.00	1.47	19.39
US	TaiwanSecMfg	2330	193.00	2.12	6.34

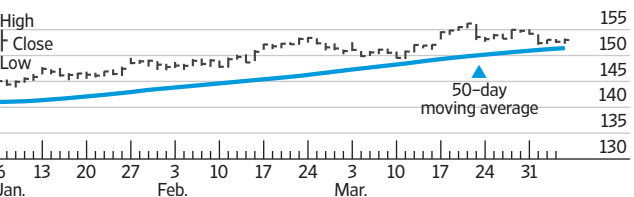
ur Stock	Sym	Last	Chg	% YTD Chg
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TakedaPharm	4500	5291.00	0.36	94.63
TC TenentHoldings	0700	228.80	1.60	20.61
TokioMareHdgd	8766	4622.00	-0.79	-3.63
ToyotaMtr	8203	5909.00	-1.25	-14.05
Wesfarmers	WES	44.26	-1.16	5.03
WestpacBanking	WBC	34.65	-0.63	6.28
Woolworths	WOW	26.77	0.15	11.09
<b>Stoxx 50</b>				
AF ABB	ABBN	23.34	-0.34	8.66
ASMLHoldings	ASML	123.45	-0.07	15.75
AXA	CS	23.70	-0.65	1.37
AirLiquide	AI	107.10	-0.19	1.13
Allianz	ALV	172.10	-0.66	9.62
ABInBev	ABV	103.80	-0.01	3.23
AstraZeneca	AZN	4057.50	-1.97	9.46
BASF	BAS	93.13	-0.74	5.40
BNP Paribas	BNP	60.10	-1.00	-0.74
BT Group	BT.A	313.60	-0.11	-14.53
BancoBilvizAR	BVA	7.05	1.03	10.88
BancoSantander	SAN	5.70	0.65	14.94
Barclays	BARC	218.60	0.39	-12.91
Bayer	BAYN	107.85	0.33	-8.80
BP	BP	46.55	0.33	-8.73
BritishAmTob	BATS	5318.00	-0.53	15.08
Daimler	DAI	67.06	-1.00	-5.07
DeutscheTelekom	DTE	16.25	-0.70	-0.36
Diageo	DGE	2286.50	-0.01	8.63
ENI	ENI	15.15	-0.53	-2.03
GlaxoSmithKline	GSK	1663.00	0.12	6.42
HSDG Hldgs	HSGA	654.60	0.80	-0.39
INGROPE	INGB	13.96	0.11	4.48
ImperialBrand	IMB	3878.00	0.57	9.47
IntesaSangapo	ISP	2.52	-0.32	3.71
LVMHLothienessy	MC	204.75	-0.70	12.83
LloydsBankGroup	LLOY	65.49	-0.03	3.14
L'oreal	OR	178.85	-0.80	4.70
NationalGrid	NG	1012.50	0.35	6.40
Nestle	NESN	76.50	-0.33	4.72
Novartis	NOVN	74.60	-0.20	0.63
Novo Nordisk	NOVO-B	251.10	-0.16	-1.41
Prudential	PRU	167.750	0.33	2.07
ReckittBenckiser	RR	72.550	0.12	5.36
RioTinto	RIO	3268.00	0.11	3.47
RocheHdgtcfr	ROG	257.90	0.35	10.88

ur Stock	Sym	Last	% Chg	YTD% Chg
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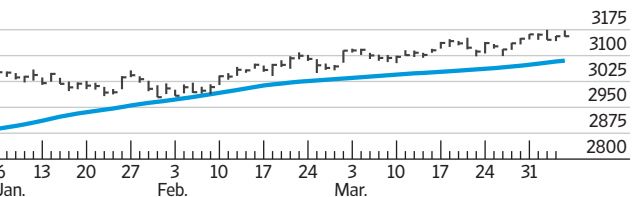
	RoyDutShellA	RDSA	2113.50	0.67	-5.75
	SAP	SAP	91.71	-0.61	10.75
	Sanofi	SAN	85.43	0.15	11.60
	SchneiderElectric	SJ	68.49	-0.20	3.69
	Siemens	SIE	128.10	-0.50	9.67
HF	Syngenta	SYNN	451.60	0.92	12.20
	Telefonica	TEF	10.41	-0.29	18.03
	Total	FP	48.00	0.52	-0.40
HF	UBSGroup	UBSG	15.67	-0.38	-1.76
	Unilever	ULA	46.57	0.20	19.06
	Unilever	ULVR	3939.50	0.05	19.65
	Vinci	VD	73.97	0.23	14.33
	VodafoneGroup	VOD	206.55	...	3.45
HF	ZurichInsurance	ZURN	265.50	0.64	-5.31
DJIA					
	AmericanExpress	AXP	77.74	-0.26	4.94
	Apple	AAPL	144.02	-0.52	24.35
	Boeing	BA	177.08	-0.91	13.75
	Caterpillar	CAT	94.23	0.11	1.61
	Chevron	CVX	108.66	...	-7.68
	CiscoSystems	CSCO	33.00	-1.23	9.20
	Coca-Cola	CO	42.56	-0.28	2.65
	Disney	DIS	112.98	0.05	8.41
	DuPont	DD	80.46	0.83	9.62
	ExxonMobil	XOM	82.53	0.19	-8.56
	GeneralElec	GE	29.96	-0.20	-5.19
	GoldmanSachs	GS	227.65	-0.70	4.93
	HomeDepot	HD	146.64	0.21	9.37
	Intel	INTC	36.22	-0.17	-0.14
	IBM	IBM	172.88	-0.94	4.15
	JPMorganChase	JPM	86.19	-1.28	-0.12
	J&J	JNJ	124.78	0.08	8.31
	McDonalds	MCD	130.46	0.90	7.18
	Merck	MRK	63.56	-0.19	7.95
	Microsoft	MSFT	65.55	-0.26	5.50
	Nike	NKE	54.98	-0.11	8.16
	Pfizer	PFE	34.19	-0.44	5.26
	Procter&Gamble	PG	89.97	0.07	7.01
	3M	MMM	120.90	0.01	6.51
	Travelers	TRV	120.91	0.25	-1.23
	UnitedTech	UTX	112.48	-0.45	2.61
	UnitedHealth	UNH	165.37	0.24	3.33
	Visa	V	89.04	0.29	14.12
	Verizon	VZ	49.01	-0.61	-8.19
	Wal-Mart	WMT	71.63	-0.53	3.63

## Asia Titans 50

last: **153.00** ▲ 0.34, or 0.23% YTD ▲ 8.5%

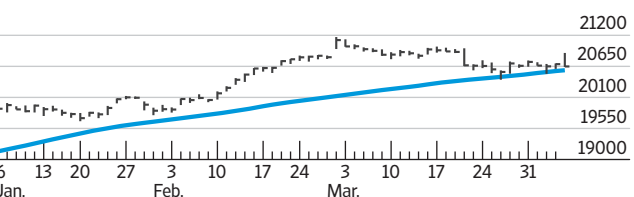
## Stoxx 50

Last: 3156.23 ▲ 0.10, or 0.003% YTD ▲ 4.8%



## Dow Jones Industrial Average

Last: 20648.15 ▼ 41.09, or 0.20% YTD ▲ 4.5%



Note: Price-to-earnings ratios are for trailing 12 months  
Sources: WSJ Market Data Group; Birinyi Associates





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# MARKETS

## Stocks Retreat After Fed Minutes

Some Fed officials say share prices look high relative to certain valuation measures

By RIVA GOLD  
AND AARON KURILOFF

U.S. stocks slipped Wednesday, giving back the day's gains late in the session. The Dow Jones Industrial Average was up nearly 200 points early on, but retreated after the Federal Reserve released minutes from its March policy meeting that showed officials agreed that they would likely begin reducing the central bank's balance sheet later this year. The Dow Jones Industrial Average finished 41.09 points, or 0.2%, lower at 20648.15 Wednesday. The S&P 500 lost 0.3%, and the Nasdaq Compos-

ite fell 0.6%. In Europe, the Stoxx Europe 600 inched up less than 0.1% to 380.09, buoyed by gains in the energy and basic-resources sectors. According to the minutes, some Fed officials said stock prices looked high relative to some valuation measures, citing the possibility of a correction in financial markets as a risk to their economic forecasts. The move toward reducing the Fed's portfolio, which includes assets purchased during and after the 2007-09 recession, came after data signaled strength in the labor force, reinforcing postelection bets on an expanding U.S. economy. Those wagers have supported major indexes even as concerns mount that the Trump administration may struggle to deliver on hoped-for policies such as tax cuts that could boost corporate profits. "There's a general sense that until we get into earnings season and get broader data



Caterpillar's shares edged higher, paring some of its earlier gains.

points, we continue to be susceptible to policy, whether its monetary policy or fiscal policy," said Eric Wiegand, senior portfolio manager at U.S. Bank's Private Client Reserve. "We haven't seen a great deal of progress on the fiscal policy, which continues to be an

area of concern for investors." Stocks rose broadly early in the session following gains in oil prices and data that showed the U.S. private sector added a better-than-expected 263,000 jobs in March, according to payroll firm Automatic Data Processing Inc. and

Moody's Analytics. The Labor Department's jobs report for March is scheduled for Friday. Earlier Wednesday, the Institute for Supply Management said nonmanufacturing activity fell more than economists expected in March, while still showing expansion in industries such as health care and finance. U.S. government-bond prices were little changed, with the yield on the benchmark 10-year U.S. Treasury note rising to 2.352%, from 2.350% Tuesday. DuPont advanced 1% and Caterpillar edged higher by late afternoon, both paring some of their earlier gains. The WSJ Dollar Index, which tracks the U.S. currency against a basket of 16 others, was down less than 0.1%. The dollar had fallen sharply after the Fed's March meeting as some investors were disappointed the central bank didn't increase its projections for rates or economic growth.

## ING Life Korea Sets IPO as Sale Hits Snag

This time last year, South Korean private-equity firm MBK Partners LP was offering to sell a rich prize—the South Korean operations of ING

By Jonathan Cheng  
in Seoul and Kane Wu  
in Hong Kong

Groep NV, which it had acquired in 2013 as part of a planned downsizing of the Amsterdam-based financial company. Among the final bidders was a trio of Chinese players: state-owned China Taiping Insurance Holdings Co., Shanghai-based conglomerate Fosun Group and private-equity firm JD Capital, people familiar with the matter said at the time. But as South Korea's gov-

ernment finalized its plans to deploy a U.S. missile-defense system that is fiercely opposed by Beijing, the Chinese bidders got cold feet, telling MBK that they would wait for a better opportunity, according to people familiar with the matter. Months later, that better opportunity hasn't arrived. So on Thursday, MBK's executives will begin a global roadshow for an initial public offering of ING Life Korea, in hopes that it can sell the company to smaller investors. The deal could value the company at nearly \$3 billion. MBK's abrupt change of tack highlights the broad ripples being felt by the worsening geopolitical standoff over North Korea's nuclear and missile program, which has

prompted Washington and Seoul to push ahead with the controversial missile-defense system, called Terminal High-Altitude Area Defense, or Thaad. On Wednesday, Gu Zhipeng, vice president of JD Capital's

Chinese buyers got cold feet as Seoul prepared to deploy missile defenses.

parent, Jiuding Group, confirmed that the company would no longer be involved in the acquisition of ING Life Korea. He said the company couldn't proceed because of

the recent deterioration in relations between China and South Korea. Mr. Gu added that none of the group's subsidiaries or the group itself have plans to invest in South Korea. China Taiping said it had nothing to disclose in relation to ING Life Korea. Fosun declined to comment. Separately, the Chinese government has also imposed capital controls on many of its own companies, preventing some potential buyers from pursuing already-tough deals. Beijing is seeking to tighten control on money flowing out of the nation, concerned that such capital flight could shake confidence in its economy and potentially weaken the yuan, after a record year of overseas deal making by Chinese com-

panies. Last year, Chinese companies announced overseas deals valued at a collective \$217 billion, according to data provider Dealogic. Jiuding Group's Mr. Gu said Beijing's new capital-control measures were also a factor in its decision not to proceed with the acquisition of ING Life Korea. MBK, which was set up in 2005 by a team of former executives from Carlyle Group LP led by Michael B. Kim, bought ING Life Korea from its Dutch parent company for \$1.6 billion in 2013. Last year, MBK, which has \$14.6 billion of capital under management, hired Morgan Stanley to sell South Korea's fifth-largest insurer by assets at an asking price of more than \$3 billion.

## Europe Firms Head to Asia To Sell Bonds

By NINA TRENTMANN

More European companies are tapping Southeast Asian bond markets, in a move to diversify their sources of funding. They are following their U.S. peers—to Taiwan, Singapore and Hong Kong—as strict regulations on capital exports make it less attractive for European companies to raise capital in China. European companies in the first quarter issued 25 "Formosa" bonds worth a total of \$7.9 billion in Southeast Asia, according to data provided by Dealogic. The majority of bonds were issued in Taiwan. Telefónica SA, the Spanish telecommunications firm, at the end of March raised \$200 million, through a private placement in Taiwan, a first for the company. The deal is part of Telefónica's continuing efforts to strengthen its balance sheet with long-term financing, a spokeswoman said. "We are detecting a growing interest from Asian investors in European issuances," she said. Telefónica's debt sale comes on the back of earlier issuances by Vodafone Group PLC in February and by Electricite de France SA in the fall of 2016. A number of European banks, including Barclays PLC and HSBC Holdings PLC, also recently sold bonds in Asia. European firms still trail their U.S. counterparts—U.S. issuance in Southeast Asia during the first three months of the year amounted to \$9.2 billion—but the market is growing, bankers say. Bond sales by U.S. firms tend to be bigger in size than those of their European peers. "We are seeing that change now," said Isabelle Toledano, head of corporate-debt capital markets at UBS Group AG in London.

## HEARD ON THE STREET

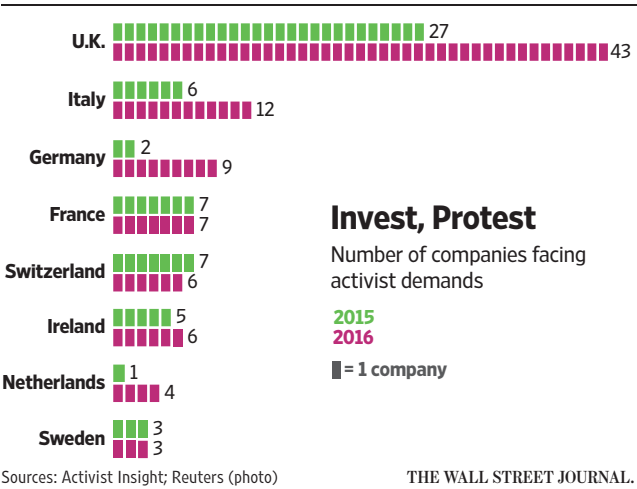
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## Activists Find Fertile Ground in Europe

For all the frustrations caused by local peculiarities, Europe is gradually opening up to activist investors. The most recent high-profile case of European activism concerns Dutch paint company AkzoNobel, which has rebuffed two offers from its U.S. peer PPG Industries. Elliott Management, among the best known New York activists, wants Akzo to enter talks with PPG, which reiterated its interest Wednesday. German car maker Volkswagen and French defense group Safran are also under scrutiny by London-based hedge fund TCI. But a lower-profile case may have more to say about the direction of European activism: Last year, Germany experienced its first major successful proxy contest when a local firm, Active Ownership Capital, succeeded in removing the supervisory-board chairman of a pharmaceutical company, Stada Arzneimittel. Germany was long consid-



**Invest, Protest**  
Number of companies facing activist demands  
2015  
2016  
■ = 1 company  
Swedish firm Cevian, which has built long-term stakes to win board seats at the steel giant ThyssenKrupp and at industrial-services group Bilfinger. "Investors can get stuff done if they understand the market," argues Hans-Christoph Hirt of Hermes, a fund manager that specializes in governance. A total of 97 companies



AkzoNobel headquarters in Amsterdam

faced public investor demands last year in Europe, up from 72 in 2015, according to data collector Activist Insight. The U.K. still accounted for the bulk of the action, yet the fastest growth in cases last year came from former laggards Germany and Italy. Changes in the investor base have supported activists. Institutional investors

are more present than they used to be—even if two-thirds of the largest German companies are still controlled by big insider stakes, calculates Edmund Schuster, a professor at the London School of Economics. And institutional investors are under political pressure to act as owners, rather than as holders, making them more likely to vote with activists. An enduring problem with activism in Europe is that corporate law is different in each country. The arcane qualities of Dutch "stichtings" have become a sticking point in the AkzoNobel case. Although Elliott can, with the support of other shareholders, remove members of Akzo's board, it is powerless to nominate replacements. This probably protects the company from hostile action. Activists looking to prosper in Europe need to master the local rules of the game. If U.S. firms don't, others will. —Stephen Wilmot

## France and Germany Not So Unalike

It is the eternal question for Europe's major economies: Are they growing together or falling apart? Market moves in the first quarter have highlighted the risk of a political rift between France and Germany, the heart of the European project, as a result of the coming French elections. The spread between 10-year French and German bonds in February reached a level not seen since 2012. But another indicator shows closer economic harmony: The gap between the French and German composite purchasing managers' indexes stood at an average 0.4 point in the first quarter, data from index compiler IHS Markit show. That is the narrowest three-month gap since 2012. Economists at IHS Markit say the indexes point to growth of 0.6% in the first quarter for both France and Germany. The contrast between relative economic health and political risk remains live. Economics has been gaining the upper hand in equities: In March, the Stoxx Europe 600 index gained 2.9% even as the S&P 500 was flat. The euro has been supported against the dollar, too. But the bond market has been more skeptical, with the 10-year German yield falling back below 0.3% and the gap between France and Germany proving persistent. The political days of reckoning in France—two rounds of presidential voting—are rapidly approaching. Italian politics are still lurking as a threat beyond that, but in the absence of a French shock, markets should be able to focus more closely on the eurozone's real economic recovery. —Richard Barley

## Airbnb Has a Way to Succeed in China

Airbnb is trying to do something that has foiled almost all U.S. internet giants: succeed in China. The odds are stacked against it, but there is one route that might lead to success. The online room-rental service, valued at \$31 billion in a funding round last month, plans to double its investment in China over the next year. U.S. tech companies have been tripped up by China's vastly different culture and political and legal systems. Airbnb may escape the fate of Facebook, Twitter, YouTube and Instagram—all blocked on national-security grounds—but censorship isn't the only way Beijing can tilt the playing field in

favor of its home teams. Take ride-hailing giant Uber: After burning billions in China it capitulated in August, swapping its business there for a minority stake in homegrown rival Didi Chuxing. The likely last straw: regulations prohibiting ride-hailing companies from setting prices below cost—an important Uber tactic for attracting customers in new cities. Airbnb, too, faces a strong local rival. Tujia, which partners with China's biggest travel site, Ctrip, has more than 400,000 listings in the country, five times as many as Airbnb. Tujia understands the general Chinese distrust of home sharing, so it per-

forms due diligence on its listings while providing housekeeping services. Airbnb could follow suit, though that might prove costly. Or it could learn from one U.S. success in China: LinkedIn. Since the professional network entered the market in 2014, the number of Chinese users has grown fivefold to more than 20 million. LinkedIn censors its content but its secret sauce is that it offers something local rivals can't: a network of global companies and professionals. Similarly, Airbnb could find a home in China—not by competing domestically, but by catering to the surging number of Chinese traveling abroad. —Jacky Wong

### OVERHEARD

U.S. President Donald Trump, set to meet this week with China's leader, Xi Jinping, shares a penchant for big infrastructure projects with the Chinese—who, you may recall, mastered building Great Walls centuries ago. Investors in both countries seem to join in the enthusiasm. U.S. industrial shares soared after Mr. Trump's surprise election, partly on his ambitious if vague plans for big investment spending. Chinese infrastructure shares got a jolt Wednesday—when mainland markets reopened after a two-day holiday—from a week-end announcement of a new development zone outside of Beijing.

Among those jumping the daily limit of 10% were Tianjin Port, near Beijing, and cement maker BBMG. BBMG's shares in Hong Kong, where the market was open Monday, have surged around 48% this week. Never mind that details on what will make the new development zone a smashing success remain scarce, other than its strategic location and an expectation some state functions will be transferred there. For investors in China—as in the U.S.—infrastructure announcements are enough to signal "go" for speculation. Any actual development may just prove to be the icing on the cake.