

# THE WALL STREET JOURNAL.

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THURSDAY, AUGUST 24, 2017 ~ VOL. XXXV NO. 144

WSJ.com EUROPE EDITION

DJIA 21812.09 ▼ 0.40%

NASDAQ 6278.41 ▼ 0.30%

NIKKEI 19434.64 ▲ 0.26%

STOXX 600 373.92 ▼ 0.50%

BRENT 52.57 ▲ 1.35%

GOLD 1288.90 ▲ 0.30%

EURO 1.1801 ▲ 0.33%

## What's News

### Business & Finance

WPP shares were off 11% after the firm reported a surprisingly steep slowdown in ad buying from consumer-goods companies. **A1**

◆ Saudi Arabia's plan to list its state-run oil company has prompted other Middle Eastern nations to raise capital on equity markets. **A1**

◆ Google and Wal-Mart are joining forces in an e-commerce partnership that includes voice-ordered purchases. **B1**

◆ Samsung debuted its new Galaxy Note 8 phone, showing improvements from a previous model that caused a scandal. **B1**

◆ Whole Foods shareholders approved Amazon's takeover of the grocer, moving the deal one step closer to completion. **B2**

◆ Cargill has invested in a startup that is developing technology to grow meat from self-reproducing animal cells. **B1**

◆ Four mutual funds have significantly marked down their investments in Uber following the company's turbulent year. **B3**

◆ After waiting years for rates to rise, banks are loading up on loans and securities that carry low rates for long periods. **B5**

◆ The U.S. is considering restricting trades in Venezuelan debt as it seeks to punish President Maduro for undermining the country's democracy. **B8**

### World-Wide

◆ The world's major economies are growing in sync for the first time in a decade, helped by low-interest-rate stimulus and the fading of crises. **A1**

◆ Jared Kushner will lead a delegation to try to advance talks between Israelis and Palestinians. **A3**

◆ Saudi Arabia is courting Iraq's Shiite leaders and reopening borders between the countries after years of rancor. **A3**

◆ The Trump administration outlined new measures it plans to take to press Pakistan to stop harboring extremist groups. **A4**

◆ Trump's efforts to reboot U.S.-Pakistan relations as part of his new Afghanistan strategy may be challenged by a rising Pakistani politician. **A4**

◆ Kim Jong Un appeared in state media visiting a missile production factory, hours after Tillerson praised his restraint. **A5**

◆ The U.S. Navy removed the commander of the fleet that has suffered four recent collisions and the deaths of several sailors. **A5**

◆ The U.S. president threatened to shut down the government if Congress doesn't approve funding for a Mexico border wall, raising alarm among some Republican lawmakers. **A6**

◆ China's unofficial campaign against South Korean goods is leaving some Chinese citizens in need of employment. **A5**

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

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## Typhoon Hato Hammers Hong Kong



HIGH WINDS: Hong Kong was hit by its first category 10 storm since 2012, with dozens reportedly hurt. In Macau, three people were killed. **A5**

## Top Economies Are in Sync

Low interest rates help spur rare growth in all 45 countries tracked by the OECD

By JOSH ZUMBRUN

For the first time in a decade, the world's major economies are growing in sync, a result of lingering low-interest-rate stimulus from central banks and the gradual fading of crises that over years ricocheted from the U.S. to Greece, Brazil and beyond.

All 45 countries tracked by

the Organization for Economic Cooperation and Development are on track to grow this year, and 33 of them are poised to accelerate from a year ago, according to the OECD. It is the first time since 2007 that all are growing and the most countries in acceleration since 2010, when many nations enjoyed a fleeting snapback from the global financial crisis.

The International Monetary Fund in July projected global economic output would grow 3.5% this year and 3.6% in 2018, up from 3.2% growth in 2016.

In the past 50 years, simula-

taneous growth among all the OECD-tracked countries has been rare. In addition to happening last decade, it has only happened in the late 1980s, and for a few years before the 1973 oil crisis.

"It's not a particularly fast or thrilling beat, more plodding and methodical, but it's getting the job done," Josh Feinman, chief global economist of Deutsche Asset Management.

The development comes, ironically, just as nationalist movements in the U.S., Europe and beyond have gotten a new life, driven by suspicion over global trade and fi-

nance. At the moment, the growth pickup is lifting the fortunes of car makers in Japan, coal miners in Indonesia and forklift makers in Germany. U.S. exports grew near a 6% annual rate in the first half of the year, their best two-quarter performance since the end of 2013 and outpacing the average of the previous decade.

The episode could be undone if synchronized growth morphs into overheating. As years of crisis have demonstrated, soaring global stock prices or regional property

Please see GLOBAL page A2

## Big Firms Reduce Spending On Ads

By NICK KOSTOV

Some of the world's biggest consumer-goods firms are ratcheting back hard on ad spending, starving Madison Avenue of revenue and threatening further fallout among ad-dependent media firms.

Shares in the world's largest advertising company, WPP PLC, fell 11% in London on Wednesday after the firm reported a steeper-than-expected slowdown in ad buying from consumer-goods companies, especially in North America.

The company is often considered a bellwether for a wide swath of industries because of its large client base. Other big advertisers have been signaling slowing prospects amid a retrenchment among some of the world's biggest packaged-good companies, such as Unilever PLC and Procter & Gamble Co., but the extent of the slowdown at WPP surprised investors.

WPP's woes ricocheted outside the advertising industry, hitting shares of some of Europe's biggest media firms. Television and publishing companies are heavily reliant on the ads that companies like WPP place with them. Axel Springer SE, the Berlin publisher of Germany's mass-market Bild newspaper and operator of the N24 cable-news station, fell 1.4% on Wednesday.

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◆ Packaged-goods giants' woes spread..... A2  
◆ WPP troubles are already in the price of shares..... B1

## Aramco Triggers Mideast IPO Rush

Saudi Arabia's plan to list Saudi Arabian Oil Co. is sending other Middle Eastern nations rushing to raise capital

By Sarah McFarlane,  
Christopher Whittall  
and Summer Said

on equity markets, potentially privatizing swaths of the state-run energy industry for the first time.

Three years of lower energy prices have pushed regional governments dependent on oil revenue to tap public markets as a way of plugging holes in their budgets. Gulf nations are also looking to this tactic to diversify their economies.

Many governments have already issued bonds. Now, they are turning to equity markets, a move hastened by the initial public offering of 5% of the

company, also called Saudi Aramco. Once listed, it is expected to be the world's largest company by market capitalization.

Already this year, there have been 32 IPOs in the Middle East, raising \$1.5 billion, according to data provider Dealogic. That is more deals than in the two previous years combined.

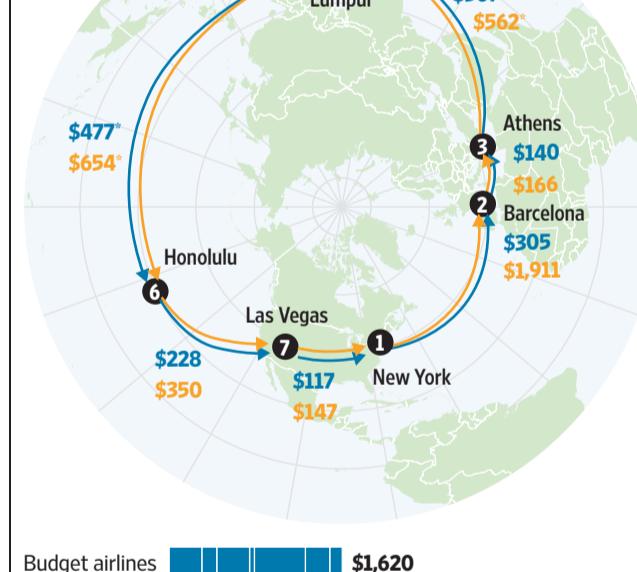
Other IPOs are being planned or have been announced, according to official statements and people familiar with the discussions. Those include state-owned commodity players such as Abu Dhabi National Oil Co., or Adnoc; Kuwait Energy; Emirates Global Aluminium, and Oman Oil Co.

Some countries want to beat Saudi Arabia to the market, fearful that if Aramco's benchmark listing flops it will

Please see ARAMCO page A3

Note: One-way prices based on select travel week of Oct. 8. Individual flights may not add to total due to rounding. \*With one stop

## Around the World on Budget Airlines



Budget airlines \$1,620

Legacy carriers \$3,877

Note: One-way prices based on select travel week of Oct. 8. Individual flights may not add to total due to rounding. \*With one stop

Sources: the companies, Expedia.com

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### NORTH KOREA ORDERS MORE WARHEADS

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### BOXING'S EARLY TOLL ON MUHAMMAD ALI

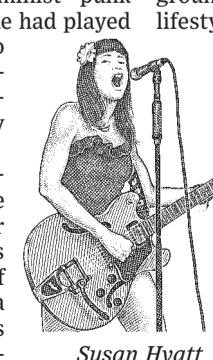
#### U.S. NEWS, A7

## This Next Song Is Dedicated To Our Therapist

\* \* \*

At Rock Star Therapy in Los Angeles, bands in discord air grievances

By ERICH SCHWARTZEL



Menstruators. Still, "it's kinda nice to sit there and talk."

When musicians want to lend some psychological grounding to the rock 'n' roll lifestyle, they call Ms. Milstein, founder of Rock Star Therapy. She leads group therapy sessions for major acts and rookie groups all trying to keep discord at bay. Ms. Milstein, a music-industry veteran who moved into psychology more than a decade ago, is part of a movement that brings feelings into the hard-edge world of rock 'n' roll, where brawls and disagreements have built a back story behind many hit tracks.

Please see THERAPY page A6

## Oracle #1 SaaS Enterprise Applications Revenue

#1  
Oracle Cloud

#2  
Salesforce Cloud

14.5%

1,000+ Employees Segment, 2015

ORACLE®

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.

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## WORLD NEWS

# Goods Giants' Woes Spread

**World's biggest makers of packaged goods are battling a host of difficulties**

BY SAABIRA CHAUDHURI

The long-simmering pressure facing the world's consumer goods giants is now ricocheting more widely, hitting advertising firms and the media companies dependent on them.

WPP PLC, the world's biggest advertising holding firm by sales, said a sharp pull-back among these core advertisers sent revenue in the first half sharply lower. Investors sold down WPP shares heavily and some European media firms also suffered early Wednesday on worries that ad buying could

dry up further.

The world's biggest makers of packaged goods, including Procter & Gamble Co., Unilever PLC, Kraft Heinz Co. and Nestlé SA, have all struggled with a host of headwinds. Changing consumer tastes are favoring healthier, fresher options for food makers. New, often smaller, local upstarts are competing for sales of everything from shaving cream to ice cream.

Low inflation in many parts of the world, until just recently, has kept them from raising prices to make up for slowing volumes.

The industry—in many cases encouraged by activist investors—has responded by ratcheting back hard on costs. The penny-pinching is hitting advertising budgets hard.

Unilever's ad spending as a

ratio to sales—a metric that measures marketing against the ups and down of actual revenue—fell by 1.3 percentage points in the first half of 2017, compared with the previous six months, according to RBC. Eight of Europe's 10 biggest consumer-goods firms lowered their ratio of marketing to sales in the period, averaging a drop of just over half a percentage point.

It isn't just cost-cutting. Packaged foods makers and personal-care and household-goods giants are facing competition from new upstart brands, many of which have used social media and online "influencers" to target consumers. Some big companies have tried to follow suit, shifting their own advertising focus to include these often cheaper approaches.

The strategies have also

made it more difficult to justify big-budget, multimedia campaigns—the sort of projects that made Madison Ave. what it is today—to boost flagging sales. The ad-spending falloff could be "recognition that throwing money at marketing isn't the panacea it was," said RBC analyst James Edward Jones.

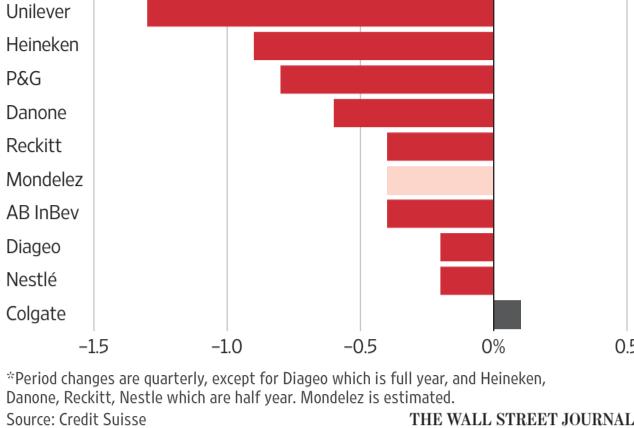
Unilever earlier this year said it planned to cut the number of ads it created by 30% and reduce the number of creative agencies it works with by half.

Like its peers, the Anglo Dutch maker of Dove soap and Hellmann's mayonnaise has been turning to YouTube stars and beauty bloggers to seed its products, diverting some money from traditional advertising channels.

Investors and analysts are divided on whether the cuts

## Pulling Ads

Expenditures in advertising and promotion as a percentage of sales, change from previous period\*



\*Period changes are quarterly, except for Diageo which is full year, and Heineken, Danone, Reckitt, Nestle which are half year. Mondelez is estimated.

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in spending are a response to a new reality or a short-term attempt to lift profit, which could ultimately dilute big brands.

At least one activist investor calling for change in the sector thinks cutting back on ads is the wrong approach.

Last month, Nelson Peltz's Trian Fund Management, now a big holder of P&G stock, criticized management for "reducing advertising, specifically digital, a tactic we believe will damage the value of the company's brands if continued in the long term."

## ADS

*Continued from Page One*  
day. In Britain, shares in broadcaster ITV PLC fell 1.9%.

Shares of rival ad-holding companies also tumbled. Omnicom Group Inc. declined 6.9%, Interpublic Group of Cos. 6.3% and Publicis Groupe SA 3.2%. Media companies more broadly traded down, with the S&P 500 Media Index off 0.8%.

WPP lowered its full-year forecast for net sales growth to 1% or less, blaming belt tightening at packaged-goods companies that make products as diverse as beer and shampoo. WPP also rattled investors in March, when it set a 2017 target for net sales growth—a measure used to judge the company's underlying performance—of just 2%.

Chief Executive Martin Sorrell said advertisers in the packaged-goods sector—which

make up one-third of WPP's sales—are struggling with a low-growth, low-inflation environment, while some are contending with activist investors and technological disruptions.

Sales volumes at consumer-goods companies "are flat or falling," Mr. Sorrell said. "That's a big wake-up call. It means you have less consumers, and that's the beginning of serious problems."

Among advertisers' biggest worries, he said, is the increasing dominance of Amazon.com Inc. over the traditional retailers that distribute consumer goods. "If you're a packaged-goods company and you want to increase your volumes, do you ignore Amazon or do you go to them? And if you go to them, they control your data," he said.

Despite the slowdown in underlying revenue growth, the group reiterated its target for a 0.3-point improvement in its operating margin. It also raised its dividend to 22.7 pence (29 U.S. cents) from

19.55 pence in the first half.

Investors, however, were focused on the lower 2017 outlook, which showed the troubles of the consumer-goods sector are spilling into an already-weakened ad industry.

For years, the advertising world has strained to deal with the shift from traditional advertising platforms, such as print and TV, to digital. That is now being compounded by austerity among major advertisers that are core to growth.

P&G, Nestlé SA, Unilever and Anheuser-Busch InBev NV have all struggled to boost growth. Those factors are leading companies to put additional pressure on ad firms to reduce the fees they pay for services.

"The enthusiasm has waned," he said, adding that businesses are concerned about the administration's ability to push through tax changes after the failure of its health-care push last month.

of adjusting the previous year's spending.

Unilever, a proponent of zero-based budgeting, said last month in its first-half earnings report that it plans a "step-up" in brand and marketing investment in the second half of this year. Earlier this year, the company had said it planned to cut the number of ads it created by 30% and reduce the number of creative agencies it works with by half.

Mr. Sorrell said WPP's weakest performance came from the group's North America operations, pointing out the uncertainty around the economy and the Trump administration's ability to carry out its legislative agenda.

"The enthusiasm has waned," he said, adding that businesses are concerned about the administration's ability to push through tax changes after the failure of its health-care push last month.

WPP's slowdown comes as its closest competitors face

similar headwinds. Publicis is navigating a leadership transition and reported sales growth of 0.2% in the second quarter, far below its historical average. Omnicom reported better-than-expected earnings, but sounded a cautious note regarding the U.S. economy.

Last month, Interpublic, a U.S.-based holding company that owns agencies including McCann Worldgroup and IPG Mediabrands, said spending cuts by consumer packaged-goods clients reduced its revenue in its latest quarter by 1%.

WPP on Wednesday said first-half profit before interest and tax rose 15% to £882 million (\$1.13 billion). Reported revenue rose 13% to £74 billion for the period, lifted by favorable exchange rates to the Brexit-weakened pound. Net profit more than doubled to £596 million from £246 million after one-time costs a year earlier weren't repeated.

—Lara O'Reilly contributed to this article.

## GLOBAL

*Continued from Page One*

markets could quickly turn to financial mayhem that takes down economies. Moreover, central bankers, gathering this week for the Federal Reserve's annual conference in Jackson Hole, Wyo., could derail the upturn if they pull back financial stimulus too aggressively.

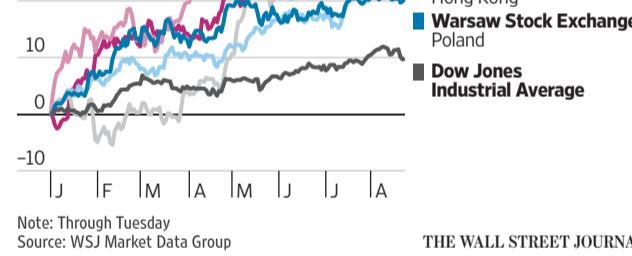
For now, though, the global upturn appears on track, in part because inflation is low and central bankers are moving gradually.

Federal Reserve Chairwoman Janet Yellen and European Central Bank President Mario Draghi, both speaking in Jackson Hole Friday, can point to the global backdrop to justify plans to pull back stimulus programs. The Fed is expected in September to begin reducing \$4.5 trillion in holdings built up over the decade to help drive down interest rates and boost risk-taking by investors, households and business. The ECB is nearing the end of its own bond-purchase program.

"For the first time in many years, we are seeing signs of synchronized economic expansions at home and abroad," said Fed governor Lael Brainard in a speech shortly before the Fed's June meeting. Ms. Brainard has been a leading voice of caution at the Fed about interest-rate increases. Now she is supporting the Fed's plan to shrink its securi-

### Double the Dow

Year-to-date change in select stock indexes around the world that are outpacing the Dow Jones Industrial Average



ties holdings.

A wide range of factors are at play in the global upturn.

Among them, long-troubled eurozone economies, even Greece, show signs of finally turning a corner. The OECD sees 1% growth for Greece this year, not much but still the best in 10 years and against a backdrop of falling unemployment. The country last month successfully returned to the international bond market after having been locked out since 2014.

Economic growth in the 19-nation eurozone outpaced the U.S. in the first quarter of the year and kept pace in the second quarter. Economic confidence is at its highest level in a decade, and unemployment has fallen to an eight-year low of 9.1%. Growth has broadened beyond traditional powerhouses like Germany and the

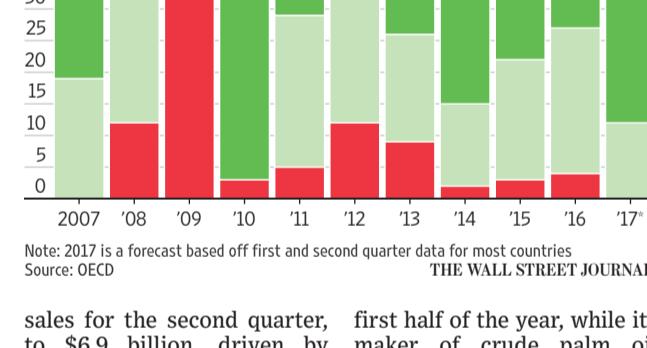
Netherlands: Spain notched its best growth performance in nearly two years in the second quarter. France and Portugal are both posting solid growth.

Jungheinrich AG, a German maker of forklift trucks, is benefiting from a "very good recovery" in Spain and Portugal, according to its chairman, Hans-Georg Frey. The firm, which makes four-fifths of its revenue in Europe, recently reported a 14% rise in net sales for the first half of the year. "We are looking forward to a positive second half," Mr. Frey said.

In Italy, increased exports—up 8% from a year earlier in June—have helped push the nation's trade balance into surplus. Italian engineering firm CNH Industrial NV had seen its sales slide by about a quarter since 2014, but the firm reported a 3% rise in

### Growing In Sync

Number of major economies tracked by the OECD with:



sales for the second quarter, to \$6.9 billion, driven by strength in Asia and Europe.

In many advanced economies, including the U.S., the aftereffects of the financial crisis are finally fading. American households have stopped paring back their debt exposures and started returning to normal spending patterns. The fiscal stance in many advanced economies has shifted from austerity to ease. And although the Fed has begun to raise its target interest rate, most interest rates around the world remain low and below inflation rates.

The world is also benefiting from a reversal from a global commodity bust that began in 2014. New energy supplies, such as from U.S. fracking, combined with soft global growth to send prices plunging. Now, prices have firmed and investment is picking up.

After the commodities bust helped sink Brazil into its deepest recession ever, it is now forecast to expand 0.3% this year and 2% in 2018. The IMF's global price index for all commodities is up 27% from the start of 2016, and Brazil's crucial iron ore has seen prices rise 37% off their recent bottom.

That is feeding through to the rest of the economy. MRV Engenharia e Participações SA, Brazil's largest builder of homes for low-income families, has launched 21% more new projects in the first half versus a year ago, said Chief Financial Officer Leonardo Guimarães Correa. The country is "moving from a downward period to a period of recovery," Mr. Correa said.

Indonesian conglomerate PT Astra International saw net profit in its coal-mining subsidiary jump 85% during the

first half of the year, while its maker of crude palm oil booked a 26% year-on-year increase in net profit. "For the rest of the year, we expect to continue to benefit from the [higher] coal and crude palm oil prices," said Julian Warman, a spokesman for Astra International.

While the global outlook has bolstered U.S. stocks, investors in other countries have benefited even more: Indexes in Turkey, Hong Kong, Argentina, Greece and Poland are all up more than 20% this year, doubling the performance of the Dow Jones Industrial Average.

"All the attention to the U.S. election was covering up how much the rest of the world was improving," said Adolfo Laurenti, global economist at the Swiss bank J. Safra Sarasin.

Japan's economy grew an annualized 4% in the three months through June, lengthening its most recent stretch of growth under Prime Minister Shinzo Abe to six quarters.

Congress revoked recently an Obama-era regulation that states had cited in part to reassure employers that state-mandated retirement offerings would be exempt from the federal law governing 401(k)-style plans.

A Finance & Markets article on Aug. 17 about state-run retirement programs wasn't clear about the status of the regulation.

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

Consumer spending is helping drive growth; Nissan Motor Co. saw its Japan sales rise by 46% year-to-year in the June quarter thanks to the popularity of a minivan equipped with autonomous driving tools.

The three other periods in the past 50 years with synchronized growth saw the trend continue for a few years. In the end, however, those expansions became overextended and ended.

Some signs of froth are popping up now, beyond soaring stock prices. China relies increasingly on its property market for growth. Despite the government's recent crackdown on speculative home purchases, persistent demand for property has boosted production and sales of construction material, furniture and other items. Astronomical property prices are causing many consumers to tighten their purse strings.

Yet broader inflation is low worldwide, which will give central bankers an opportunity to proceed slowly in pulling back stimulus. It will make for easier breathing in the thin air of Jackson Hole, after years of hand-wringing and crisis management about the prospects for the global economy.

—Tom Fairless in Frankfurt, Grace Zhu in Beijing, Luciana Magalhaes in São Paulo and Megumi Fujikawa in Tokyo contributed to this article.

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# WORLD NEWS

## In Mideast, Even Talks Are Elusive

Jared Kushner to meet separately with Israelis, Palestinians in search of path to negotiations

President Donald Trump, who has pledged to broker the "ultimate deal" between Israelis and Palestinians, faces major obstacles to getting them to even negotiate, as his son-in-law and adviser Jared Kushner arrives in Israel this week.

The White House says the discussions will focus on "the path to substantive Israeli-Palestinian peace talks," combating extremism and economic and humanitarian issues in the Palestinian territories of the West Bank and Gaza Strip. Mr. Kushner's delegation is set to meet with Israeli and then Palestinian officials separately on Thursday.

But the U.S. hasn't received assurances that the two sides will talk to one another—let alone take steps to resolve the decades-long conflict. A White House official emphasized that the U.S. is still in the initial

stages of the process and has yet to formally propose a new peace dialogue.

The Palestinians' quest for statehood is among the biggest hurdles to direct negotiations. Many Israeli officials won't support the creation of a Palestinian state; Palestinian officials don't want to negotiate without statehood as the goal. The White House hasn't said how it plans to bridge the gap, say Israeli and Palestinian officials.

The deadlock underscores the tough task Mr. Trump faces in forging Middle East peace—a signature foreign-policy goal that has eluded American leaders for decades. Mr. Trump in February backed off the U.S.'s longstanding commitment to a two-state strategy, saying he would support whatever solution both parties prefer.

Mr. Trump has deputized Mr. Kushner, a 36-year-old former real-estate developer with no experience negotiating foreign conflicts, to spearhead the peace efforts.

In leaked comments from a meeting with congressional interns, Mr. Kushner said "there may be no solution" to the conflict but said he would try because it was "one of the problem sets the president



Israeli soldiers ran during clashes with Palestinian protesters in a West Bank village on Friday.

asked us to focus on."

Mr. Kushner's team will also meet with leaders from Saudi Arabia, the United Arab Emirates, Qatar, Jordan and Egypt over the peace process and other issues.

Palestinian officials said they were initially encouraged by Mr. Trump's eagerness to get a deal done, but now say they are disappointed with his administration's early steps.

Palestinian Authority President Mahmoud Abbas on Sunday told a group of left-wing Israeli lawmakers that he had met 20 times with Trump administration officials but still had no clear idea on its direc-

tion for peace.

The U.S. is "not willing to say" that the Palestinians' basis for negotiation is the establishment of a state, said Esawi Freij, an Israeli lawmaker who met with Mr. Abbas.

The White House official said the administration has developed a strategy that it will begin discussing with the relevant parties this week.

"The president remains optimistic," the official said.

Disagreements over West Bank settlement housing also are roiling the waters. Since Mr. Trump took office, Israeli Prime Minister Benjamin Netanyahu has issued a significant increase

in construction tenders for such housing and agreed to build the first new stand-alone settlement in more than 20 years.

In a meeting in February with Mr. Netanyahu, Mr. Trump asked the Israeli leader to halt settlements. But White House officials also have refrained from condemning them when they are announced, in contrast with the Obama administration which frequently did.

Mr. Trump appointed David Friedman, his longtime lawyer who has financially supported settlements, as U.S. ambassador to Israel.

The Trump administration has made clear that unre-

strained settlement activity does not advance the prospect for peace," the White House official said. "At the same time, the administration recognizes that past demands for a settlement freeze have not helped advance peace talks."

Israeli officials have said they don't believe settlements are an impediment to peace or the establishment of a Palestinian state.

Israeli politics also is playing a role. Members of Mr. Netanyahu's government have warned against entering peace talks based on a two-state solution at risk of destroying the governing coalition.

## Airstrikes Said to Kill Dozens Near Yemeni Capital



Houthi rebels in Yemen said airstrikes by a Saudi-led military coalition near the capital on Wednesday killed and wounded at least 71 people, including more than 35 dead at a hotel, in the latest surge of violence in the nearly 2½-year war.

There was no independent confirmation of the Houthi claims. A spokesman for the coalition, which is fighting to unseat the rebels from the capital San'a and restore the internationally backed government of President Abed Rabbo Mansour Hadi to power, didn't reply to a request for comment about the allegations.

Abdulgoddoos al-Shahary, an

official at Yemen's Houthi-controlled information ministry, said at the time of the airstrikes there was no fighting in the area around the hotel, 14 miles north of the capital.

Mr. al-Shahary said the hotel was frequented by sellers of khat, and most of the dead were children accompanying their fathers to buy the leaf, which is chewed by many Yemenis as a stimulant, and transport it for sale in the capital.

Above, people carried the body of a man they recovered from the site of the airstrikes. In June, the United Nations said it had recorded almost

5,000 civilian casualties since the Saudi-led, U.S.-backed coalition intervened in Yemen in March 2015. The U.N. and international human-rights groups say the coalition has been responsible for many of them and have urged it to differentiate between civilian and military targets. The coalition has denied deliberately targeting civilians.

The coalition captured the southern city of Aden from the Houthis in 2015, and has expelled the group from other areas of southern and central Yemen. But the rebels have managed to hold San'a.

—Mohammed al-Kibsi

## ARAMCO

*Continued from Page One*  
be harder to sell their own companies.

Selling state-owned assets is a relatively new phenomenon in the Middle East, where governments own great chunks of the economy. Global fund managers have lacked a direct way to get exposure to the Middle East's oil industry, and this will bring new options for those funds looking to put money into the global energy sector.

But investors also worry about geopolitical tensions in the region, particularly given the growing rift between Qatar and its neighbors.

Tim Love, an investment director at GAM Holding, would usually invest roughly 5% of his emerging-market equity portfolio in the Middle East. Currently, it is at around 1%.

"We'd be more than happy to exploit opportunities in the Middle East just as and when" geopolitical risks subside, he said, adding that there were better risk-return opportunities elsewhere.

Aramco's IPO is slated for 2018. Estimates of the company's value have ranged from less than \$500 billion by some analysts to Saudi Arabia's own \$2 trillion price tag.

The coming IPO, first announced in 2016, has influenced other countries to look at listing their own assets, according to company and state

officials. "The Aramco IPO is definitely making several companies in the Gulf rethink their strategy," said a senior Oman government oil official.

Listings would boost the Omani stock exchange while attracting more foreign investors to the country, the official said.

Adnoc is expected to be first in line. The company is scheduled to list its retail business, which controls gasoline stations and convenience stores,

### A Push Higher

IPOs by companies in the Middle East  
40 IPOs



\*Through Tuesday. Source: Dealogic

THE WALL STREET JOURNAL

price into a long period of decline, culminating in it trading below \$30 a barrel in early 2016. Wednesday, Brent oil futures, the international benchmark, were at \$52.57 a barrel.

Moody's Investors Service estimates that oil accounts for about 25% of gross domestic product in Gulf Cooperation Council countries and about two-thirds of government revenue.

"The reality is oil prices are unlikely to recover significantly and not only are governments trying to diversify, but they're also trying to prioritize key investments in critical sectors," said Mustafa Ansari, energy economist at development bank Arab Petroleum Investments Corp.

Governments are trying to diversify their economies away from energy by moving into financial services, chemicals and even manufacturing.

"They can't do this without the help of private investment," Mr. Ansari said.

Around two years ago, these countries began turning to bond markets to raise cash. That included Saudi Arabia's \$17.5 billion bond sale last October. GCC members raised \$38.9 billion from bond sales last year, and a further \$32.5 billion of new paper is expected to be issued by the end of this year, according to Moody's.

Bankers say IPOs are a natural follow-on. Bonds can be arranged and sold quickly. A listing can take months, sometimes years, to bring to market.

## Saudis Open Iraqi Border, Forge Ties to Counter Iran

By MARGHERITA STANCATI

ARAR, at the Saudi Arabia-Iraq Border—Saudi Arabia, with U.S. assistance, is pushing aside years of rancor with its neighbor Iraq and mounting a broad effort to win Baghdad's allegiance and dilute Iran's influence over the pivotal U.S. ally.

There was no independent confirmation of the Houthi claims. A spokesman for the coalition, which is fighting to unseat the rebels from the capital San'a and restore the internationally backed government of President Abed Rabbo Mansour Hadi to power, didn't reply to a request for comment about the allegations.

Abdulgoddoos al-Shahary, an

official at Yemen's Houthi-controlled information ministry, said at the time of the airstrikes there was no fighting in the area around the hotel, 14 miles north of the capital.

Mr. al-Shahary said the hotel was frequented by sellers of khat, and most of the dead were children accompanying their fathers to buy the leaf, which is chewed by many Yemenis as a stimulant, and transport it for sale in the capital.

Above, people carried the body of a man they recovered from the site of the airstrikes. In June, the United Nations said it had recorded almost

5,000 civilian casualties since the Saudi-led, U.S.-backed coalition intervened in Yemen in March 2015. The U.N. and international human-rights groups say the coalition has been responsible for many of them and have urged it to differentiate between civilian and military targets. The coalition has denied deliberately targeting civilians.

The coalition captured the southern city of Aden from the Houthis in 2015, and has expelled the group from other areas of southern and central Yemen. But the rebels have managed to hold San'a.

—Mohammed al-Kibsi

bias and Turkey's of the world—and to blunt a little bit the Iranian influence," said a U.S. official, who described Saudi-Iraqi friendship as a priority for the Trump administration. "It's never too late."

The U.S.-led coalition against Islamic State, which includes Saudi forces, has fought on the same side as Iran against the Sunni extremist group. Success in largely vanquishing the group, also known as Daesh, creates an opportunity for the coalition allies to gain leverage in Iraq.

"We have been focused over

the last three years not only on defeating Daesh, but on what comes after Daesh," Brett McGurk, the U.S. envoy to the coalition fighting Islamic State, said at the border with Mr. Sabhan.

"We will do everything we

possibly can to support your effort," he told Iraqi and Saudi officials gathered there.

Relations, and the Saudi-Iraqi border, were shut down in 1990 after Iraqi leader Saddam Hussein's invasion of Kuwait. The Saudi monarchy kept its

back turned on its northern neighbor in the years of war and instability that followed Saddam's fall in 2003, leaving Iran to expand its sway through Iraq's government, the powerful militias and the economy.

A new Saudi leadership is

driving the shift, part of the

intensified efforts by King Salman and Crown Prince Mohammed bin Salman to counter Iranian influence across the region.

Iraq Prime Minister Haider al-Abadi has welcomed the counterweight to Iran. The Saudi outreach comes as he

battles a political rival who is close to Tehran, former Prime Minister Nouri al-Maliki, ahead of parliamentary elections next year.

The first of around 140 flights connecting Baghdad, Riyadh and other cities each month are set to start in the coming weeks, Saudi and Iraqi officials said.

The border crossing at Arar was reopened this month for trade and travelers, in time for Iraqis to make the annual hajj pilgrimage to Mecca. Officials have agreed to open a second crossing next year.

The U.S. has been a broker in the rapprochement. Soon after the start of his tenure in February, Secretary of State Rex Tillerson sought to persuade his Saudi counterpart, Adel al-Jubeir, that the kingdom should carve out a bigger role for itself in Iraq, a U.S. official said.

Days later, on Feb. 25, Mr. Abadi flew to Baghdad, the first visit by a Saudi foreign minister in decades. The trip marked a turning point. In June, Mr. Abadi made an offi-

cial visit to the kingdom, during which the two sides agreed to set up a joint council to upgrade ties in areas from security to trade.

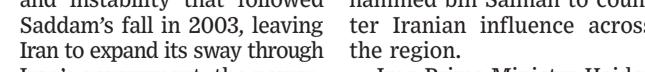
Then, at the end of July, Iraqi cleric and Shiite leader Moqtada al-Sadr met with Crown Prince Mohammed in Saudi Arabia. Until recently that would have been unthinkable:

The cleric had repeatedly railed against the Sunni kingdom.

Saudi Arabia is now seeking to expand its diplomatic presence across Iraq. The first new consulate, in Najaf, the spiritual and academic heartland of Shiite Islam, is likely to open in the next two months, Saudi and Iraqi officials said. More are set to open.

Saudi companies including oil giant Aramco are looking into opportunities for investment in Iraq. The Saudi dairy Almarai is considering producing animal feed in the impoverished border province of Muthanna, Saudi and Iraqi officials said.

—Ali Nabhan, Ghassan Adnan and Asa Fitch contributed to this article.



THE WALL STREET JOURNAL

## WORLD NEWS

# Rising Star Clouds U.S. Plan for Pakistan

Imran Khan, a critic of American policy, gains political clout after the ouster of Nawaz Sharif

BY SAEED SHAH

ISLAMABAD—President Donald Trump's efforts to reboot U.S.-Pakistan relations as part of his new Afghanistan strategy face a potential challenge because of the rising fortunes of a popular politician who is a fierce critic of U.S. policy.

Pakistan's political path took a twist in recent months with the ascendancy of charismatic sports-star-turned-politician Imran Khan. The fervent opponent of the U.S. war on terror used the courts to oust Prime Minister Nawaz Sharif in July and is looking to use the momentum from that legal victory to propel him to power.

Mr. Khan has been on the political scene for two decades leading a small but vocal party opposed to what he views as the crooked political dynasties of Mr. Sharif and the other established party.

Mr. Sharif's removal has weakened the ruling party and



**Mr. Khan advocates a break with the U.S. antiterror alliance, spurning aid he has said comes at too high a cost to his country.**

thrust Mr. Khan and his Tehreek-e-Insaf (PTI) party into real contention in elections due within the next year.

Mr. Khan's surge is already shaping the political terrain by, among other things, pushing opinion in Pakistan more sharply against the country's close security ties to the U.S. He advocates a sharp break with the U.S. antiterror alliance, spurning aid that he has said comes with conditions that have proved too costly for Pakistan.

Mr. Khan's stance puts him

at odds with Washington's new Afghanistan strategy of sending in more soldiers and pressuring Pakistan to take action against insurgents that use its soil as a sanctuary. Mr. Khan views the war on terror as the U.S.'s war, not Pakistan's fight.

And he has said the U.S. is blaming Pakistan for what he calls its "deeply flawed and failed Afghan policy."

Mr. Khan has argued that far from harboring terrorist groups, Pakistan has fought a costly battle against them and received little credit from the

West for its efforts.

"To expect Pakistan to do more killing on behalf of the Americans is not an option we should take. I think we have already suffered enough in this country," Mr. Khan said in an interview. "It's not really an alliance. Basically America pays Pakistan to do its dirty work."

Mr. Khan, 64 years old, said the antiterror partnership with Washington has "caused disaster in Pakistan" by sparking a violent backlash at home.

He has called for a phased withdrawal of U.S. troops from Afghanistan and U.S. talks with the Taliban. Mr. Khan said that the Taliban, rather than a Pakistan-sponsored group, "is an indigenous movement," driven by opposition to the U.S. presence and the collateral damage that it causes, so "the solution is not by telling Pakistan to do more."

Even now, long before the election, Mr. Khan's growing influence has the potential to shape Pakistan's stance on issues of high importance to the U.S.: Afghanistan policy, India relations and Islamabad's attitude to terrorist groups U.S. officials say operate from within Pakistan.

In 2014, Mr. Khan forced Islamabad to attempt peace

talks with the Pakistani Taliban.

Pakistan's leadership has long complained that the U.S. approach to the region doesn't take into account its security fears and doesn't acknowledge Pakistan's efforts to root out terrorists. Yet the political and military consensus has been to continue accepting U.S. aid and maintain some level of cooperation with U.S. efforts in Afghanistan.

Mr. Sharif, the three-time prime minister dismissed by the Supreme Court last month, faces a corruption trial over family property holdings in London. He has denied any wrongdoing. His Pakistan Muslim League-N (PML-N) party remains in office. Political analysts said Mr. Sharif's trial, due to begin within weeks, will likely provide a regular drip of bad news for his party, which is built around him and his family.

Mr. Khan, meanwhile, has touted the ouster as a major advance for democracy in Pakistan because it was a court and not the military that pushed Mr. Sharif from office.

"This is the biggest step towards democratic evolution," said Mr. Khan, speaking at his serene hilltop home on the

outskirts of Islamabad. "Ideology had disappeared from politics. It was just a question of who could offer more money. That's how Nawaz Sharif's politics prospered."

Mr. Khan's critics, however, accuse him of receiving support from the military, an allegation he and the armed forces deny.

Mr. Khan's party promises clean government and better public services, a message that resonates with the more educated segment of Pakistan's emerging middle class.

The electoral impact of Mr. Sharif's removal could become clearer next month in a by-election over his vacated parliamentary seat in his hometown of Lahore. There, Mr. Khan's party is fielding a middle-class professional woman—the embodiment of the party's crusade against dynastic politics. Against her is Mr. Sharif's wife, Kulsoom, who has never served in Parliament before.

Mr. Khan said he aims to be a prime minister like Lee Kuan Yew in Singapore or Mahathir Mohamad in Malaysia—a leader whose vision transforms a nation "because we saw in our own lifetimes how these countries changed."

## Trump Ramps Up Pressure on Islamabad

The Trump administration on Tuesday outlined steps it is prepared to take to raise pressure on Pakistan to stop harboring extremist groups, including sanctions on govern-

By Felicia Schwartz in Washington and Saeed Shah in Islamabad, Pakistan

ment officials, ramping up U.S. drone strikes in the country, and further cutting aid.

The effort comes as a centerpiece of a new strategy encompassing Afghanistan and South Asia. President Donald Trump announced Monday that the U.S. would expand its military presence in Afghanistan.

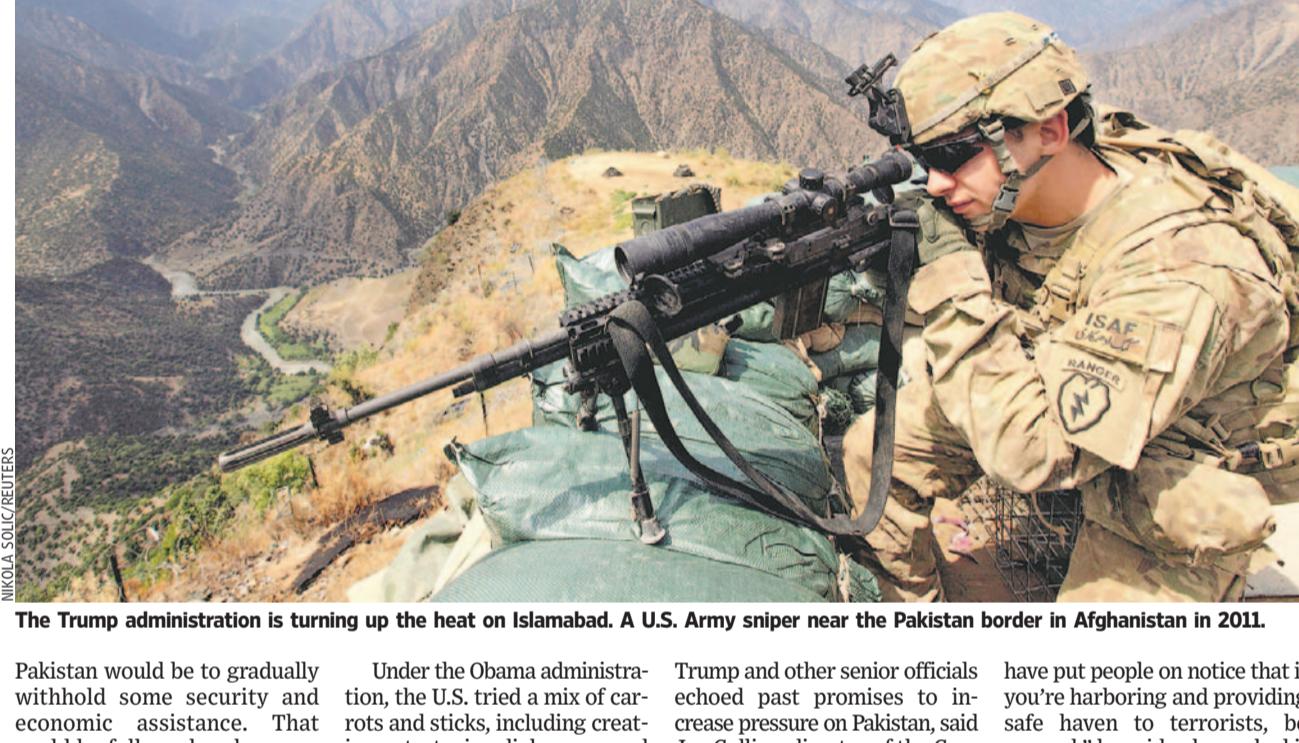
But experts and former officials with experience in the region question whether it will be any more successful than its forerunners, and Pakistani officials already are chafing under new U.S. demands that come without the recognition they want of Islamabad's past efforts.

Secretary of State Rex Tillerson said a variety of tactics would be considered if Pakistan's leaders are "unwilling to change their posture or change their approach to how they're dealing with the numerous terrorist organizations [that] find safe haven inside of Pakistan."

"Obviously, we have some leverage that's been discussed in terms of the amount of aid and military assistance we give them," Mr. Tillerson told reporters at the State Department on Tuesday. He said Pakistan's status as a major non-North Atlantic Treaty Organization ally of the U.S. also could be "put on the table."

A senior Trump administration official said the U.S. also is considering slapping sanctions on Pakistani officials found to be aiding terrorists.

The official said the administration's first move to press



**The Trump administration is turning up the heat on Islamabad. A U.S. Army sniper near the Pakistan border in Afghanistan in 2011.**

Pakistan would be to gradually withhold some security and economic assistance. That could be followed up by sanctions, first on targets in the militant organization known as the Haqqani network, which supports the Afghanistan Taliban, and possibly extending to Pakistani government officials who are found to be supporting the terrorist network.

Pakistani officials say they are being blamed unfairly for the failures of American policy in Afghanistan and deny that they are harboring insurgents.

Past U.S. administrations have struggled over how to balance security cooperation with urging Islamabad to suppress extremist groups. The George W. Bush administration boosted aid to Islamabad after 2001, but then-Vice President Dick Cheney made a secret trip in 2007 to press then-President Pervez Musharraf to do more to crack down on militants.

Under the Obama administration, the U.S. tried a mix of carrots and sticks, including creating strategic dialogues and boosting military aid, before cutting back on support as it grew frustrated with Pakistan's harboring of militant groups.

Former officials and experts said the Trump administration's fresh bid to turn up the heat on Pakistan is unlikely to convince its government to deny a haven to the Haqqani network.

"Even under conditions where I had nearly 150,000 troops in Afghanistan and worked closely with the Pakistanis on cross border operations, they were usually lukewarm at best in their efforts to do that," said retired Gen. John Allen, a former commander of the International Security Assistance Force in Afghanistan. "Pakistan may not change, but the president is right to seek a change in Pakistan's behavior."

The strategy outlined by Mr.

Trump and other senior officials echoed past promises to increase pressure on Pakistan, said Joe Collins, director of the Center for Complex Operations at National Defense University.

"How many times have we said we're going to put more pressure on Pakistan, and then we don't?" he said.

Since 2014, the U.S. has cut the amount of economic and security assistance Pakistan receives by half, under policies by the Obama administration.

Mr. Tillerson also raised the possibility of ramping up U.S. drone strikes in Pakistan, operations which have been a point of tension between Washington and Islamabad in recent years, but have dwindled in number. So far in 2017, the U.S. has conducted four drone strikes in Pakistan. The number peaked in 2010, when the U.S. carried out 122.

"We're going to attack terrorists wherever they live and we

have put people on notice that if you're harboring and providing safe haven to terrorists, be warned," he said, when asked if the administration was planning strikes in Pakistan as part of the new strategy.

Pakistan, a U.S. ally for decades, has been exploring alternative alliances in recent years. The new pressure on Pakistan, as well as a renewed U.S. tilt toward India that Mr. Trump stressed in Monday's speech, is likely to drive Islamabad deeper into a growing partnership with China, which has shown an increased willingness to provide support to Pakistan, analysts said.

Pakistan's foreign minister, Khawaja Muhammad Asif, said Tuesday that U.S. money wouldn't determine the country's antiterrorism battle.

"We can survive without that," said Mr. Asif. "We're not fighting this war with their money."

BERLIN—The center-left candidate for chancellor in Germany's September election demanded that U.S. nuclear weapons be withdrawn from the country, taking an increasingly anti-American tack in a campaign season overshadowed by the European discontent with President Donald Trump.

Martin Schulz of the Social Democrats, the challenger to incumbent Chancellor Angela Merkel, said Wednesday that the "upper limit for nuclear weapons in our country must be zero." He was elaborating on comments he made at a campaign rally in southwest Germany on Tuesday at which he promised that, as chancellor, he would "work to make sure that nuclear weapons stored in Germany be withdrawn."

"Donald Trump also demands a nuclear arms buildup," Mr. Schulz said. "We will oppose this."

The new demand represented one of Mr. Schulz's most ambitious attempts yet to leverage German opposition to Mr. Trump into an electoral advantage as he trails Ms. Merkel by double digits in the polls. While the Social Democrats have often been more critical of the U.S. than Ms. Merkel's center-right Christian Democrats, they have long supported the trans-Atlantic alliance. It was a Social Democratic chancellor, Helmut Schmidt, who backed a Western plan during the Cold War to base U.S. nuclear-tipped missiles in Germany should disarmament talks with the Soviet Union fail.

The U.S. keeps nuclear warheads in five European countries, including Germany, according to the Federation of American Scientists and the Congressional Research Service. The U.S. military has a policy of not commenting on the location of its nuclear arsenal in Europe, and German officials Wednesday also declined to comment on the presence of U.S. nuclear weapons in the country. About 150 B61 nuclear bombs are stored at six European bases, according to FAS.

Mr. Trump has said he wants to "renovate and modernize our nuclear arsenal." A broad overhaul of U.S. nuclear weapons systems has been under way for half a decade.

A spokeswoman for Ms. Merkel signaled Wednesday that the chancellor wouldn't be echoing Mr. Schulz's demand. While Ms. Merkel wants to see a nuclear-free world, "there continues to be a need for nuclear deterrence" as long as other countries see nuclear weapons as a means of military conflict, the spokeswoman said.

## Danish Sub Inventor Is Arrested in Reporter's Death

Associated Press

COPENHAGEN, Denmark—A mutilated body found on a beach off Copenhagen has been identified as that of missing Swedish journalist Kim Wall, who is believed to have died on an amateur-built submarine this month, Danish police said Wednesday.

Ms. Wall, 30 years old, was last seen alive on Aug. 10 on Danish inventor Peter Madsen's submarine, which police believe he intentionally sank off Denmark's eastern coast the following day.

Mr. Madsen, 46, was arrested on preliminary manslaughter charges. Ms. Wall's family said the freelance journalist was working on an article about Mr. Madsen.

The body was found Monday on a beach by a member of the public who was cycling on Copenhagen's southern



**Kim Wall, above, was last seen alive on inventor Peter Madsen's UC3 Nautilus, right. Mr. Madsen said 'an accident occurred onboard.'**

Dried blood belonging to Ms. Wall was found inside the submarine, he said.

Mr. Madsen, who is in police custody, initially told investigators Ms. Wall disembarked from the submarine several hours into their trip and that he didn't know what happened to her afterward. He later told authorities "an accident occurred onboard that led to her death" and he "buried" her at sea.

Mr. Madsen's defense lawyer said her client maintains

that he didn't kill Ms. Wall. Mr. Madsen made headlines when he launched the 40-ton, nearly 60-foot-long sub, named the UC3 Nautilus, on May 3, 2008. It is described as the world's largest privately built submarine.

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## WORLD NEWS



North Korean leader Kim Jong Un visits the Chemical Material Institute of the Academy of Defense Science, in an undated photograph. KCNA/KUSAGENCE FRANCE PRESSE/GTET IMAGES

## Pyongyang Restraint Wanes

BY JONATHAN CHENG

SEOUL—Hours after U.S. Secretary of State Rex Tillerson praised him for exercising restraint, North Korean leader Kim Jong Un appeared in state media visiting a missile-development factory and ordering the production of more warheads and rocket engines.

Mr. Kim's visit, the date of which wasn't disclosed by Pyongyang in its report on Wednesday, underscores North Korea's continued investment in its ability to threaten the continental U.S. with a nuclear-tipped long-range missile.

At a Tuesday news briefing in Washington, Mr. Tillerson said he was "pleased to see that the regime in Pyongyang has certainly demonstrated some level of restraint that we have not seen in the past," referring to its abstention in carrying out missile tests or other acts of aggression.

But even when the regime hasn't been actively test-launching missiles—which the U.S. terms "provocations"—it has been making rapid headway on its weapons technology.

North Korea didn't test-

fire any missiles between October and February, according to a database compiled by the James Martin Center for Non-proliferation Studies. But after that relatively long hiatus, North Korea test-launched 14 missiles in a little more than five months, including two intercontinental ballistic missiles and other shorter-range missiles that demonstrated new capabilities.

*Photos appeared to show diagrams of at least two never-before-seen missiles.*

Photos published alongside Wednesday's report by the official Korean Central News Agency showed Mr. Kim and other officials standing in front of diagrams. Missile experts said the diagrams appeared to show at least two never-before-seen missiles, including one that looked to be a variant of a solid-fuel missile that North Korea launched from a submarine last year.

Pyongyang in February

launched a land-based version of the solid-fuel missile, known as the Polaris-2. Solid-fuel missiles, unlike traditional liquid-fueled ones, don't need to be fueled on the launchpad—a laborious process that makes the weapon vulnerable to a pre-emptive strike.

"Pyongyang's release of photos indicating yet two more new missiles in development shows it has no intention of halting its continuing quest to threaten the U.S. and its allies with nuclear weapons," said Bruce Klingner, senior research fellow for Northeast Asia at the Heritage Foundation.

"A two-week adherence of North Korea to U.N. prohibitions against missile tests hardly counts as a significant indicator of benign intent by the regime," he added, referring to the United Nations Security Council's newest round of sanctions this month.

"The missile-building program is unstinting," said Patrick Cronin, senior director of the Asia-Pacific Security Program at the Center for a New American Security. "Diplomacy cannot touch that for now."

But Mr. Cronin argued that

the U.S. should continue to pursue diplomacy with Pyongyang, and encourage any signs of progress—including the recent dearth of missile tests.

North Korea hasn't launched a missile in 26 days, although the launch of its first ICBM on July 4 came after a 35-day pause.

"North Korea has shown glimmers of restraint for now, and the U.S. seeks to encourage more—but is ready to move in the opposite direction as well," Mr. Cronin said.

During Mr. Kim's visit to the Chemical Material Institute of the Academy of Defense Science, he learned about missile technology and gave instructions to the scientists there "to produce more solid-fuel rocket engines and rocket warhead tips," according to the account published by KCNA.

The institute is charged with making warhead tips for long-range missiles and solid-fuel rocket engines.

Mr. Kim was accompanied on his visit by Kim Jong Sik, a major general in the rocket command and a confidante of Kim Jong Un, to whom he isn't related.

## Fleet Commander Is Relieved of Duty

By GORDON LUBOLD

WASHINGTON—The U.S. Navy removed the commander of the fleet that has suffered four recent collisions in Asia and the deaths of several sailors, the Pacific Fleet said in a statement.

The Wall Street Journal reported Tuesday that the Navy was planning to remove Vice Adm. Joseph Aucoin—the three-star commander of U.S. Seventh Fleet in Yokosuka, Japan—though officials had declined to comment.

In a short statement Wednesday, the Navy said Adm. Scott Swift, the commander of U.S. Pacific Fleet, had relieved him "due to a loss of confidence in his ability to command."

Vice Adm. Aucoin was expected to retire in coming weeks, but under the Navy's tradition of public accountability, commanders or ship captains are dismissed as soon as their superiors lose confidence in their leadership.

His removal doesn't represent a specific finding of fault against Vice Adm. Aucoin. Navy officials are investigating the role that training, manning and other internal fleet processes may have played in the collisions.

The Navy said Monday that it would impose a rare operational pause across the globe following the accidents, all within Seventh Fleet's waters.

Those include the collision on Monday of the destroyer USS John S. McCain with a commercial vessel, the Alnic

MC, as the McCain headed for a port visit in Singapore. A search-and-rescue operation had been under way for 10 missing sailors. Navy officials said Tuesday that some remains have been found but that the operation continues.

That accident followed the destroyer USS Fitzgerald's June 17 collision with another commercial ship, killing seven sailors.

The Navy said last week that the Fitzgerald's commanding officer, the ship's executive officer and the senior enlisted sailor on the ship all had been relieved of their command. The cause of the two fatal collisions are unknown and investigations continue into each, defense officials said.

Two other accidents within U.S. Seventh Fleet's area of responsibility occurred earlier this year. In May, the guided missile cruiser USS Lake Champlain collided with a South Korean fishing vessel, and in January, another cruiser, the USS Antietam, ran aground near its port in Yokosuka.

Vice Adm. Aucoin, a naval flight officer, received his commission in 1980 through the North Carolina State University Naval Reserve Officers' Training Corps program there, and was designated a naval flight officer the next year. He served on a number of aircraft carriers as a pilot and as a commander and held other jobs at the Pentagon.

He became Seventh Fleet commander in September 2015, according to the Navy.



One of 3 Kia plants in Yancheng that together employ 30,000. TREFOR MOSS/THE WALL STREET JOURNAL

## WORLD WATCH

## VENEZUELA

### Ex-Top Official Claims Proof of Corruption

Venezuela's ousted Attorney General Luisa Ortega said on Wednesday she has proof of corruption involving top government officials and is sharing it with the U.S. and other countries.

Ms. Ortega said documents in her possession show at least \$100 million deposited irregularly into accounts tied to Venezuela's President Nicolás Maduro and other officials.

"I want to denounce corruption that knows no boundaries" in Venezuela, she said. "We need authorities who are decent, not ones with a criminal record."

She said the corruption scheme includes illegal dealings with Brazil's scandal-plagued contractor Odebrecht and other firms.

Ms. Ortega has criticized the installation of a powerful Constituent Assembly superseding all other Venezuelan government institutions and staffed with ruling party loyalists. One of the assembly's first acts was to fire Ms. Ortega and strip legislating powers from the country's opposition-dominated congress.

On Tuesday, Mr. Maduro said his government would issue an arrest warrant for Ms. Ortega through Interpol. He accused Ms. Ortega of joining a Washington-led international effort to destabilize his government. She "has been working with the U.S. for a long time," Mr. Maduro said at a press conference.

—Paulo Trevisani

## HONG KONG

### Typhoon Leaves Dead, Damage in Its Wake

Typhoon Hato, a maximum category-10 storm, slammed into Hong Kong, lashing the financial hub with wind and rain that uprooted trees and forced most businesses to close, while in

some places waves flooded sea-side streets.

There were reports of 34 people injured in Hong Kong while in the city of Macau, across the Pearl River estuary, three people were killed, authorities there said.

In Hong Kong, more than 450 flights were canceled, financial markets were suspended and schools closed as Hato bore down, the first category-10 storm to hit the city since 2012.

In residential districts such as Heng Fa Chuen on densely populated Hong Kong island, waves smashed against the sides of oceanfront buildings and surged over a promenade, sweeping away walls and benches and swamping parked vehicles.

Authorities downgraded the storm to a category three by late afternoon with government services, the courts, financial markets and companies set to resume business on Thursday.

The storm also caused a blackout across most of the gambling hub of Macau for about two hours, residents said, with disruption to mobile phone and internet networks. There was severe flooding on the streets, with some cars almost completely submerged, and the water supply was affected in some districts.

—Reuters

## EGYPT

### Cairo Slams U.S. For Withholding Aid

Egypt lashed out against a decision by the Trump administration to withhold hundreds of millions of dollars in economic and military aid to Cairo, in a rare sign of friction between two leaders who have lavished each other with praise.

The administration is cutting \$95.7 million in military and economic aid and putting \$195 mil-

lion in military aid on hold because of unhappiness over Egypt's human-rights situation, a State Department official said.

Washington also wants to pressure Cairo on its ties with North Korea, a person familiar with the decision said.

The \$195 million in withheld funds won't be disbursed until the U.S. sees "progress from Egypt on key priorities," said the State Department official, who declined to specify what Cairo must do to get the aid resumed.

Egypt's Foreign Ministry criticized the measures as harmful to "Egyptian and American common interests" and said they represented a misjudgment about the nature of historic U.S.-Egyptian strategic ties. They also reflected Washington's "lack of understanding about the importance of supporting the stability and success of Egypt," the ministry said.

—Dahlia Khaleif and Felicia Schwartz



A taxi navigates a flooded waterfront street after Typhoon Hato roared through Hong Kong. JEROME FAURE/REX SHUTTERSTOCK/EUROPE PRESSPHOTO AGENCY

## Korea-Goods Boycott Hits Workers in China

By TREFOR MOSS

YANCHENG, China—This prosperous city of 1.6 million north of Shanghai is a factory town for South Korean auto maker Kia Motors Corp.—and a reminder that in a globalized world, Beijing can't punish foreign companies without sacrificing Chinese workers and business partners, too.

China's unofficial campaign against South Korean consumer goods has hit hard here. Kia factory workers have been forced to accept dramatically reduced hours and lower pay amid a precipitous drop in sales of Kia models in China.

Those measures have staved off widespread layoffs, but even so, many workers have had to take second jobs as couriers or taxi drivers to make ends meet.

"This anti-Korean sentiment doesn't do us any good," said a 26-year-old Kia employee surnamed Chen, who felt that punishing Kia was threatening Chinese jobs.

Outside a company housing complex, Kia staff said they were working as few as three days a month on half pay in July. They were willing to endure that in the short term, Mr. Chen said, since their overall incomes hadn't yet taken a serious hit—but they were growing increasingly anxious about possible layoffs as the spat continue.

Kia is Yancheng's gold-standard employer, paying higher wages than other local manufacturers. Layoffs would have a ripple effect.

"In Yancheng, everyone has a relative that works for Kia, or it's your friend, or the friend of a friend," said Sun Nan, sales manager at a local Kia dealership. "The auto industry is the backbone of Yancheng: No one wants any-

thing to happen to it."

Sales of Korean goods in China have been in sharp decline since March. Although no boycott has been declared, state-controlled media has encouraged the campaign in retaliation for Seoul's deployment of an American-made missile-defense system for North Korea's nuclear-weapons program.

Many Chinese consumers have followed Beijing in punishing Seoul, curbing holiday travel to South Korea and turning away from Korean pop music and TV shows that had been hugely popular in China before the spat.

The boycott isn't popular in Yancheng. The city's Korean affinity is on proud display, with strips of Korean restaurants, Korean-language street signs and South Korean flags fluttering along highways and outside factories.

Yancheng boasts a sprawling Korean business park, along with three Kia factories. Those factories employ 30,000 workers here, said a local Communist Party official.

Kia and the local auto-supply industry that has sprung up to support it contribute 60% of the city's tax revenue, closely tying Yancheng and much of its working population to the car maker's fate.

The sales of Kia and its parent **Hyundai Motors** Co. in China fell 61% from March to June. The local official said the plants were operating at only 30% capacity, but he said the authorities weren't contemplating that the plants might close since so much investment had been sunk into them.

A Kia spokesman declined to discuss the company's China operations, beyond saying its plants were "operating in line with the current market environment."

## U.S. NEWS

## President's Shutdown Threat Roils GOP

House speaker says he supports Trump's border wall but wants government kept open

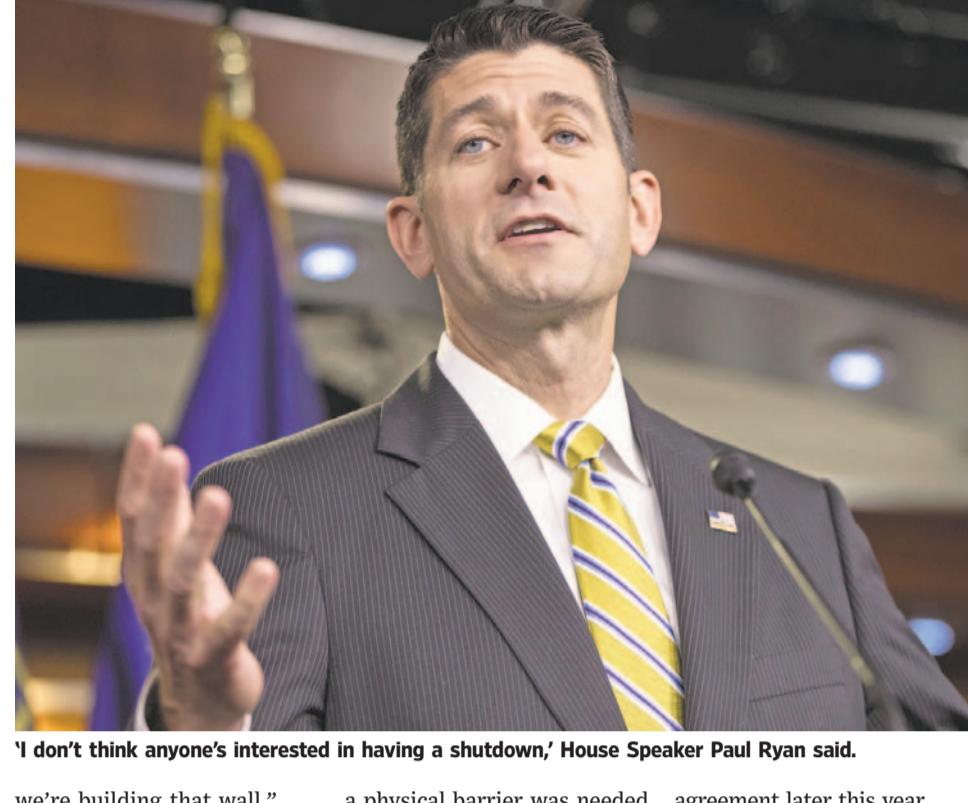
By KRISTINA PETERSON  
AND SIOBHAN HUGHES

WASHINGTON—President Donald Trump's threat to shut down the government if Congress doesn't approve funding for a wall along the Mexico border raised alarm among some GOP lawmakers, injecting new volatility into an already uncertain political climate this fall.

Lawmakers returning to Washington in early September have a dozen days with both the House and Senate in session before the government's current funding expires on Oct. 1. Lawmakers from both parties had expected Congress to pass a stopgap two- or three-month spending bill, but Mr. Trump's remarks raised fresh questions about the path forward.

The GOP president said Tuesday night that he was prepared to dig in over his request for \$1.6 billion toward the border wall, one of his signature campaign promises.

"We're going to get our wall," Mr. Trump said at a rally in Phoenix. "If we have to close down our government,



'I don't think anyone's interested in having a shutdown,' House Speaker Paul Ryan said.

we're building that wall.'

Mr. Trump's push quickly hit resistance within his own party.

"I don't think anyone's interested in having a shutdown," House Speaker Paul Ryan said at a stop at an Intel Corp. facility in Oregon on Wednesday.

Mr. Ryan (R., Wis.) said that he agreed with Mr. Trump that

a physical barrier was needed in places along the border. Still, he said: "I don't think a government shutdown is necessary and I don't think most people want to see a government shutdown, ourselves included."

Mr. Ryan said he expected lawmakers would need to pass a short-term spending bill in September to give them more time to work out a broader budget

agreement later this year.

While some conservatives agree with Mr. Trump's demand for a wall, it is controversial among many Republicans, some of whom think it isn't the most effective way to tighten security. And after this year's protracted and unsuccessful struggle to roll back and replace much of the Affordable Care Act, few Repub-

licans are eager to shut down the government, now that they control the White House and both chambers of Congress.

"A government shutdown hurts Republicans—it's the last thing I want," said Rep. Trent Franks (R., Ariz.), a member of the House Freedom Caucus who was at Mr. Trump's rally Tuesday. "It is a political liability of profound significance to us."

Many GOP lawmakers worry a shutdown or a failure to raise the government's borrowing limit—another deadline they are facing this fall—could harm their chances of retaining the House majority in next year's midterm elections. Treasury officials have said Congress must raise the government's borrowing limit at some point near the end of September.

If Congress doesn't raise the debt ceiling to allow new borrowing, the U.S. could default on its debt or miss payments for benefits and salaries.

Fitch Ratings said Wednesday that a failure to raise the U.S. debt limit in a "timely manner" would prompt a review of the country's credit rating for possible downgrade. Fitch said a government shutdown would have no direct impact on its rating, but would "highlight how political divisions pose challenges" to the budget process.

"A government shutdown would be fatal for our majority and inappropriate for the country," Rep. Dennis Ross of Florida, a member of the House GOP whip team, said this week.

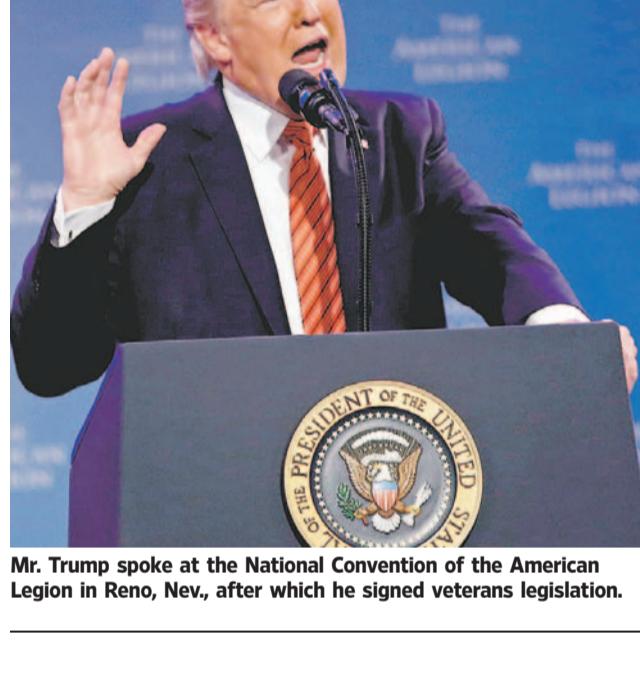
Democrats, whose votes likely will be needed in both chambers, swiftly rejected Mr. Trump's demand Wednesday morning. Spending bills need 60 votes to pass the Senate, where Republicans hold 52 seats.

"If the president pursues this path, against the wishes of both Republicans and Democrats, as well as the majority of the American people, he will be heading towards a government shutdown, which nobody will like and which won't accomplish anything," said Sen. Chuck Schumer of New York, the chamber's Democratic leader, in a statement Wednesday.

Among Democrats, the border wall has become a potent symbol for what they view as Mr. Trump's hostility toward both legal and illegal immigrants. The president's response to the violence in Charlottesville, Va., earlier this month has also exacerbated tension between Democrats and Mr. Trump, making a compromise over the border wall more elusive.

—Chris Dieterich contributed to this article

## Addressing Veterans, Trump Calls for 'New Unity'



BY REBECCA BALLHAUS

President Donald Trump called for Americans to "heal the wounds that have divided us" a day after he accused the news media of "fomenting divisions" and criticized lawmakers in his own party at a rally.

Addressing the National Convention of the American Legion in Reno, Nev., on Wednesday, the president largely stuck to his prepared remarks, saying it was time "to seek a new unity based on the common values that unite us." He added: "We are not defined by the color of our skin, the figure on our paycheck or the party of our politics."

The president also praised members of the American Legion, the largest wartime veterans service organization. "We are here to hold you up

as an example of strength, courage and resolve that our country will need to overcome the many challenges that we face."

Mr. Trump concluded his remarks by inviting Medal of Honor recipient and Vietnam

Americans, the president says, 'are not defined' by race, wealth or party.

veteran Donald Ballard to the stage, where Mr. Ballard praised the president.

Following his remarks, Mr. Trump signed legislation that seeks to streamline the process for veterans to appeal disability claims.

His comments on unity

came in the wake of a white supremacist protest in Charlottesville, Va., earlier this month during which a man with a history of making sympathetic statements toward Nazis drove a car into a crowd of counterprotesters, killing one woman and injuring 19 other people. Since then, Mr. Trump's remarks about the violence—which initially oscillated between condemning the white supremacists and saying that "both sides" were to blame—have faced sharp criticism from lawmakers, business leaders and civil-rights groups.

On Monday Mr. Trump called for an end to bigotry in a speech announcing his administration's policy toward Afghanistan.

On Tuesday, at a Phoenix, rally organized by his campaign for re-election that

drew thousands of protesters, Mr. Trump again condemned the violence in Charlottesville but spent the bulk of his address attacking the "fake news" media and targeting fellow Republicans who were critical of his response to the protest.

During the Tuesday rally, Mr. Trump largely refrained from naming Republican lawmakers, saying he had been asked not to do so. But he did allude to Arizona's junior senator, Jeff Flake, with whom he has been feuding since the senator criticized his trade and border-wall plans and decried his Charlottesville remarks.

On Wednesday morning, Mr. Trump was more specific. "I love the Great State of Arizona," the president wrote in a tweet. "Not a fan of Jeff Flake, weak on crime & border!"

## FROM PAGE ONE

## THERAPY

Continued from Page One

When skeptical new clients come into her office, Ms. Milstein knows she's getting somewhere when the sunglasses come off. "They live almost a parody of themselves," she said. "They put on a show for me sometimes."

The Beatles sought spiritual direction from Maharishi Mahesh Yogi. Ms. Milstein's approach is more rooted in traditional psychology.

Disagreements about the set list? "That gets to the underlying issue of control," she said. Disputes over who is front-and-center at the photo shoot leave her asking, "Who is not being heard?"

Contemporary acts like Lady Antebellum and Jon Bon Jovi have publicly acknowledged attending group therapy sessions. When the pop stars Fifth Harmony saw one member leave in a messy exit last year, the group issued a statement to fans acknowledging they had tried group therapy.

Ms. Milstein's niche has been years in the making. After graduating from University of California, Los Angeles with a degree in sociology and an education from frequenting clubs on the Sunset Strip, she worked for nearly a decade at A&M Records.

Managing tour marketing and logistics for acts like Korn and Sheryl Crow taught her the "fineness" of working with a star, she said: "A balance of respect and authority."

After getting a masters in psychology, Ms. Milstein, 52 years old, opened her practice. Her loft office has the hallmarks of any therapist's—wall-mounted degrees, bottles of

water, tissues—with only one sign of her specialty: A framed poster of John Lennon and the lyrics to "Imagine."

Sessions with five-member bands can cost upward of \$500 an hour. About three-quarters of her clients are musicians; morning appointments are a rarity.

Though Ms. Milstein doesn't discuss individual clients, sometimes her work can follow her home. "You hear music on the radio, and you're like, 'Thank goodness that person got his addiction under control,'" she said.

Some artists worry therapy will deaden creative impulses, she said, thinking infighting keeps inspiration flowing. "They'll say, 'I'm going to be all soft and not able to write about anything,'" she said. But "it's about being able to enjoy all of this instead of self-destructing."

Bands like Fleetwood Mac and Guns 'n' Roses snarled through blowups in the 1970s and '80s that became as legendary as their best-selling albums. Professional therapy has entered the music industry since then, notably through the 2004 documentary "Some Kind of Monster," which showed members of Metallica hashing it out with a therapist on tour.

When the a cappella group Home Free replaced a founding member in 2016, the new five-person ensemble holed up in a New York conference room with a performance coach for trust-building exercises and positive affirmation. The session stretched for hours, recalled bass singer Tim Foust.

"We all went around and stated the various strengths of one another," he said. Under its



The Menstruators, behind the scenes of their 'Supergirl' music video. Band members attended a therapy session with Dr. Jodi Milstein.

original configuration, Home Free won the 2013 season of NBC's "The Sing-Off," and has earned fans through covers of songs like "Ring of Fire" and "How Great Thou Art."

All-vocal groups must find literal harmony on stage, said Mr. Foust, making personal dynamics important. "An instrumental band can live in their own world," he said. "If there is more harmony off-stage, we gel better on stage."

Some rock stars scoff at the idea of opening up.

"Feelings, schmeelings," said Gene Simmons, the longtime frontman of Kiss. "That's kid's stuff. Guys don't talk like

that. You hurt my feelings? F— that. It's called business. You're in a band."

Mr. Simmons, who has performed with the act since 1973 but seen bandmates come and go, said the group's manager often became a quasi-therapist, albeit one employed by them.

"You're surrounded by yes men. Nobody is going to tell you that your breath stinks or that you're an idiot," he said.

Susan Hyatt, a 49-year-old songwriter in Nashville, never would have sought group therapy with her bandmates in the Pandoras, a Los Angeles band that formed a cult following in the 1980s before splitting in

two. "When you're younger and you have that healthy competition, it inspires you to do better," she said. "Creatively it was good, but emotionally it was still pretty scarring."

When a 2013 reunion brought members together, "the problems between the two Pandoras started again 20 years later!" she said.

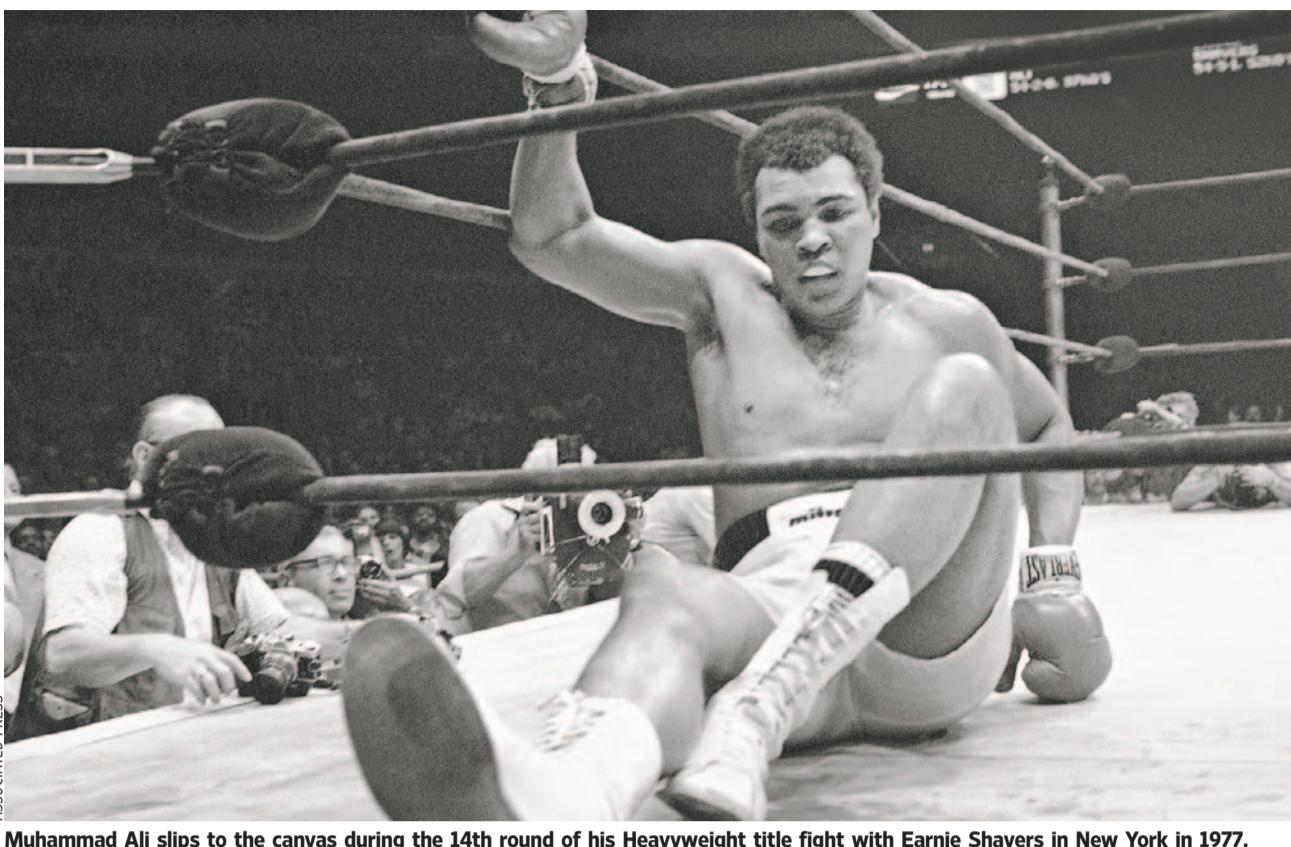
This time, with therapy less of a stigma, she was comfortable asking a former bandmate to a session. Over five meetings, they hashed out issues, clearing up misunderstandings Ms. Hyatt had had for decades about her bandmate voting against her on set-list de-

cisions. Both women eventually had epiphanies in therapy sessions that led them to leave their bands.

Ms. Milstein says she's often hired by managers as an objective third party, and older bands have come in for therapy sessions ahead of reunion tours. She suggests drawing a line on the past, asking, "Any more to clean up on that?" and moving on.

She's on high alert when musicians go on the road. Among the coping strategies she discusses: Don't hole up in the hotel. "Take your tour manager, your bodyguard, and go for a walk."

## U.S. NEWS



Muhammad Ali slips to the canvas during the 14th round of his Heavyweight title fight with Earnie Shavers in New York in 1977.

## Boxing Took Early Toll on Muhammad Ali's Speech

While best known for his boxing talent, Muhammad Ali was also one of the greatest talkers of all time.

At a time when it was dangerous for black men to sass white people, Ali did just that. He spoke up and spoke back,

*By Jonathan Eig,  
Visar Berisha  
and Julie Liss*

using his tremendous wit and intelligence to challenge authority and undercut notions of what a black person in America could say and do. He earned his first nickname, "The Louisville Lip," in tribute to his verbal gifts.

Sadly, however, Ali's voice faded—literally and much too soon.

According to a new biography of the boxer and a study released Wednesday by speech scientists at Arizona State University, Ali's articulation started to become less precise in the mid-1970s, when he was between 30 and 35 years old, almost certainly as a result of blows to the head suffered in the ring. The study suggests that changes in the quality of speech can be important early markers of neurological damage or disease. Ali died in June 2016 at the age of 74.

In writing Ali's biography, one of us, Jonathan Eig, wondered when Ali's speech began to decline and whether that decline could be tied to boxing. Eig contacted the other two

authors of this piece—Julie Liss and Visar Berisha, scientists at Arizona State University who specialize in analyzing speech for signs of cognitive and motor impairment. Eig also enlisted CompuBox Inc., a boxing-statistics company, to count the punches that struck Ali over the course of his 21-year professional career. The study was scheduled to be presented Wednesday at InterSpeech, a speech-science conference in Stockholm, Sweden.

Speaking is one of the body's most complicated functions. Speech and language circuits in the brain work together to form a message, translate that message into movement across more than 100 muscles, from the lungs to the throat to the tongue and lips, and execute those intricate muscle movements to produce sound waves. It is much more difficult than throwing a jab or dodging a tackle.

That is why changes in speech are often one of the first indicators of neurological damage or disease, such as the slurring of words by people having a stroke or with Parkinson's or Lou Gehrig's disease. The signals from the brain to the speech muscles are disturbed in ways that prevent clear speech.

In 1968, Ali spoke at a rate of 4.1 syllables a second, which is close to average for healthy adults. By 1971, his rate of speech had fallen to 3.8

syllables a second, and it continued sliding steadily, year by year, fight by fight. An ordinary adult would see little or no decline in his speaking rate between the ages of 25 and 40, but Ali experienced a drop of more than 26% in that same period. Slowing his speaking rate couldn't indefinitely compensate for the deterioration of signals between his brain and his speech muscles. The paper suggests that by 1978, six years before his Parkinson's syndrome diagnosis and three years before his retirement from boxing, Ali was slurring his words.

In addition to this overall decline in speech, researchers found a strong relationship between Ali's activity in the ring and his verbal skills. The more punches he took, the more steeply his speaking abilities declined. (You can hear a sample of Ali's speech changes at WSJ.com/Sports.)

In 1977, the 35-year-old Ali fought a brutal, 15-round bout with Earnie Shavers. One of the strongest punchers in boxing history, Shavers hit Ali with 266 punches, including 209 power punches, according to the new CompuBox data.

Before his fight with Shavers, Ali spoke at a rate of 3.7 syllables per sec. After the fight, his speaking rate fell 16% to 3.1 syllables per second. His voice also became less animated immediately after fights.

In 1984, three years after his final fight, Ali was diag-

nosed with Parkinson's syndrome. His doctor at the time said the condition was the result of too many blows to the head.

Today, we have a better understanding of the damage blows to the head cause athletes. We also know that about 50% of those diagnosed with chronic traumatic encephalopathy, or CTE, show signs of change in speech and language prior to diagnosis.

Muhammad Ali gave a lot to the world. He helped to lead opposition to the Vietnam War. He taught athletes black and white that they could use their public platforms to speak out on social and political issues. He used his voice, not his fists, to pound home those lessons.

Now, his voice has the power to instruct us yet again. Ali is telling us we can do a better job of warning athletes of the dangers they face from head trauma.

*Jonathan Eig is the author of Ali: A Life, which will be published Oct. 3; Visar Berisha is an Assistant Professor of Speech and Hearing Science and Electrical Computer and Energy Engineering at Arizona State University and Co-Founder of Aural Analytics; Julie Liss is a Professor of Speech and Hearing Science at Arizona State University and Co-Founder of Aural Analytics.*

## University Fights Fetal-Tissue Law

BY JACOB GERSHMAN

A legal challenge to an Indiana law that criminalizes research using the remains of aborted fetuses could determine how much power states have to restrict scientific access to fetal tissue.

The unusual case pits Indiana's government against the state's flagship research university, which is asking a federal court to declare Indiana's fetal-tissue statute unconstitutional.

The 2016 law makes it a felony to intentionally acquire, receive, sell or transfer aborted fetal tissue. Indiana University filed suit soon after Mike Pence, now the vice president, signed it into law in his final months as Indiana governor.

A federal judge is weighing whether to dismiss the lawsuit and allow prosecutors to enforce the law or to strike down the statute. A ruling could come by year-end.

The dispute isn't the first to target a state regulation of fetal tissue. But it is the first time that medical researchers have led the charge, according to lawyers involved.

Also setting the case apart is the university's lead argument: that the state's regulation is an unconstitutional restraint on interstate commerce.

Were the legal argument to prevail, according to lawyers, it could be leveled against similar fetal-tissue restrictions on the books in other conservative states, such as South Dakota and Louisiana.

Since 2011, Indiana University has received fetal brains from the Birth Defects Research Laboratory at the University of Washington under a National Institutes of Health grant.

The remains are used by

Debmoy Lahiri, a professor of neurobiology, psychiatry and genetics who is trying to develop a cure for Alzheimer's.

Dr. Lahiri is one of the top scientists for the school's Alzheimer Disease Center, one of about 30 NIH-funded centers advancing research into the disease.

The university's lawsuit makes multiple constitutional claims. The fetal-tissue law, it argues, violates the First Amendment by abridging academic freedom, and it says it violates rights to equal protection by discriminating against researchers who use aborted fetal tissue.

But it is the Commerce Clause claim that the university puts front and center. The school is invoking a constitutional doctrine that prevents states from interfering with free trade across their borders.

University court briefs liken the tissue regulation to state laws invalidated years ago banning the sale of margarine or fresh meat slaughtered more than 100 miles from the point of sale.

It is an argument premised on the idea that aborted fetal tissue acquired by Dr. Lahiri is an "article of commerce." The fetal matter qualifies as such because "Dr. Lahiri must pay a fee to obtain it, and it crosses state lines when shipped to Indiana from Washington," the university stated in a brief.

Attorneys for the state say the fetal shipments can't be considered trade, given that federal law prohibits profiting from the sale of fetal tissue.

In court filings, Indiana University accuses the state of threatening "significant research progress related to Alzheimer's and other diseases" and the institution's "important role and reputation in the global research community."



A 2016 law passed by the Indiana Legislature makes it a felony to intentionally acquire, receive, sell or transfer aborted fetal tissue.

## Iowa Seeks Health-Law Waiver

Iowa asked for federal permission to alter major provisions of the Affordable Care Act next year, a proposal that will be closely watched by of-



Iowa and other states are seeking waivers from the Affordable Care Act to shore up individual insurance markets.

according to the National Conference of State Legislatures.

Iowa Insurance Commissioner Doug Ommen, a Republican, said the state has worked with the Federal Centers for Medicare and Medicaid Services and that it hoped to get its new system running before individual-plan enrollment kicks off in November.

Iowa's largest insurer, Wellmark Blue Cross and Blue Shield, said it would reverse its plans to exit from the state's individual market and would instead sell plans in every county next year if the state received a waiver.

In Washington, the approaching deadline for insurers on whether to take part in health exchanges has put pressure on GOP leaders to decide whether to take steps to shore up marketplaces in certain

states or to continue efforts to repeal the 2010 law.

The Iowa proposal would change important features of the federal health law. The ACA premium subsidies that enable lower-income people to buy health insurance would become flat payments tied to age and income; under the ACA, the subsidies are tied to actual premium costs in a region and cap what low-income people must pay toward those monthly bills. Iowa's setup would also eliminate so-called cost-sharing subsidies that help cover deductibles and other out-of-pocket costs for the lowest-income enrollees.

Patient groups have raised concerns about the potentially higher costs for low-income enrollees under the Iowa plan, largely because of the elimination of the cost-sharing aid.

## U.S. WATCH

### MEMOIR

#### Clinton Says She Let Down Millions

In a hotly anticipated memoir, Hillary Clinton writes that her upset loss to Donald Trump in the 2016 presidential race will haunt her for the rest of her life, according to excerpts of the audio version that aired Wednesday.

"Every day that I was a candidate for president, I knew that millions of people were counting on me. I couldn't bear the idea of letting them down. But I did," Mrs. Clinton said in an excerpt aired on MSNBC's "Morning Joe." "I couldn't get the job done. And I'll have to live with that for the rest of my life."

The book, "What Happened," is set to be released Sept. 12 by Simon & Schuster.

Mrs. Clinton and her publisher are billing the new memoir as a candid take from the 2016 Democratic nominee on what it was like to run against Mr. Trump, who defeated her in one of the most unconventional political campaigns in American history.

"I want to pull back the curtain on an experience that was exhilarating, joyful, humbling, infuriating and just plain baffling," Mrs. Clinton says in the audio excerpt.

The former secretary of state, U.S. senator and first lady has been making a slow-but-steady return to the public stage after initially keeping a low profile following the November election. She has started Onward Together, a political organization she has said will help fund progressive grass-roots causes.

—Joshua Jamerson

### ECONOMY

#### Sales of New Houses In the U.S. Tumble

U.S. sales of new single-family homes fell sharply in July, providing fresh evidence that a shortage of housing inventory is depleting activity across all segments of the market. Purchases of newly built single-family homes, a narrow slice of all U.S. home sales, decreased 9.4% to a seasonally adjusted annual rate of 571,000 in July, the Commerce Department said Wednesday. "It has been surprising the extent to which new-home sales have not picked up more," said Aaron Terrazas, a senior economist at Zillow. "It does seem to reflect a bit of a market breakdown."

—Laura Kusisto and Sarah Chaney



"I want to pull back the curtain on an experience that was exhilarating, joyful, humbling, infuriating and just plain baffling," Mrs. Clinton said in the audio excerpt of her memoir, set for release Sept. 12.

ficials in other states who hope to rewrite parts of the health law as Republican efforts to do so in Congress have stalled.

Iowa's plan, which state officials said they were preparing to implement, pending federal approval, would go further than proposals that other states have made so far to revamp the health law's rules. The Iowa setup would offer just one type of insurance plan in the individual market and reshape the subsidies that help people buy coverage, among other changes.

State officials, who are formally filing for federal approval under a special waiver setup allowed by the ACA, argue that they need to repair an exchange market that is expected to be down to just one insurer that has requested sharp rate increases for 2018.

States including Idaho, Minnesota and Oregon have submitted applications for less-sweeping waivers that aim to blunt insurers' expenses for covering the claims of people with costly health conditions. In total, 13 states have passed laws authorizing state officials to craft ACA waiver requests,

MATTHEW PUTNEY/ASSOCIATED PRESS

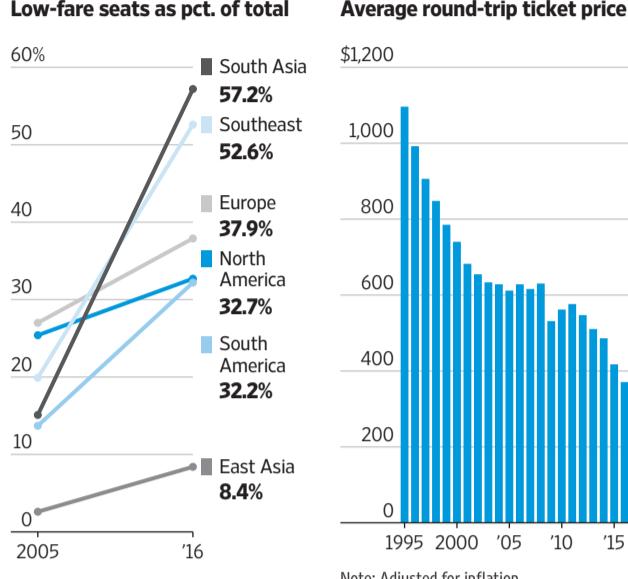
JUSTIN SULLIVAN/GETTY IMAGES

## U.S. NEWS

# How Budget Airlines Transformed the Industry

Low-cost carriers, once ridiculed for cramped seats and cattle-like boarding, have come of age.

By ROBERT WALL AND SUSAN CAREY | GRAPHICS BY ANGELA CALDERON



Source: International Air Transport Association

## Comparison of services in Brazil, 2016

A one-way trip from Campinas to Salvador (approximately 900 miles\*)

### COST

By airplane	185 reais
By bus	229 reais

### TIME

By airplane	2 hours
By bus	30 hours

A one-way trip from Campinas to Aracatuba (approximately 250 miles\*)

### COST

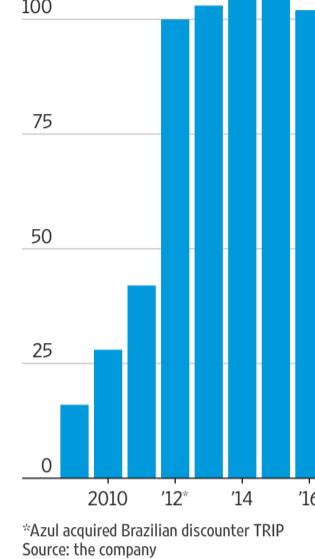
By airplane	185 reais
By car	290 reais

### TIME

By airplane	1 hour
By car	4.5 hours

\*Miles between cities, not driving distance

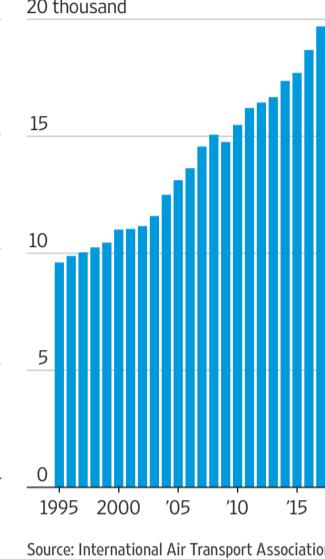
## Airports served by Azul



\*Azul acquired Brazilian discounter TRIP

Source: the company

## Airline routes



Source: International Air Transport Association

**Discount carriers** have dominant positions in many of the world's most important markets. They are stealing passengers from full-service carriers. Last year, for the first time, they carried more than one billion fliers—nearly 30% of the 3.7 billion who took to the air...

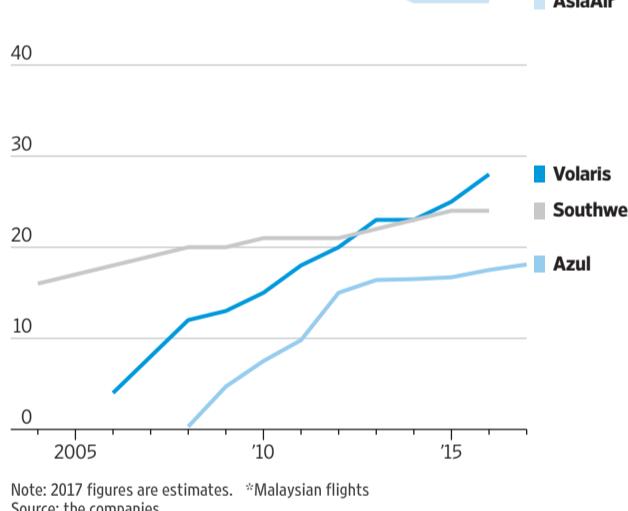
**In the process**, they are changing how the world flies. Their low airfares have forced down prices across the industry, making travel cheaper and getting people to take to the sky who previously couldn't afford it...

**When JetBlue** Airways Corp. founder David Neeleman started budget carrier Azul SA in Brazil in 2008, one of his goals was to create brand-new airline customers by attracting people accustomed to traveling by long-distance bus or car...

**Last year**, Azul carried 20.6 million passengers, had a domestic market share of 17.5% and served 102 airports...

**As budget airlines** spread around the globe, regular air service has been introduced to more remote cities, including Kiruna, Sweden, north of the Arctic Circle, and Bandung in West Java, Indonesia. There are more direct city-to-city flight choices now than ever...

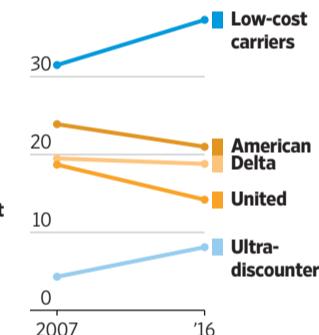
## Budget airlines' domestic market share



Note: 2017 figures are estimates. \*Malaysian flights

Source: the companies

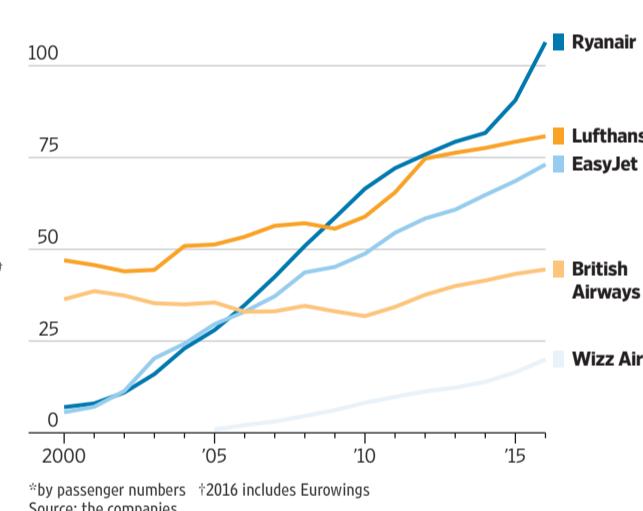
## U.S. domestic airline market share



\*Includes Southwest, JetBlue, Virgin America, Sun Country and AirTran. †Includes Spirit, Frontier and Allegiant.  
Note: Delta acquired Northwest in 2008. United bought Continental in 2010. Southwest acquired AirTran in 2011. American bought US Airways in 2013.

Source: Compass Lexicon

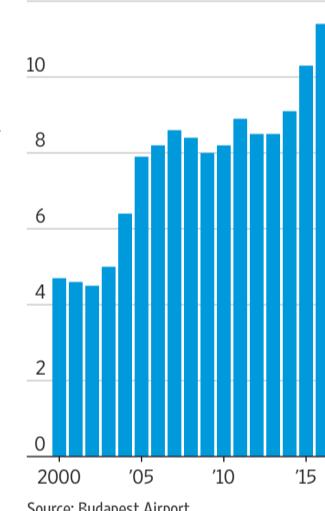
## Largest European airlines\*



\*by passenger numbers †2016 includes Eurowings

Source: the companies

## Traffic through Budapest's airport



Source: Budapest Airport

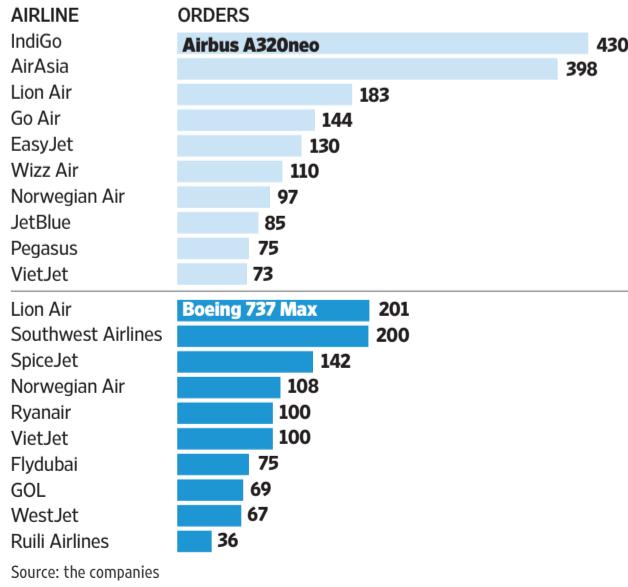
**In the U.S.**, about one in three passengers flies on a budget carrier. In the fast-growing Indian and Southeast Asian markets, such carriers control 53% of seats. Mexico's Volaris Aviation Holding Co. has 28% of the domestic market. India's IndiGo, also called InterGlobe Aviation Ltd., which started flying in 2006, now has 40% of the domestic market...

**In the U.S.**, discount JetBlue is now the largest U.S. carrier at New York's JFK and Boston's Logan. Discount-industry pioneer Southwest Airlines Co., along with JetBlue and Spirit Airlines Inc., now fly 64% of customers from Fort Lauderdale, Fla...

**The story** is the same in Europe. Irish discount carrier Ryanair Holdings PLC became the continent's biggest airline last year by passengers flown, beating out Deutsche Lufthansa AG. Ryanair boss Michael O'Leary says budget airlines in Europe still have ample room for growth...

**Hungarian budget** airline Wizz Air Holdings PLC, copying the model, began flying in 2004. Eight years later, the country's flag carrier, MALÉV Hungarian Airlines, closed. The London-Budapest route became competitive and low-cost, stimulating demand and quadrupling capacity...

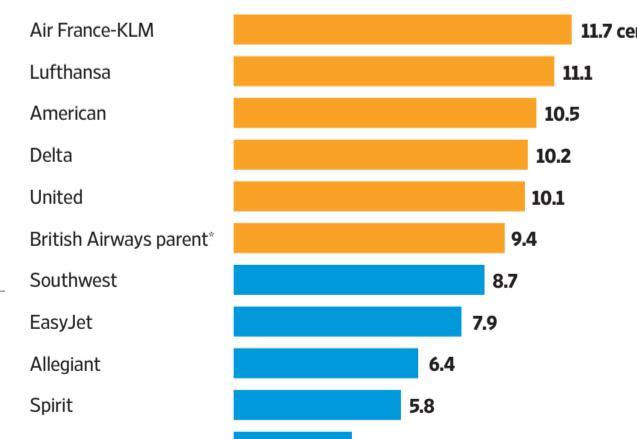
## Airplane orders



Source: the companies

**How do they keep prices low?** To minimize training and maintenance costs, they mainly have fleets of the same kind of planes—many now outfitted with leather seats and seat-back entertainment. And they often buy those planes in bulk from Boeing Co. or Airbus SE to get discounts...

## Cost to fly a seat a mile, excluding fuel



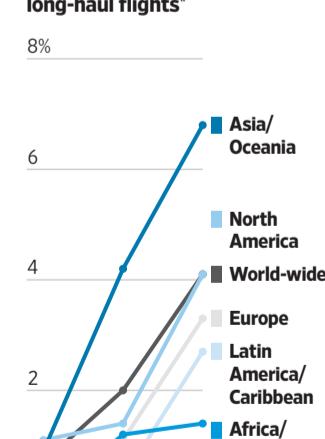
\*International Consolidated Airlines Group owns British Airways, Iberia, Vueling and Aer Lingus  
Note: As of June 30, 2017, except for European budget airlines, which are as of Dec. 31, 2016  
Sources: the companies; Bernstein Research

## Budget carriers entering the intercontinental market



Source: CAPA—Centre for Aviation

## Value carrier percentage of long-haul flights\*



\*2,800 miles or longer  
Source: Oliver Wyman

**Pay packages** are less generous than at legacy carriers, and many employees lack seniority and are at the lower end of wage scales. As relative newcomers, discount carriers don't have huge pension obligations and often don't have unions. This gives them a big edge on costs...

**The final frontier** for discount carriers is global travel...

**Discount airlines** have begun adding intercontinental routes, previously the domain of legacy carriers, which have been setting up their own budget long-haul units to compete.

# LIFE & ARTS

WORK &amp; FAMILY | By Sue Shellenbarger

## After a Bad First Impression...

An early slip can do serious damage with a boss, colleague or client; here's how to redeem yourself

**IT'S A MOMENT FEW** can avoid: You meet someone you want to impress but wind up starting with a glaring faux pas. That tone-deaf comment to a prospective boss or spilled coffee all over a customer can wreck everything.

The moment Angela Copeland showed up for a job interview at a California clothing company years ago, she knew it was over. She had the digital-marketing skills the company needed, but the interviewers wore Birkenstocks and casual clothing of natural fabrics and she showed up in heels and a black tailored suit. "I could immediately see the look on their faces, thinking, 'Why is she here?'" says Ms. Copeland, a career coach in Memphis, Tenn. She never got a second chance.

It's possible to recover from a bad first impression. But it takes time, effort and some nuanced skills.

"First impressions are very sticky," says Heidi Grant, author of "No One Understands You and What To Do About It," a book about the psychological factors that shape people's interactions. Those impressions are rooted in biased thought patterns, including the primacy effect—the tendency for the first few things people notice about someone to influence how they interpret information later, Dr. Grant says. Another pattern, called confirmation bias, causes people to notice only details that confirm what they already believe. "People see what they expect to see," she says.

When Ms. Copeland got off on the wrong foot with new acquaintances again a few years later, she knew how to repair the damage. At a leadership program she attended, other participants told her they saw her as cold and unfriendly at first. "I'm an introvert and I can be somewhat formal," she says.

But her colleagues said they felt friendlier to her after she talked with them one-on-one. "I took the time to get to know each person" and find common interests, Ms. Copeland says.

Spending a lot of facetime with someone can repair a bad start, Dr. Grant says. If you've made a bad impression on a manager who's about to become your boss, arrange to work out at the gym or hit the company cafeteria at the same time she does—not to stalk her, but to build familiarity with a casual greeting or wave.



ROB WILSON

Offering lots of evidence to counter a bad start can help. "If you're late for a meeting, make sure you're early every other time in the future, for a long time," says Alyssa Gelbard, founder and president of Resume Strategists in New York. Erasing a bad first impression takes patience, she says. "You can't just snap your fingers and make it go away."

Ms. Gelbard, who is in her mid-40s, was disappointed at a recent networking event when a senior executive in his 60s assumed she was younger and lacked senior-executive status, she says. He kept dropping such comments as, "That was before your time, so you couldn't relate."

She patiently worked to undo that impression, emailing him via LinkedIn, where her profile shows her 1996 M.B.A. and her years of experience as an executive-career consultant. She later went to a gathering where she knew she

would see the executive and others she knew at his level. She wove more evidence of her experience into the conversation. In time she overcame the executive's first impression and he became a valuable contact.

**Poking fun at yourself can show you take your mistake seriously and want to make amends.**

Drawing attention to common bonds, such as rooting for the same sports team, can help dispel bias, says a 2015 review of 119 studies led by Elizabeth Focella, a researcher at the University of Arizona at the time.

Poking fun at your own blunder can ease the tension. A little self-

deprecating humor can show you take your mistake seriously and understand how you made the other person feel, says Kate White, a former editor in chief of Cosmopolitan magazine and author and speaker on career issues.

If you muffed a job-interview question about your past accomplishments, follow up by sending work samples showing your skill, Ms. White says. "You want to dazzle them, to show that the underlying impression you made doesn't matter," she says.

Offering to help the other person reach an important goal can nudge her toward acceptance, Dr. Grant says. Use the collaboration as an opportunity to showcase your skills.

Opening up and sharing details about your experience can help erase others' negative views by evoking empathy, says the 2015 research review by Dr. Focella, a consultant with Portland, Ore.

based Research Into Action.

Eric Gates interviewed a job applicant at a previous employer several years ago who made a terrible first impression by confessing that he'd done prison time for dealing meth. Mr. Gates, an Austin, Texas, minister and former police officer, joked with the man about having been on opposite sides in the criminal-justice system, then made a conscious decision to move beyond his initial shock and re-evaluate the applicant, Mr. Gates says.

The man quickly showed "he wasn't the criminal he'd been in a previous life," Mr. Gates says, by describing his self-improvement efforts and handing Mr. Gates a list of people willing to serve as references.

"He came prepared to answer the tough questions," Mr. Gates says. He decided to take a chance and hire the applicant, and the man became one of his best employees.

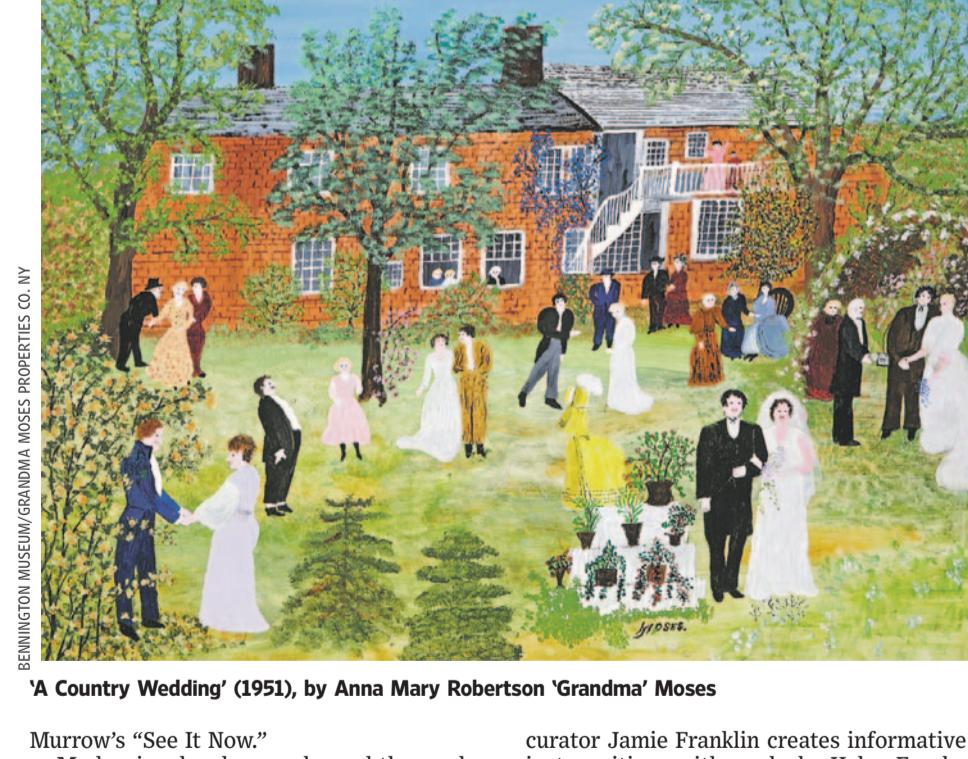
### ART REVIEW

## SEEING AN ICON ANEW

BY KAREN WILKIN

**Bennington, Vt.** IN 1939, the Advisory Committee of the Museum of Modern Art organized its first exhibition installed in the Members' Rooms of the 53rd Street building. Titled "Contemporary Unknown American Painters"—"outsider art" wasn't yet coined—it showcased works by 18 artists, their names followed by such labels as "Milliner, Brooklyn," "Unemployed. The Bowery, N.Y." and—shockingly, to today's sensibilities—"Negro housewife. Missouri." One, Anna Mary Robertson "Grandma" Moses (1860-1961), a "Housewife, New York," was a farm woman who at age 78 began painting scenes of rural New England life. Her work had been discovered the previous year in a drugstore in upstate Eagle Bridge, N.Y.: charming bird's-eye views of barns and buggies, farmyards and clapboard houses, steepled churches and sleighs, populated by agile figures and lively animals. A year later, in 1940, Grandma Moses had her first solo exhibition, at New York's Galerie St. Etienne.

She quickly became a full-fledged American icon, her images seen as emblematic of the values of postwar U.S. society. Moses' work was reproduced on greeting cards, calendars, tiles, fabric and dinnerware. In 1950, the U.S. Information Service circulated in Europe a large exhibition of her paintings. In 1953, after countless shows internationally, she appeared on the cover of Time magazine, a perfect embodiment of a salt-of-the-earth unsophisticate, with her cheerful grin, rimless glasses, and white topknot; a country church in winter, from one of her paintings, was seen behind her. In her 90s, she was featured on television, including on Edward R.



'A Country Wedding' (1951), by Anna Mary Robertson 'Grandma' Moses

Murrow's "See It Now."

Modernism has long embraced the work of self-taught artists—think of Henri Rousseau—while today they are viewed with increasing admiration. Yet despite Moses' debut at MoMA and her representation by a respected New York gallery, her popularity and celebrity compromised serious appreciation of her art. Now, "Grandma Moses: American Modern," at the Bennington Museum, Vermont, offers a fresh evaluation of this well-known but problematic figure. Co-organized with the Shelburne Museum, Vermont, where it was seen earlier, the exhibition is a comprehensive survey of Moses' career, contextualized by a small group of works by her "schooled" modernist contemporaries, including some who are on record as admiring her paintings.

In the Bennington Museum installation and in his fine catalog essay, the museum's

curator Jamie Franklin creates informative juxtapositions with works by Helen Frankenthaler, Joseph Cornell, Andy Warhol and Fernand Léger, among others, underscoring the obvious differences among them, but finding unexpected commonalities in their attitudes toward nature and their ways of working. We learn, for example, that Moses, like Warhol, often repeated images, as we discover when we track a checkered house from picture to picture.

The generous selection of Moses' paintings at the Bennington Museum allows us to follow her evocations of different seasons and of subjects as diverse as the Battle of Bennington, which includes the commemorative monument erected a century after the event; a country wedding in the 1890s; boiling maple sap for syrup; and the Eagle Bridge hotel, with buggies in the foreground and a locomotive spewing smoke. We can follow, too, her

growing mastery of composition, over the years, and note the way she heightened textures and simplified shapes in her last works, painted when she was 100. (She is supposed to have said she thought she was becoming more "modern.") What remains constant is Moses' preference for omniscient, panoramic views, her reliable sense of placement, and her ability to animate and punctuate complex scenes with busy figures and animals whose activities are always completely intelligible.

We can enjoy the paintings' idyllic vision of a now-vanished, unspoiled, pastoral world governed by the seasons, marvel at a display of vintage Grandma Moses spinoff products, or meditate on the political value of her imagery for 1950s America (see products), as discussed in the excellent catalog. But we are also given ample evidence, discovered by recent research, that Grandma Moses was not simply a little old lady innocently depicting her memories. Instead, she proves to have been a thoughtful interpreter of existing imagery, whose father painted landscapes. She was largely ignorant of art history and contemporary art, but she was responsive to suggestions from photographs, advertisements, chromolithographs, needlework samplers, children's books, and the like, some of which she clipped and saved in a trunk of what she called "art secrets," often tracing the outlines of particular images for her paintings. Once alerted to this by a selection of original material, we look differently at, for example, a foreshortened horse-drawn sleigh in a snow scene.

"Grandma Moses: American Modern" reveals that while Moses' paintings are about her long experience of traditional farm life, they are also considered works of the imagination, provoked by memory but ultimately invented from a combination of observation, recollection and what might be called appropriation. They're no less charming once we know this. If anything, we gain new respect for the "Housewife, New York."

**Grandma Moses: American Modern**

Bennington Museum, through Nov. 5

*Ms. Wilkin is an independent curator and critic.*

## OPINION

## REVIEW &amp; OUTLOOK

## Macron's Test for France

**A**s the popularity of the new French President tumbles, the question isn't whether Emmanuel Macron can save France. The question is whether France can save itself. Voters have the best chance in a generation to revive an economy in decline, yet they seem to quail at the critical moment.

Mr. Macron deserves some of the ire that's reflected in approval ratings that have fallen to 35% in recent polls, compared to the 66% of the vote he won in May. His leadership style is aloof, which the French used to not consider a defect but now apparently do. Spending cuts antagonized the military, and he needlessly embroiled himself in a debate over whether his wife should have an official, and taxpayer-funded, state role as first lady. His attitude toward the press is reminiscent of Donald Trump's, with more polish.

The bigger problem is that voters are having second thoughts about economic reform. Mr. Macron's approval started falling in July after he announced plans to cut housing benefits—by €5 a month for each recipient. Feminists are in arms over his plan to reduce the government's women's-rights budget to €20 million (\$23.6 million) from €30 million. That's before he gets to the labor reforms that will dominate the autumn.

You'd think voters would recognize they're getting their money's worth. Economic reform was Mr. Macron's central pitch to voters in the spring. He speaks frequently and well on the need to make France a "nation of unicorns," meaning innovative tech start-ups and other companies.

### If he can't fix the economy, can anyone?

Do voters want him to?

Voters were wise enough to endorse this agenda, giving Mr. Macron a mandate to cut government jobs, reduce taxes on corporations and overhaul labor and pension regulations. The timing will rarely be better. Economic growth is stronger than expected at 1.8% year-on-year, and the jobless rate is at a post-2012 low of 9.2%. Growth in the U.S. and a reviving eurozone provide rare tailwinds for French reform.

On foreign policy Mr. Macron's demand for more European Union fiscal cooperation threatens to be a distraction, and it will be a waste of political capital in the face of inevitable German opposition. But France shouldn't require a politician of messianic personal virtue and infallible political judgment to pass a new pension bill. If Mr. Macron isn't good enough despite his missteps, no other French politician is likely to do better.

Several French politicians would like to do worse. Although the Socialist Party is divided, the opposition to Mr. Macron is sliding further left, with the Bernie Sanders-esque Jean-Luc Mélenchon and his "France Unbowed" movement promising voters another attempt to make socialism work. The danger is that voters fall for it if they grow skittish about Mr. Macron.

Mr. Macron made his choice when he campaigned for supply-side reforms despite voters' traditional hostility to those ideas, and maybe voters surprised themselves by electing him. September—when the draft labor law is due, and when a general strike is set to begin—will be a test of whether French voters are prepared to stand by their decision.



BUSINESS WORLD  
By Holman W. Jenkins, Jr.

## The Great Nazi Scare of 2017

Well, that was a bit embarrassing. Anti-fascist liberals mounted thousand-strong counterrallies all weekend against a Nazi threat that proved nonexistent or thin on the ground. Leftists imagined themselves to be modern-day versions

of the Czech resistance or the Warsaw uprising, but it turns out they were the majoritarian mob shouting down a handful of losers who've been an execrable but small part of the American pageant for as long as most of us can remember.

We don't know what speakers at Saturday's "free speech" rally in Boston might have said. It was organized, according to the local papers, by libertarians protesting campus speech codes, though they opened their platform to anybody, left and right.

The meeting ended early; the speakers were all drowned out. Nazis and white supremacists, if any were present, were shown to be vastly outnumbered by Americans who reject such doctrines.

To state another obvious point, America's civil liberties are meaningless if they don't protect unpopular views. It's not the mob but the mob's targets that need protection.

For the record, of the 20th century's malign ideologies, Nazi ideas of who should be murdered and why strike me as slightly more odious and frightful than Maoist or Stalinist ideas of who should be murdered and why. The applicability to current U.S. events is slender, though.

More relevant is the principle that large mobs are more dangerous than small mobs, and likely to harbor more psychopaths. Apparently running out of Nazis to resist, Boston protesters threw rocks and urine-filled bottles at police.

Any shortage of white supremacists can always be corrected by expanding the definition. Opponents of a \$15 minimum wage are racist. Skeptics about a pending climate crisis are racist. Anyone questioning the utility of pulling down old statues is racist.

The slippery slope of civil-rights erosion is manifest every time certain members of the vituperative left open their mouths.

Hard to escape is a lesson about incentives: Majoritarian violence is the predominant risk even when its targets are people otherwise impossible to sympathize with.

Which brings us back to Charlottesville. Serious professionals in every field know first reports are unreliable. We aren't counting certain modern-day news sites, of course. Their job is manipulating passing, news-related symbols in ways that pleasure their target audiences. Bandwagons are their profession.

For the record, however, Donald Trump's press conference, in its en-

tirety, is available online and takes 23 minutes to watch. He didn't fail to denounce Nazis and racists.

An account of events in Charlottesville is also taking shape. Mr. Trump feels he has been treated unfairly. Guess what? That's politics. Your opponents aren't required to give you a break. Outsmart them.

President Obama would have spoken carefully, starting with: Though we don't have all the facts, one thing Americans can agree about is that Nazi ideology and racial hatred are offensive to American ideals.

Even an Obama Justice Department, though, would be open to the possibility that Americans holding a legally permitted rally were beset by a mob while police failed to keep order, if

### Fear the majoritarian mob, whatever its ideological predisposition.

that's what the facts eventually showed. From the Washington Post comes an interesting social characterization of today's young white nationalist idiots—but also a description of how their van was attacked with flying bottles and other objects.

According to Charlottesville's Daily Progress, there were two armed militias, one representing a pro-Constitution group, the other a left-wing group. No shots were fired. They worked together to break up fights. Neither supported the Nazis, and both promptly withdrew when the governor declared an "unlawful assembly."

In a tweet she has been made to regret, the New York Times' Sheryl Gay Stolberg reported: "The hard left seemed as hate-filled as alt-right. I saw club-wielding 'antifa' beating white nationalists being led out of the park."

For its part, the FBI has put out a call for witnesses and video of James Alex Fields Jr. before he got in his car.

Messrs. Trump and Obama may have different ideological bents, but no president wants to be consumed by passing political furies. Every president over a longer horizon, we also semiconfidently presume, would have a chief magistrate's willingness to let the true facts emerge and fill in public perception of events.

Many reputations are now tied to a false version of what Mr. Trump said, and a version of events in Charlottesville that may or may not survive careful documentation. Don't expect moral courage or any apologies. Mobs are mobs. Nazis whose every thought is reprehensible will still quail in the face of a lawless crowd. CEOs of publicly traded companies aren't in the business of being brave.

And yet the natural order is holding. Neo-Nazis and white supremacists may be a continuing American embarrassment and eyesore, but they aren't today's most pressing threat to our civil liberties.

## LETTERS TO THE EDITOR

### Immigrant Worker Visas vs. Trumpian View

Lest Trump administration officials dismiss the worker-visa shortage in America as a problem only for liberal northeastern enclaves like Martha's Vineyard, I'd like to assure you that the same problem has seriously hurt small businesses in Trump country ("Resort Is Finding Out How Much It Needs Foreign Labor," page one, Aug. 11).

Here in southeastern North Carolina where a year ago "Trump for President" signs far outnumbered those for Clinton-Kaine, some small businesses that cater to the summer influx of beachgoers on the Outer Banks were unable to open this year because they couldn't get the visas required to bring in foreign workers they'd employed in previous seasons.

For example, the Seaside Market, a locally owned produce and fish business that operates only seasonally in the small town of Corolla, has been closed this year because it hasn't been able to muster its usual labor force.

If the nativist mood in Washington continues to crimp business in Trump-friendly outposts, Republicans had best watch out in 2018.

JANET MILLIKEN  
Corolla, N.C.

This article speaks to the tremendous disadvantage all young people, particularly low-skilled high-school graduates, face in the U.S. While it addresses the fact that Americans are less willing to work hard for the wages offered by seasonal local businesses (\$10 to \$12 an hour), it isn't a moral flaw for them to expect a higher rate (\$14 to \$18 an hour) that is closer to a living wage in Massachusetts.

Aside from economic forces depressing younger people's savings—such as ballooning college tuition, increased health-care premiums and unavailability of housing—the artificially suppressed summer labor mar-

ket because of competition from visa holders is another way they get a terrible deal.

Here are some numbers worth mentioning: My dad's 1971 private-college tuition was \$1,200. Working a 12-week season, 40 hours a week at \$2.35, he made \$1,128—94% of his tuition. My 2012 senior-year tuition was \$49,000. Working 40 hours a week at \$10 an hour for a 12-week summer season is \$4,800, or less than 10% of tuition.

If the fellow from the article who was renting rooms on the Vineyard for more than \$500 a night were willing to pay American college students \$25 an hour, they would be moving from all over the country to work on the Vineyard.

DREW BROOKS  
Orleans, Mass.

Two Massachusetts businessmen lament a shortage of workers due to President Trump's restrictions on temporary legal immigration. But are these businessmen capitalists? I suspect not.

A fudge-shop manager has realized that his employees "know you need them more than they need you." A restaurant owner now deals with the predicament that his workers are free to change employers, protesting: "If someone says, 'I'll give you 25 cents more an hour,' they're gone."

Supply and demand apply to goods and labor. Capitalism provides an immediate solution to these problems.

MIKE CASTELLANO  
Ames, Iowa

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### Are sailors being pushed into missions without enough training?

routinely each day since 2001. Meantime, the size of the battle force has dwindled 14%. The Navy is now smaller than at any point in modern history, with more ship retirements ahead. That translates to longer and more frequent deployments.

To sustain the high operational tempo, ships must crash through scheduled maintenance in between patrols. The demand for fast turnover compresses time for the crew to train at home, which is essential for competence at sea.

Sometimes ships are delayed in the yards, which can condense cycles for on-board qualifications for, say, aviators. This can become a lethal combination of less prepared sailors with less reliable equipment on more dangerous missions.

Another question is tactical. The Navy has damaged two destroyers in the Pacific in one summer, and a smaller fleet means the force can't easily replace this capacity without losing manpower elsewhere. So what risks must the Navy accept during what may be the most dangerous time in the western Pacific since the end of the Cold War?

Similar dynamics are hurting the U.S. Army and Marines, the latter of which has had a precipitous increase in fatal aviation accidents in recent years. Congress has for years approved stopgap funding for the military, and the interim measures undermine modernization and readiness. The 2011 sequester cuts have hit everything from pilot proficiency to equipment.

The Navy's review will be instructive, and the families of the sailors on the McCain and Fitzgerald deserve an explanation. The larger question is if the U.S. political class will prevent more needless harm to the less than one percent of American men and women who risk their lives for the rest.

**T**he commander of the U.S. Navy's Seventh Fleet has been relieved of his duties after a destroyer collided Monday with a tanker near Singapore. The cause of the incident is still unknown, but the investigation should go beyond the narrow causes to ask if the collision is further evidence that the military is strained beyond what the force can tolerate.

The crash of the USS John S. McCain Monday resulted in the removal of Vice Admiral Joseph Aucoin "due to a loss of confidence in his ability to command." Ten sailors were initially reported missing. At least one body has since been found.

To investigate the incident, Chief of Naval Operations Admiral John Richardson announced a pause in Navy operations around the world. There will also be a broader review of Navy procedures in the Pacific theater, including training and maintenance. This is warranted given multiple incidents at sea this year.

In June a merchant ship collided with the USS Fitzgerald, a guided-missile destroyer, in Japanese waters. The Navy's incident report details that the crew manning the helm at night didn't detect the danger. Seven sailors died, and last week the Navy relieved the ship's commanding and executive officers, noting "inadequate leadership," which suggests failure by the crew.

In May the USS Lake Champlain collided with a South Korean fishing boat, and in January the USS Antietam ran aground in Tokyo Bay. It's hard to credit all this merely to bad luck.

Whatever we learn about the McCain incident, one reality is that the Navy has been conducting missions across the oceans with less funding and fewer ships. Senior Navy officials told Congress recently that about 100 ships have been deployed

## OPINION

# Was I Right to Pull the Plug on a Nazi Website?

By Matthew Prince

I helped kick a group of neo-Nazis off the internet last week, but since then I've wondered whether I made the right decision. I'm the co-founder and CEO of Cloudflare. We run a global network that makes internet applications faster and protects them from cyber-attacks. If you haven't heard of us, I'm not surprised. We're part of the internet's infrastructure, one of the groups operating behind the scenes to bring you everything you enjoy online.

Although Cloudflare isn't a household name, nearly 10% of all internet requests from 2.8 billion people pass through our network each month. We have almost 10 million customers, from small businesses to large financial institutions.

**A handful of private companies control whether speech can appear online. That's reason to worry.**

During the 2016 presidential election, 17 major-party candidates used Cloudflare to protect their campaigns from hackers. (Hillary Clinton was the notable exception.) Chances are you've used our network hundreds of times in the past 24 hours and, if we're doing our job, all you've noticed is fast internet.

Nearly all of our clients are upstanding people and businesses. But every once in a while, someone will use one of our services to protect content I would consider repugnant.



Such was the case with the Daily Stormer, a bulletin board for self-proclaimed white supremacists.

The site was used to help plan the neo-Nazi demonstrations in Charlottesville, Va. After Heather Heyer was murdered there, the Daily Stormer's founder and editor mocked her as a "fat, childless 32-year-old slut" and a "drain on society."

By any reasonable standard it was vile. Not surprisingly, the site was constantly targeted by anti-Nazi hackers trying to knock it offline. Cloudflare had helped foil those cyberattacks until last week, when I pulled the plug.

At some level, it's easy to fire Nazis as customers. They don't pay you much, if anything, since Cloudflare offers a free version of its service. Our terms of use give us broad discretion to choose whom we allow to use our network.

Beyond the horrible content, the Daily Stormer began claiming that we secretly supported their ideol-

ogy, causing a major distraction to our team. Firing a Nazi customer gets you glowing notes from around the world thanking you for standing up to hate.

But a week later, I continue to worry about this power and the potential precedent being set. The reality of today's internet is that if you are publishing anything even remotely controversial, your site will get cyberattacked. Without a massive global network similar to Cloudflare's, it is nearly impossible to withstand the barrage. Only a small group of companies—names you know, such as Facebook, Google and Microsoft, along with a handful of others you may not, like Cloudflare—have sufficient scale to keep their users online.

The upshot is that a few private companies have effectively become the gatekeepers to the public square—the blogs and social media that serve as today's soapboxes and pamphlets. If a handful of tech executives decide to block you from

their services, your content effectively can't be on the internet.

Before terminating the Daily Stormer, Cloudflare's policy had been to stay neutral to the content that used our network. We'd comply with the law in the jurisdictions where we operate, but we wouldn't bow to political or public pressure to boot anyone off our network.

And make no mistake, there is pressure: Hackers actually tweeted to us asking that we get out of the way so they could take down the Daily Stormer.

When standing up to government requests or angry Twitter demands to silence unpopular speech, it was powerful to be able to say we'd never terminated a customer due to political pressure. I'm not sure we can say that anymore.

I'd like to fall back on the First Amendment of the U.S. Constitution. I'm the son of a journalist. I grew up with discussions around the dinner table on the importance of freedom of speech. But the First

Amendment doesn't compel private companies to let anyone broadcast on their platforms. Moreover, Cloudflare operates infrastructure in 70 countries, few of which have anything approaching American-style speech protections.

Yet in all nations, there is (or should be) a reasonable expectation of due process. It is the idea that no one is penalized without first receiving a fair hearing and a fair shake. In civilized societies, the law is applied equally by independent decision makers, not capriciously by mobs and tyrants.

Did we meet the standard of due process in this case? I worry we didn't. And at some level I'm not sure we ever could. It doesn't sit right to have a private company, invisible but ubiquitous, making editorial decisions about what can and cannot be online. The pre-internet analogy would be if Ma Bell listened in on phone calls and could terminate your line if it didn't like what you were talking about.

Cloudflare is an expert at stopping cyberattacks, but we don't have the expertise to pass judgment on which of our 20 trillion monthly internet requests is racist, reprehensible or offensive. Even if we could solve the technical challenge of filtering them out, hidden behind the scenes is a problem of political legitimacy.

We're going to have a long debate at Cloudflare to think these issues over. But terminating the Daily Stormer is likely to be the exception that proves the importance of content neutrality. My moral compass alone shouldn't determine who gets to stay online.

*Mr. Prince is the co-founder and CEO of Cloudflare.*

## Trump Learns From America's Failures in Afghanistan

By Vance Serchuk

Since the end of the Cold War, one of the unfortunate patterns in American foreign policy has been the tendency of new presidents to denounce their predecessors' approach to the world—only to repeat their mistakes.

As the Trump administration debated the way ahead in Afghanistan in recent months, it risked falling into this trap. For all their differences Donald Trump and Barack Obama both entered office ambivalent about the flagging war effort in South Asia. Each was sensitive to the threat of terrorism from the region, but viscerally resistant to the military's call for an intensified commitment to a potential quagmire.

As in 2009, the result was a drawn-out review in which competing strategies were mooted—including some offering the seductive promise of achieving more by doing less. But in his remarks Monday night, Mr. Trump put forward a framework for Afghanistan and the surrounding region that suggests he isn't repeating past failures there but has learned the right lessons from them—even when they conflict with his own instincts.

The first and most important of these is the rejection of fixed timetables for U.S. withdrawal. Instead the president is taking a conditions-based approach that removes any deadline for pulling out.

That's significant because America's recurring efforts to extricate itself from Afghanistan—from the Bush administration's push to hand over the Afghan mission to NATO, to the Obama administration's pledge to bring all forces home by the end of its term in office—have helped foster the very conditions that have forced the U.S. to stay.

This U.S. exit-seeking has encouraged the Taliban to think it can outlast America on the battlefield, deterred Afghan civilians from siding with the coalition and given regional powers such as Pakistan incentives to hedge against the U.S. by supporting insurgent groups.

Although by no means a guarantee of success, the Trump administration's consideration of an open-ended military commitment to Afghanistan marks a sharp break with past practice and creates new possibilities to pursue a decent outcome.

Mr. Trump was also correct to place the Afghan crisis in a regional context and to call out the Pakistani military for sheltering Islamic ex-

tremists. Changing Islamabad's strategic calculus will require tremendous ingenuity and tenacity. But since a major reason for Pakistan's support for terrorists has been its belief it will need them as proxies after America's long-telegraphed exit from Afghanistan, a sustained presence in Afghanistan is the overdue first step to confronting this problem.

**By focusing on getting out of the country, Bush and Obama fostered conditions that forced us to stay.**

And Mr. Trump identified clearly why a U.S. exit from Afghanistan would court catastrophe, given the probability its territory would again be seized by terrorists to plot attacks against the U.S.

The most problematic part of the speech was when the president sounded most like his predecessor—in his disavowal of "nation building." Reasonably enough, Mr. Trump forswore telling Afghans how to live or trying to re-create their society in America's image. But as he acknowledged, the only

way for Afghans to shoulder more of the burden in the shared fight against terrorism is to build strong institutions like the Afghan National Army.

Success also requires an Afghan state that isn't so corrupt or dysfunctional that it pushes the population toward the Taliban, and that is sufficiently inclusive of the country's major communities that they have a stake in its success rather than its failure.

None of this entails the U.S. undertaking utopian social engineering in Afghanistan, but it does require much more than killing terrorists. And it explains why the U.S. has a national interest in standing with Afghans who share American values.

In his speech, Mr. Trump emphasized that continued U.S. support would be contingent on improving Afghan governance and politics. That is more sensible than the Obama approach, which committed the U.S. to leave regardless of what Afghans did. But identifying how and where to exercise that U.S. leverage will require considerable skill and savvy.

In this and other respects, while the president's framework gets most of the big ideas right, success will now turn on smart implementa-

tion and wherewithal. Both will be constantly tested.

Over the past 16 years, Washington has often described Afghanistan as being in "transition," implying the country's wrenching but inexorable progress toward a decisive endpoint, with America's own involvement there a fleeting exigency.

But "transition" is a concept that might better apply to Washington's strategy itself. The U.S. has approached Afghanistan since 9/11 with a typically American mind-set—as a discrete problem to be solved, requiring a temporary surge of effort, after which the military can declare success and go home.

There were strands of this thinking in Monday's speech. But in its substance, the Trump framework suggests the start of a reckoning with a more difficult reality: that Afghanistan is less a tactical battle to be won than a strategic challenge, like the Korean Peninsula or the Arabian Gulf, where the U.S. has vital, enduring national interests and therefore needs to remain engaged for the foreseeable future.

*Mr. Serchuk is an adjunct senior fellow at the Center for a New American Security.*

## The Global Assault on Free Speech

Two recent events on either side of the globe have underscored the importance of free speech—and the peril it faces today.

Just days ago, Cambridge University Press yielded to pressure from the Chinese government

to remove more than 300 articles from the website of its journal China Quarterly. The censored articles covered topics that the Chinese consider incriminating, such as the Tiananmen Square massacre. The

publisher was given the choice between accepting censorship and facing total exclusion from China, and it chose to acquiesce. After an international outcry, however, it reversed its position.

China's government wasn't pleased. An editorial in the state-run Global Times was chillingly frank: "Western institutions have the freedom to choose. If they don't like the Chinese way, they can stop engaging with us. If they think China's Internet market is so important that they can't miss out, they need to respect Chinese law and adapt to the Chinese way. It doesn't matter if some arti-

cles... disappear on the Chinese internet."

There is a striking resemblance between President Xi Jinping's drive to extend Communist Party control over information available to the Chinese people and his government's effort to appropriate the fruits of foreign innovation for its own nationalist purposes. As policy experts across the political spectrum now recognize, and as the Trump administration rightly insists, companies seeking to do business in China often are presented with a choice: transfer control of their intellectual property to Chinese entities, or risk outright exclusion from China's massive and rapidly growing market.

It is easy to understand China's economic strategy. Innovation is the heart of the 21st-century economy, and coercing its transfer enables China to reach the cutting edge while its indigenous research-and-development activities ramp up.

But why the heavy-handed suppression of academic materials, viewed by only a tiny number of scholars?

This takes us to the heart of the matter: Mr. Xi understands the power of free speech and free inquiry to call into question even the most entrenched claims that authoritarian governments use to justify their rule. Allowing access to dissenting arguments and long-buried facts about Tiananmen and Tibet could have disruptive consequences. No one knows what scholars would write, who would be reading or how they might react. Better to shut the

door completely than to leave it open even a crack.

This sense of the fragility of political power is more than automatic paranoia. In the former Soviet Union, the writings of a few brave men and women eroded the

### Beijing censors an academic publisher, while U.S. academics become censors

regime's moral foundation. Communism collapsed in large measure because even those who claimed to rule in its name ceased to believe in its truth and virtue.

When times were good, this loss of faith remained recessive. When the economy faltered, it proved decisive—a lesson that China's leaders surely have pondered.

\* \* \*

Seven thousand miles to the east, the neo-Nazi rally in Charlottesville, Va., sparked calls for the suppression of "hate speech"—bigoted rhetoric that any decent observer would condemn.

Racism and anti-Semitism have no place in any society, and certainly not in a society dedicated to the proposition that all humans are created equal. If these doctrines contain no truth and yield only ill effects, runs the argument, why not prohibit their expression?

In academia, the critique of freedom of speech goes deeper. Many

scholars want to censor speech that reinforces social imbalances, believing that it enhances the ability of the powerful to subordinate the powerless.

Writing in the *New York Times*, K-Sue Park, the Critical Race Studies Fellow at the UCLA School of Law, charges that the American Civil Liberties Union's willingness to offer legal support to right-wing as well as left-wing causes "perpetuates a misguided theory that all radical views are equal." Her conclusion: The ACLU should reduce its focus on First Amendment case law and address restraints on freedom of expression that stem from inequality in all its forms.

To this line of thinking, David Cole, the ACLU's national legal director, offers a pointed retort: "Allowing government officials to regulate speech based on their assessment of who is promoting equality... would be disastrous. How does Mr. Park think that Southern mayors would have used that power during the 1960s?"

One of the few clear lessons of history is that vesting any authority with the power to control speech is bound eventually to backfire. Firm adherence to the First Amendment of the U.S. Constitution enables public officials to impose reasonable time, place and manner conditions on speech—and to act to pre-empt the violence that may attend free expression in fraught situations.

Government should go no further—not in China, not in America, not anywhere.

## THE WALL STREET JOURNAL.

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## LIFE &amp; ARTS

## MUSIC

# A Surprise Dance Album

Joshua Homme opens 'the steam valve for joy' on Queens of the Stone Age's seventh release.

BY JOHN JURGENSEN

**JOSHUA HOMME'S** height—6 feet, 5 inches—is a big reason for the sweat-breaking pace of "Feet Don't Fail Me Now," the opening song of a new album by his rock band Queens of the Stone Age.

"That's the tempo I walk. That's my stride length," says the singer and guitarist, who was moving down a sidewalk when the tune took shape in his mind.

Movement is the message behind the band's seventh album, "Villains," which encourages listeners to live with urgency and gives them something to dance to in the process. The heavy rock of Queens of the Stone Age, abbreviated QOTSA and formed by Mr. Homme 20 years ago in the aftermath of grunge, has always had a groove to it. But to push itself forward, the band tightened the beat and intensified the swing of its new music.

Dancing is the "the steam valve for joy, and I love being a part of that," says Mr. Homme, whose music has also inspired mosh pits and headbanging. His band recorded "Villains" with Mark Ronson, the producer whose song "Uptown Funk" had singer Bruno Mars dancing, along with countless wedding parties and proms.

From Billboard charts to festival stages, rock 'n' roll is largely missing in action as hip-hop, especially, defines pop culture. Comment-section critics online are divided over "Villains" (out on Friday), with some partisans of QOTSA's most muscular work suggesting that the band has surrendered some ground. For Mr. Homme, making danceable songs isn't a concession to the market forces of pop; it's a natural step for a band that has always stacked its songs with melodic hooks and an arch sense of humor.

QOTSA's signature tone—hypnotic, arid, ominous—is often identified with the desert setting



Josh Homme performs during Splendour in the Grass 2017 in Byron Bay, Australia.

in Southern California where Mr. Homme grew up and formed his first band, the "stoner rock" group Kyuss. His sound also owes something to a less sexy part of his roots: the polka lessons he took when learning the guitar at age 9 because that's what the local music teacher favored.

"It's the best investment I ever made. When people hear about [the polka period] they say, 'Oh my God, it's everywhere!' Homme says, pointing to the spiky oompah, oompah that powered his band's biggest hit single, 2002's "No One Knows."

"I feel like I've been writing the same riff for years, trying to get it right. It's not because it's all I can do; it's because I know there's this perfect version out there and it's

worth pursuing." The squirming fuzz-guitar line on new single "The Evil Has Landed" dates back 15 years, he says, but he and his bandmates only recently nailed it down. "It was tied with monofilament lines to my brain, just dragging on the ocean floor...if a riff is really good, I'll remember it."

After the more brooding 2013 album "...Like Clockwork," Mr. Homme's music and outlook was reshaped by both tragic and triumphant events. In 2015, a side band that he formed with friend Jesse Hughes, called Eagles of Death Metal, was at the center of the terrorist attack on Paris in 2015. Mr. Homme wasn't performing with the band at the Bataclan theater, where 90 people were killed. The shock and mourning "reshuffled

and reprioritized my life so quickly. You want to talk about spring cleaning of people, relationships, ideas? My priorities were so clear and I only had a few. Family, friends, work. That's it."

Around that time he also made an album with a hero he had long admired from afar, Iggy Pop. In addition to his huge musical impact (with proto-punk band the Stooges and albums he made with David Bowie in the late 1970s), Mr. Pop offered the allure of a rock survivor who withstood infamous substance abuse and a gonzo performance style. Mr. Homme says he long thought of Mr. Pop as an "ink-like litmus test" to rationalize his own party levels.

"Once I got to know him, those things didn't mean anything any-

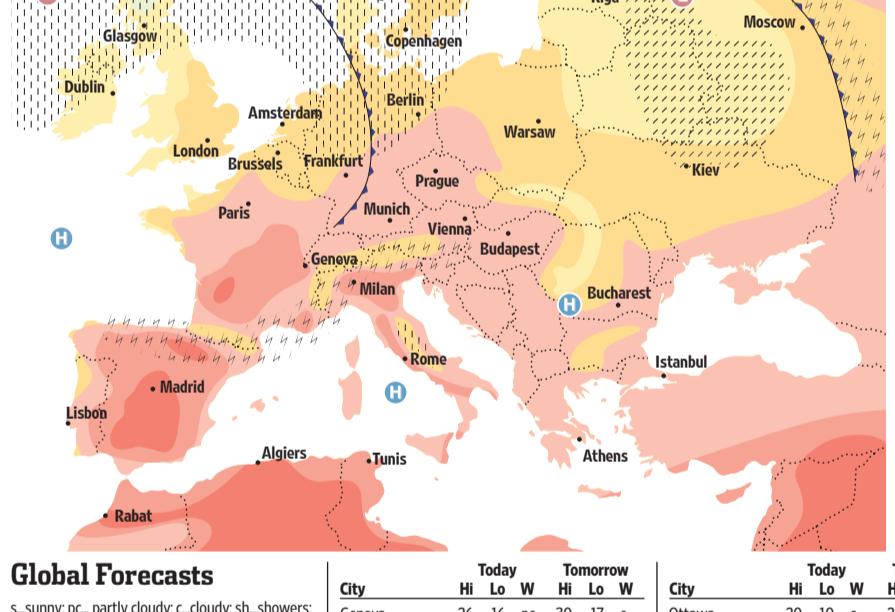
more," he says. In producing the album "Post Pop Depression" and touring with Mr. Pop, now 70, the 44-year-old rocker says that he learned how to age with integrity in an art form that fetishizes youth. In the new song "Un-Reborn Again," Mr. Homme sings, "Everyone is drowning in the fountain of youth."

A less public force in QOTSA's creative process came from a young visual artist from England known as Boneface. After providing illustrations and animations for the previous album, the band invited him to play a more immersive part in the new one. Boneface occupied a desk in the recording studio and drew the songs as QOTSA wrote and recorded them.

Mr. Homme describes Boneface as a "visual partner" whose illustrations helped build momentum in the studio (with guitarist Troy Van Leeuwen, keyboardist Dean Fertita, bassist Michael Shuman, drummer Jon Theodore, and co-producer and engineer Mark Rankin). Says Mr. Homme, "When I see something that he's drawn that really resonates, it refocuses my effort on lyrical stuff and the conversation about songs and what they're supposed to do. Saying it out loud also impacts what he's doing visually and creates this circular excitement."

"Domesticated Animals," a song with a staggered rhythm and grim lyrics about groupthink, led Boneface to draw a suited man snarling out of a cone collar that a dog would wear after surgery. Boneface created the cover art for "Villains" and his studio illustrations will be featured in the album's vinyl release. "In the modern age, the visual side has been relegated to a one inch by one inch thing," Mr. Homme says, referring to the thumbnail images that accompany digital music files. "It's so beautiful to see that music and images come together. It's almost like making conjoined twins instead of separating them."

## Weather



## Global Forecasts

s...sunny; pc...partly cloudy; c...cloudy; sh...showers; t...storms; r...rain; sf...snow flurries; sn...snow; l...ice

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	21	13	pc	23	15	pc
Anchorage	14	10	r	15	10	r
Athens	31	23	s	31	22	s
Atlanta	31	21	pc	30	21	pc
Bahrain	44	28	s	45	28	s
Baltimore	27	16	s	25	14	pc
Bangkok	33	27	t	33	26	t
Beijing	33	18	s	31	17	c
Berlin	24	13	pc	22	13	c
Bogota	19	9	c	19	8	r
Boise	31	16	pc	33	16	s
Boston	26	17	s	23	14	pc
Brussels	23	12	pc	24	17	t
Buenos Aires	24	16	c	22	11	r
Cairo	35	24	s	36	24	s
Calgary	27	6	c	22	8	pc
Caracas	31	25	pc	31	25	pc
Charlotte	30	18	pc	30	19	pc
Chicago	22	13	pc	23	15	s
Dallas	31	22	t	31	23	pc
Denver	30	14	pc	31	15	t
Detroit	21	11	pc	24	12	s
Dubai	41	32	s	39	31	s
Dublin	18	12	c	17	11	sh
Edinburgh	18	11	c	18	11	sh
Frankfurt	25	13	pc	27	18	t

## AccuWeather.com

## The WSJ Daily Crossword | Edited by Mike Shenk



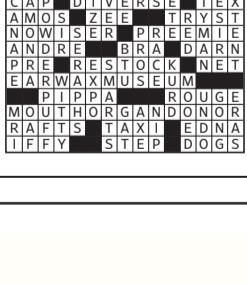
## THROW IN THE VOWEL | By Kristian House

Across	Down
1 Choice when setting an alarm	25 Something the "Florence Foster Jenkins" star might clear?
5 "Black Mass" star	31 "Excuse me?"
9 One of 150 in the Bible	34 "Yeah, right!"
14 Opera highlights	35 Trooper producer
15 Instead	36 Subject of chemical attraction
16 Suffuse	37 Drive-thru developer of the past
17 Write a bad review of a "Misery" performance?	40 Barbecue chef's spice mixture
19 To a great extent	41 Take clippers to
20 Masked raider	42 Skedaddle
21 Some of Molly Malone's wares	43 Archipelago part
23 1993 NBA Rookie of the Year	45 Covered a "Bridesmaids" co-star in talc?
24 Soak, say	49 Some Belize natives

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

Down
1 Craig Biggio, for 20 seasons
29 Un color primario
2 Capone rival
3 Find a job for
4 Put in the wrong part
5 Griffith Observatory style
33 Fresh
37 Far from ordinary
38 Greedy gullet
39 Brest friend
42 Rates highly
44 "Understood!"
46 Whiskey choice
47 Music may come out of it
48 Run while standing
51 Some blades
52 Painter-turned-inventor
53 Conjunction with a slash
54 Abe's wife
55 Plains people
22 Giants legend
24 Takes in
26 Resistivity symbol
27 "Mangia!"

## Previous Puzzle's Solution



## Global Forecasts

s...sunny; pc...partly cloudy; c...cloudy; sh...showers; t...storms; r...rain; sf...snow flurries; sn...snow; l...ice

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Geneva	26	16	pc	30	17	c
Hanoi	29	26	r	31	25	t
Havana	31	23	pc	31	23	pc
Hong Kong	33	28	t	33	27	t
Honolulu	30	24	pc	31	24	pc
Houston	33	25	t	28	24	r
Istanbul	28	21	s	27	22	pc
Jakarta	33	24	pc	33	25	pc
Johannesburg	20	4	s	21	5	s
Kansas City	27	17	s	26	17	c
Las Vegas	38	27	s	40	28	s
Lima	20	14	pc	20	14	pc
London	21	11	pc	23	15	pc
Los Angeles	26	18	pc	29	19	pc
Madrid	36	20	s	35	21	s
Manila	31	26	t	31	26	s
Melbourne	13	5	pc	15	7	pc
Mexico City	25	14	pc	24	15	pc
Miami	31	25	t	31	25	t
Milan	32	19	p	32	19	s
Minneapolis	22	14	pc	21	15	s
Monterey	34	21	pc	34	21	pc
Montreal	21	12	pc	21	12	s
Moscow	19	11	sh	17	12	r
Nashville	30	26	sh	30	26	sh
New Delhi	34	27	c	34	27	t
New Orleans	32	25	t	31	25	s
New York City	26	17	s	25	16	pc
Washington, D.C.	28	19	s			

# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Thursday, August 24, 2017 | B1

Euro vs. Dollar 1.1801 ▲ 0.33%

FTSE 100 7382.65 ▲ 0.01%

Gold 1288.90 ▲ 0.30%

WTI crude 48.41 ▲ 1.21%

German Bund yield 0.377%

10-Year Treasury yield 2.171%

## Chinese Deals Abroad Get Harder

Foreign governments grow more skittish, and Beijing restricts 'irrational' purchases

BY EMMA JOHANNINGSMEIER

After a record-breaking year for Chinese acquisitions of overseas companies and other assets, the country's investors are facing increasingly wary regulators in foreign governments—and a Chinese government determined to control where they put their money.

China's total outbound mergers-and-acquisitions investing over the next 10 years could total \$1.5 trillion, a recent report by international law firm Linklaters predicted. That is more than double the total from the past decade, according to Dealogic data, but is roughly flat when compared with current levels.

The first half of 2017 saw a



An Ant Financial stand at a 2016 exhibition in Shanghai. Ant is seeking approval to acquire U.S. payment firm MoneyGram.

ing Transformation: The Untold Story."

"China's government now looks hard at overseas investments not arising out of core business strategies or serving national interests," Mr. Stent said. "It is restricting frivolous investments in overseas football teams, and by highly leveraged financial conglomerates whose acquisitions neither clearly serve the national interest nor arise out of a well-defined core business strategy."

On Friday, Chinese officials published official guidelines for overseas investment for the first time. The new rules will restrict investment in sectors such as hotels and sports teams, but not technologies such as computer chips.

Also likely to influence Chinese M&A investing are Western governments' moves to block Chinese companies from gaining too much control over domestic infrastructure and branching into industries

where Chinese ownership might raise national-security concerns.

Chinese forays into sectors such as energy infrastructure, high-end technology and electronics face particular scrutiny abroad, the Linklaters report said.

In one high-profile case, Australia blocked China's State Grid Corp. and Hong Kong-based Cheung Kong Infrastructure Holdings Ltd. from taking a 50.4% stake in the country's largest electricity network, Ausgrid, out of concerns for national security. At the time, Australian Treasurer Scott Morrison said, "In making this decision, national-interest concerns have been paramount."

The range of companies likely to face resistance over security worries also includes those involving payment-processing systems and credit-rating systems, firms which might allow Chinese compa-

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## Google, Wal-Mart Team Up For Sales

BY JACK NICAS AND LAURA STEVENS

Google and Wal-Mart Stores Inc. are joining forces in a partnership that includes enabling voice-ordered purchases from the retail giant on Google's virtual assistant, challenging rival Amazon.com Inc.'s grip on the next wave of e-commerce.

Wal-Mart said Wednesday that next month it will join Google's online-shopping marketplace, Google Express. While the deal will add hundreds of thousands of Wal-Mart items to Google Express, it will also give Wal-Mart access to voice ordering. The deal won't alter how consumers receive their orders, because Wal-Mart will fulfill purchases made through Google Express.

Consumers will be able to order Wal-Mart goods from the retailer's stores by speaking to Google's virtual assistant, which sits in phones, Google's voice-controlled speakers and soon other devices. Wal-Mart said it will share consumers' purchase history with Google to enable users to quickly reorder items, a primary function of voice-controlled orders for commodity shopping.

"How do you help people who are going to be interacting more and more with devices get their weekly shopping tasks taken care of?" Google Express chief Brian Elliott said in an interview, citing a key reason for the partnership.

The increasing importance of voice shopping suggests Wal-Mart and Google, part of Alphabet Inc., need each other to compete against Amazon. Voice-controlled ordering is a small but rapidly growing share of online sales, analysts say, and one of the top reasons to use Amazon's virtual assistant Alexa and its Echo speakers.

Google has "made significant investments in natural language processing and artificial intelligence to deliver a powerful voice shopping experience," Marc Lore, Wal-Mart's head of e-commerce.

Amazon effectively invented voice shopping, which allows users to easily order goods, like toilet paper and diapers, thanks to Amazon's vast data set on customers' past purchases. A significant portion of online shopping is made up of consumers reordering the same staples. That is well-adapted to voice ordering because a device can recall the preferred brand, size and type, without requiring shoppers to scan through different product listings.

"When I buy a product that I don't care about, it is actually a pain for me to go to a website and find an item and

Please see DEAL page B2

### HEARD ON THE STREET

By Stephen Wilmot

## WPP Woes Are Already In the Price Of Shares



The rough patch faced by WPP, the world's largest advertising company,

has gotten rougher. But investors shouldn't forget that WPP is a fundamentally strong business, and its shares are cheap relative to their history and their peers.

The company reported Wednesday that like-for-like net sales growth—its key top-line growth measure—fell into the red in the second quarter. Growth has been slowing since last summer, but nobody expected a contraction of 1.7%. The stock dropped 11% in London.

Given the mixed signals, speculating when things will improve is a fruitless exercise. On the one hand, WPP Chief Executive Martin Sorrell expects full-year organic growth of between zero and 1%, implying growth of between 1% and 3% in the second half. Some clients that clamped down on ad spending in the first half have said they would now loosen their purse strings. On the other hand, the July numbers were bad, with like-for-like net sales down 2.6%.

Amid all the gloom about WPP's sagging organic growth, it is easy to forget that the company's profits are still rising, thanks to acquisitions and a fairly flexible cost base.

Crucially, its problem also still appears to be cyclical pressure from big clients, notably consumer companies that have their own growth challenges, rather than competition from media giants Google and Facebook, or consulting firms like Accenture.

The irony of the current situation is that, just like its consumer-goods clients, WPP has an efficiency plan to push its operating margin up to just shy of 20%. This bottom-line focus has done wonders for stocks like Unilever and Nestlé this year, but WPP remains deeply out of favor.

WPP was one of this column's summer stock picks. Clearly, we called it too early.

But with the shares trading at 11 times forward earnings, the opportunity for those prepared to invest against the crowd is more compelling than ever.



Samsung mobile chief D.J. Koh, at center, introduces the Galaxy Note 8 smartphone during a launch event in New York on Wednesday.

BRENDAN McDERMID/REUTERS

## Crisis Shaped Latest Galaxy Note

BY TIMOTHY W. MARTIN

**NEW YORK**—Samsung Electronics Co.'s desire to push the envelope on smartphone capabilities was severely tested by last year's Galaxy Note 7 fiasco, where fire-prone batteries triggered a costly global recall.

But rather than cautiously go on the defensive with the new Galaxy Note 8, Samsung mobile chief D.J. Koh in recent months hammered home a message internally to engineers: Don't hold back.

"If we are afraid of technology innovation, we will die," Mr. Koh said he told his engineers, during an interview in New York ahead of the launch of Samsung's next smartphone. "Do not hesitate to take the next quick step."

On Wednesday, Samsung,

the world's largest smartphone maker, introduced its new Galaxy Note 8, showcasing several advances in a phone that notably relies on a less powerful battery than its disgraced predecessor.

The latest incarnation of the Galaxy Note phones boasts Samsung's "infinity" display, which covers nearly the entire front of the phone and clocks in at 6.3 inches. It is Samsung's first handset to have a dual-lens camera that makes it easier to snap professional-quality photographs, a feature Apple Inc. introduced in last year's iPhone.

Mr. Koh is eager to show consumers Samsung hasn't lost a step after overheating batteries forced it to pull last year's version from shelves. The fiasco ultimately cost it around \$6.5 billion and led to a wide-

spread ban on carrying the device onto aircraft over fears it was a fire-safety hazard.

The stakes are particularly high this year as rival Apple is expected to unveil a 10th-anniversary version of its iPhone soon with advanced new features, and as Samsung's internal estimates show more than 50 million people are out of contract with their U.S. carriers—and potentially up for grabs for the South Korean company or its rivals.

The Galaxy Note series won fans by pushing the limit on new features. Six years ago, the Galaxy Note was the first mainstream plus-size phone and a variant to 2014's Galaxy Note 4 was the first to have a curved screen.

Last year's version unveiled an iris scanner that could unlock the phone. Its raw-mate-

rial costs have often recently surpassed those of the newest iPhone base model, even though Apple charges more for those devices, according to market researcher IHS Markit's analysis.

"Apple has always been a study of discipline, and Samsung has always been rushing to stuff in as much advancements as possible," said Wayne Lam, a principal analyst at IHS Markit.

Samsung, in a January report led by Mr. Koh, concluded with three external firms it hired that the battery problems were caused by manufacturing and design problems.

In response, Samsung adopted an eight-point battery check, added protective brackets around the battery and

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Please see DEAL page B2

## Cargill Invests in a 'Clean Meat' Startup

BY JACOB BUNGE

**Cargill** Inc. is betting you won't always need cattle to make hamburgers.

The agricultural conglomerate has invested in **Memphis Meats** Inc., a startup developing technology to grow meat from self-reproducing animal cells. The stake marks the first investment by a traditional meat company in the nascent "clean meat" sector, where startups are creating products they say are better for the environment than meat derived from traditional feedlots and slaughterhouses. Cargill and Memphis didn't disclose the size of the stake.

Meat companies are under pressure from consumers to reduce their reliance on animal drugs and to treat livestock more humanely. Some have invested in plant-based burgers

and chicken strips, hoping to win business from both vegetarians and carnivores concerned about the meat industry's heavy use of crops and water. Memphis and other startups in the U.S. and Europe are working on another route to assuage those concerns: Using cell-culture technology to grow meat from living animal tissue in stainless-steel cultivator tanks.

"This is another way to harvest meat," said Sonya Roberts, head of growth ventures in the meat division at Cargill, one of the world's biggest pro-

ducers of beef and poultry. "For people who want a product from an animal welfare perspective, we want this to be there for them."

Memphis on Wednesday said Cargill's investment was part of \$17 million in funding that also drew from Bill Gates, Richard Branson and venture-capital firms Draper Fisher Jurvetson and **Atomico**. The companies didn't provide details on their individual investments.

Cell-cultured meats have some way to go before landing on dinner plates. Memphis Chief Executive Uma Valeti said his company, founded in 2015, can make a pound of meat for less than \$2,400, down from \$18,000 last year. Meanwhile, regulators haven't decided how they will oversee meat production that doesn't involve barns and butchers.

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## INSIDE



PATRICK T. FALLON/BLOOMBERG NEWS

## FOOD DEAL CLEARS HURDLE

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BANKS LEND LIKE RATES WON'T RISE

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## DEAL

*Continued from the prior page*

check out," said Forrester analyst Brendan Witcher, a former retail executive. "If I can simply say, send me dishwashing soap...and you send it, that's much easier on me as a consumer."

To make voice shopping easier, Wal-Mart said it will allow users to link their Wal-Mart accounts to Google Express, so a Wal-Mart shopper who asks the Google virtual assistant for more toothpaste will get the same brand she bought last time.

The Wal-Mart-Google partnership comes as Amazon continues to expand its share of online purchases. In July, Amazon claimed nearly 45 cents out of every dollar spent online, according to receipt tracker Slice Intelligence, up from about 43 cents at the start of the year. Wal-Mart, in comparison, claimed nearly 2 cents of each dollar, holding steady.

Google launched Google Express in 2013 and steadily expanded the service to reach the full contiguous U.S. by late last year. Google enlists third-party firms to fulfill orders from a variety of retailers, including Target Corp., Costco Wholesale Corp., Walgreenss Boots Alliance Inc., and Whole Foods Market Inc., which Amazon agreed to buy in June for \$13.7 billion.

Google Express earns money on commissions from those merchants. Wal-Mart said it would fulfill its Google Express orders itself, a new, likely cheaper model for Google.

Google said on Wednesday that it is also dropping the \$95 annual fee for free shipping on orders that reach a given store's minimum cart size, similar to a move Wal-Mart made in January. Google Express' Mr. Elliott said the company decided to offer free shipping on such orders, with a typical minimum of \$25 or \$35, to make buying easier, particularly when ordering goods via voice interactions.

Wal-Mart will leverage

Google's virtual assistant and Echo competitor, the Google Home, to make its goods available at the sound of a consumer's voice. Google, meanwhile, hopes access to Wal-Mart's inventory will help boost engagement and sales of its assistant and speakers. The partnership will enhance the selection and overall cachet of Google Express, which competes with delivery services such as Instacart Inc. and Uber Technologies Inc.

Amazon introduced the Echo in 2014, a first-of-its-kind voice-controlled smart speaker, and sales quickly took off. Google introduced its Home speaker late last year, and now has about 26% of the market as of June 30, according to Consumer Intelligence Research Partners LLC. The Echo has the rest. Apple Inc. plans to start selling its smart speaker in December.

More than half of Echo users have bought something on their device, and about 30% of those customers buy something at least once a week, according to Consumer Intelligence Research Partners' survey of 300 device users. Google Home owners do so at a much lower rate, the survey says.

In recent weeks, Jonathan

Khoo, 40 years old, has ordered frequently from his Echo, including Mr. Clean Magic Erasers, Balance Bars, Krazy Glue and BIC lighters. Most of those are inexpensive items that a shopper would usually need to bundle with other purchases to reach a delivery threshold. But they ship as single items via voice, a perk Mr. Khoo, a software developer, says has convinced him to order more from his Echo.

The battle between Wal-

Mart and Amazon has recently taken on new intensity, most notably with Amazon's planned acquisition of Whole Foods, which heightens their competition in groceries. Wal-Mart this week said it is expanding grocery-delivery tests with Uber, and is testing deliveries by store workers.

—Khadeeja Safdar

contributed to this article.

Wal-Mart is planning to enter Google's online marketplace.

BRENDAN McDERMID/REUTERS

## BUSINESS & FINANCE

# Takeover Clears Key Hurdle

Whole Foods says its shareholders voted in favor of \$13.7 billion deal with Amazon

BY HEATHER HADDON

Shareholders of Whole Foods Market Inc. approved the natural grocer's takeover by Amazon.com Inc., a key step for the e-commerce giant to seal its biggest play yet in the more-than-\$700 billion food retail market.

The \$13.7 billion deal, including debt, was approved by Whole Foods shareholders on Wednesday, the Austin, Texas-based company said. Amazon shareholders don't need to sign off on the transaction.

Amazon and Whole Foods both want to close the deal by the end of the year. Federal regulators in the U.S. are still evaluating it. Whole Foods had seen its stock lose more than half of its value as its sales have slumped in the past two years, with mainstream supermarkets starting to sell similar natural and organic goods offerings at lower prices.

The slump prompted activist investors this year to push for board and operational changes at Whole Foods. That pressure drove Whole Food executives to



Regulators are evaluating the transaction, which would be the biggest U.S. retail merger so far this year.

agree to a deal with Amazon, which is seeking to expand its reach into food retail.

The deal is the biggest U.S. retail merger so far this year, and would be the third largest since 1995, according to Dealogic.

Shareholder proxy services Institutional Shareholder Services Inc. and Glass, Lewis & Co. endorsed the merger despite some concerns over a

lack of a full sales process. Glass Lewis said increasing competition in the grocery sector and questions surrounding Whole Foods's ability to improve its operations makes the deal beneficial to investors.

Shareholders also approved proposals to decrease the number of publicly traded Whole Foods shares by half, and to allow payouts to company executives under the deal.

ISS expressed reservations about the cash and stock payouts, which amount to \$20 million to six officers if they are replaced. But the proxy service recommended shareholders vote for it, given the payouts represent a fraction of the stock value gains under a merger.

—Laura Stevens contributed to this article.



Drilling by a Sistema unit in Russia in 2016. The company has been ordered to pay Rosneft \$2.3 billion.

## Rosneft Prevails With Suit

BY THOMAS GROVE

MOSCOW—A regional arbitration court on Wednesday sided with Russian oil giant PAO Rosneft, in a case seen as a test of the country's investment climate.

A judge in the Bashkiria region of Russia ruled that conglomerate AFK Sistema must pay Rosneft 136 billion rubles (\$2.3 billion) over its management of oil producer Bashneft.

Rosneft had accused Sistema, the former owner of Bashneft, of destroying value in the medium-size company and removing assets from it.

Sistema had a controlling share in Bashneft when the government took over the oil company in 2014, saying an initial privatization was void. Rosneft subsequently bought Bashneft in a sale criticized by some Russian entrepreneurs.

Sistema said the restructuring of Bashneft—the main issue in the case—was done to prepare the company for an initial public offering. The case, which was filed in May, has been closely watched in Russia, in no small part because state-owned

Rosneft is run by Igor Sechin, a former intelligence officer and close ally of Russian President Vladimir Putin.

Rosneft said it was pleased with the decision, but the Russian news agency Interfax quoted Rosneft spokesman Mikhail Leontiev as saying the company would decide whether to appeal the decision, as the award was less than the 170.6 billion rubles it had sought.

A spokesman for Sistema said the "absurd" decision was a blow against Russia's economy and that the company would appeal.

During a protracted proceeding, a judge dismissed a number of motions from Sistema, including a request to use independent experts to determine whether Sistema had hurt the company's valuation. Sistema officials said they were adding value to the company during their control, with their preparations for an IPO including the restructuring of noncore assets, the obligatory buyback of minority shareholders and the cancellation of stock the treasury owned in the company.

Rosneft's lawsuit against the

conglomerate sent waves through the Russian business community, which was already grappling with a recession brought on a drop in oil prices and Western sanctions over the annexation of Crimea.

In February, Russia's top children's goods retailer, Detsky Mir, held the first major IPO in the country since the annexation of Crimea in 2014. Sistema, the main owner of Detsky Mir, previously had put off plans for an IPO, and the placement this year sent a signal investors were starting to warm to Russia again.

Timothy Ash, senior strategist at BlueBay Asset Management in London, said the case has boosted worries that investors may once again be deterred by a politicized business environment.

"It underscores the risk of doing business in Russia overall," he said. "The interesting thing for me is the Russian macro story looks pretty good, but on a structural reform/business environment side, I don't see much change."

—Nathan Hodge contributed to this article.

leading Ant to refile its application.

In an op-ed column in the Journal, U.S. Secretary of Commerce Wilbur Ross wrote that "many governments across the globe have pursued policies that put American workers and businesses at a disadvantage," and added, "For these governments, President Trump and his administration have a clear message: It is time to rebalance your trade policies so that they are fair, free and reciprocal."

Some European lawmakers have raised concerns about increased Chinese investment in Europe, citing a lack of reciprocity for European companies investing in China as one problem with the trend. But at a European Union summit in June, lawmakers rejected French President Emmanuel Macron's proposal to give Brussels more control over foreign investments in Europe.

At a national level, Ger-

many, the target of many Chinese investors, has recently expanded its government's ability to block the takeover of German companies by investors outside the EU.

Heavy financial backing from the Chinese state for outbound acquisitions that advance its economic priorities, including targeted acquisitions of core technologies and important parts of the global value chain, enables Chinese investors to make attractive offers abroad, said Björn Conrad, vice president of the Berlin-based Mercator Institute for China Studies.

But he cautioned that state backing can create market distortions that skew the competition in Chinese investors' favor.

"That's nice for the company that is being acquired—they get a good deal," Mr. Conrad said. "But it's bad for the overall macroeconomic structures."

Proponents of the technology say it could revolutionize a meat production system that uses much of the world's cropland to feed billions of cattle, hogs and chickens. The United Nations estimates that animals raised for meat consume a third of the world's grain and use a quarter of all land for grazing.

A study published in February by researchers at Australia's University of Queensland found that about a third of 673 respondents in the U.S. would be willing to eat cell-cultured meat regularly. Nearly half said they would choose it over soy-based meat substitutes.

About one-fifth said they were unlikely to try the meat or would refuse it.

Steve Jurvetson, a partner at Draper Fisher Jurvetson who will join Memphis's board of directors, said the visceral connection that cell-cultured products have with traditionally raised meat will help them stand out from plant-based alternatives.

Stephen Giunta, culinary director for Cargill's meat division and a master chef who once worked as President Ronald Reagan's personal cook, was convinced by a Memphis taste test in San Francisco. At the June event, Mr. Giunta pulled apart a slice of Memphis's duck meat with his fork, scrutinizing the muscle fibers before eating it.

"It was a nice, clean flavor," Mr. Giunta said. "It was something I'd absolutely serve to my kids."

## INVEST

*Continued from the prior page*

ties to gather consumer data.

"I think we're going to see a lot of concern about ultimate ownership" of such companies, said Ken DeWoskin, a senior adviser for Deloitte's Chinese Services Group.

In the U.S. this year, several deals have failed to get timely approval from the Committee on Foreign Investment in the U.S. A \$1.2 billion purchase of Dallas-based payment firm MoneyGram International Inc. by Ant Financial Services Group, which is controlled by Chinese billionaire Jack Ma, a co-founder of Alibaba Group Holding Ltd., is among those deals.

In July, The Wall Street Journal reported that the Committee on Foreign Investment in the U.S. hadn't approved the deal by a deadline,

which indexes cite notable references to most parent companies and businesspeople in today's edition. Articles on regional page inserts aren't cited in these indexes.

At a national level, Ger-



Wal-Mart is planning to enter Google's online marketplace.

## TECHNOLOGY

WSJ.com/Tech

# Uber's Value Takes Hit at Mutual Funds

Four firms mark down their investments in ride-sharing company by as much as 15%

BY ROLFE WINKLER  
AND GREG BENSINGER

Four mutual-fund companies have marked down their investments in **Uber Technologies Inc.** by as much as 15%, the first such price cuts suggesting these investors are souring on the ride-hailing giant following a scandal-ridden year.

**Vanguard Group, Principal Financial Services and Hartford Funds** all marked down their shares by 15% to \$41.46 a share for the quarter ended June 30, according to the fund companies' latest disclosure documents. **T. Rowe Price Group Inc.** cut the estimated price of its Uber shares by about 12% to \$42.70 for the same period.

Uber's shares don't trade publicly, so the mutual-fund companies that hold them must estimate the shares' worth each quarter.

Six mutual-fund companies had mostly maintained a \$48.77 share price since the

fourth quarter of 2015, when Uber first sold its shares to investors at that price.

**Fidelity Investments** held its estimate of \$48.77 as of June 30.

The one outlier is **BlackRock Inc.**, which wrote up the shares slightly each of the past two quarters, settling at \$53.88 as of June 30.

Uber didn't have comment. The mutual-fund companies couldn't be reached or didn't have comment.

Uber has struggled with a string of scandals, executive departures including the ouster of its chief executive, and a lawsuit from **Alphabet Inc.** over allegedly stolen trade secrets. It also faces fallout from a probe into its culture after allegations of sexual harassment and sexism.

Uber's board, meanwhile, is trying to fill the CEO position after Travis Kalanick resigned in June under investor pressure.

Uber board members are again considering **Hewlett Packard Enterprise Co.** CEO Meg Whitman as a possible candidate for the CEO job despite her public statement last month pulling herself from contention, people familiar with the matter said. Some di-



Uber has hit a rough patch, including the resignation of its CEO.

rectors have discussed in recent days potentially putting Ms. Whitman's name back on Uber's short list of candidates, which also includes **General Electric Co.** Chairman Jeff Immelt. The thinking goes that if a majority of Uber's eight-person board were to vote to approve her as CEO, she could be persuaded to come to the table again, the people said.

Ms. Whitman said in a Twitter message last month after word of her candidacy became public that "I am not going anywhere" and "Uber's CEO will not be Meg Whitman." A person familiar with her think-

ing said on Tuesday that she stands by her prior statement.

The CEO search is in flux after one of Uber's biggest investors, **Benchmark**, sued Mr. Kalanick in an effort to oust him from the board. The feud began earlier this month and has since spiraled into a broader battle among shareholders.

Benchmark has been negotiating for months a potential deal with tech investor **SoftBank Group Corp.** to sell part of its stake at a discount to Uber's last valuation of nearly \$70 billion, according to people familiar with the matter. Benchmark and SoftBank have

declined to comment.

Amid all the controversies, Uber has sought to shore up its financials after reporting a loss of more than \$3 billion for last year and \$708 million in the first quarter, according to people familiar with the matter. The company in July combined its money-losing Russian operations with **Yandex NV's Yandex.Taxi**, the more popular ride-hailing firm there.

Uber is also winding down its U.S. subprime auto-leasing business after realizing losses per vehicle were \$9,000 on average, 18 times what was previously believed, said people familiar with the matter. Uber still had about \$7 billion in cash at the end of the first quarter, these people said, and its revenue totaled over \$3 billion in the three-month period, up 18% from the fourth quarter.

Mutual-fund companies determine the valuations for closely held companies by a special committee that sits apart from the portfolio managers who buy and sell stocks. To value illiquid shares, such committees typically look to a company's financial information, the value of publicly traded rivals and share prices paid by investors in previous

funding rounds.

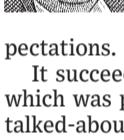
The mutual-fund firms generally don't discuss individual investments in startups and don't specify reasons for the price changes in their disclosure documents. The fluctuations have frustrated startup chief executives and venture capitalists, many of whom assumed the firms would hold the investments at cost after investing.

At least seven mutual-fund companies own shares in Uber, several of them first buying in during a 2014 funding round at \$15.51 a share. The price has roughly tripled since then through a series of funding rounds, but Uber hasn't raised new capital since last year at the \$48.77 price.

Mutual funds have historically waited until initial public offerings or later to invest in young companies. In recent years, startups began staying private longer, opting for lucrative fundraising rounds rather than bothering with financial disclosures and securities regulation. Spurred in part by rock-bottom interest rates, mutual funds in 2013 began gobbling up stakes in companies that seemed destined for a public offering.

PERSONAL TECHNOLOGY | By Geoffrey A. Fowler

# Galaxy Note 8: Samsung's Big Phone Is Back



Samsung's new Galaxy Note 8 is a Grande-size smartphone with Venti expectations.

It succeeds the Note 7, which was perhaps the most talked-about phone of 2017...for all the wrong reasons. And when the Note 8 arrives in stores Sept. 15, it will go head-to-head against Apple's 10th-anniversary iPhone in what's expected to be the largest-ever season for phone upgrades.

So what is Samsung's strategy for breaking Apple's spell while also making us forget about battery fires? Rather than surprise, the Note 8 mostly just supersizes the things that worked well in this spring's Galaxy S8. Its screen measures 6.3 inches.

The Note 8's standout new feature, a dual-lens camera, will make other Samsung owners jealous, but it only just catches up to Apple.

When I had the chance to try the Note 8 briefly, ahead of its debut, it was clear this is the phone to beat for anyone looking to max out on screen. In a form that is slightly thinner and taller than the iPhone 7 Plus, the Note 8 packs about 20% more screen.

Like the S8, the Note 8 squeezes in more usable screen by slimming the phone's forehead and chin, elongating the display. And its "infinity" screen stays trim on the sides by curving down. That curve has a sharper angle than past Samsung phones, which makes the Note 8 slightly easier to hold.

Side by side, the Note 8 screen looks like a modest boost from the S8+ model, with a 6.2-inch screen, that Samsung introduced in the spring. But it will feel like an Olympic-size swimming pool for anyone still using the two-year-old Note 5 or any



From left, a Samsung Galaxy S8, an S8+ and a Note 8 on display last week in New York.

dent testing firm UL is publicly vouching for the Note 8 battery, a significant improvement over the just-trust-us approach Samsung took with battery safety in the S8.

The Note 8's dual 12-megapixel camera is the feature most likely to make other Samsung owners jealous. Just as on the iPhone 7 Plus, one lens is for wide angle and the other for 2X zoom. Samsung added optical image stabilization to both its lenses, which it says will produce clearer shots. The iPhone 7 Plus has stabilization only on the default wide-angle lens.

Like the iPhone, the Note 8 can use depth information from the two lenses to take portraits with only the subject in focus. The Note lets you manually adjust how much background blur to apply—a feature I've felt

was lacking on the iPhone's Portrait Mode. (On the Note 8, you can even adjust it after you take the picture.)

The Note 8, available in presales on Aug. 24, is too big for my taste. I think the Samsung Galaxy S8 offers just the right amount of screen, 5.8 inches, in a slender package. But by offering a supersize line, Samsung retains loyal customers who want choice.

And the Note 8 maintains Samsung's lead on phone design. The new norm for a premium phone in 2017 is a dual-lens camera and a reduced-bezel shape with a huge screen. But there is still room for Apple to impress this fall by fixing the fingerprint reader, addressing battery life—and perhaps identifying something we didn't even know we wanted.

## NOTE

Continued from page B1

created diagnostics to ensure safe charging currents and duration. Samsung executives made unannounced visits to suppliers' factories. And to incentivize quality, Mr. Koh signed three-year contracts with suppliers instead of annual contracts.

"When we designed the Note 8, we knew we had to get it right," Mr. Koh said.

The crisis required teams across the Samsung mobile division's global workforce of 165,000 people to band together and collaborate more closely during weeks of conference-room meetings, said Tim Baxter, head of North American operations for Samsung Electronics.

"It forced the company to work more closely together," Mr. Baxter said.

"The way we got work done changed."

Despite the controversy, Samsung executives say its

brand has largely recovered to prerecall levels. Samsung's brand value rose 23% to \$24 billion in 2017, more than three times the average company's growth over the past year, according to an annual ranking by Kantar Millward Brown's BrandZ, whose metric measures consumer perceptions and financial performance. "Samsung is probably the fastest recovery of all the historical crises I've seen," said Doreen Wang, BrandZ's global head.

Samsung's apparent rebound comes as smartphone sales have inched upward this year, rising 6% in the second quarter from a year earlier, according to Strategy Analytics, a market researcher. Samsung grabbed 22% of total shipments, with Apple and China's Huawei Technologies Co. each recording 11%.

Mr. Koh said the well-reviewed Galaxy S8, and its larger S8+, have reached 20 million shipments since going on sale in April, outpacing sales of its predecessor—the

Galaxy S7, the firm's previous best seller.

The question for Samsung isn't so much whether it can woo back Galaxy Note fans, but rather whether it can attract new users. Samsung has experienced multiyear declines in its U.S. share of the premium market, defined as handsets selling at \$500 wholesale or more.

Three and a half years ago, Samsung had 30% of the U.S. high-end market versus Apple's 60%, according to BayStreet Research LLC, using a 12-month rolling average. But as of June, Samsung had fallen to 22%, while Apple had grown to 73%.

"Samsung cannot change the trajectory of losing users to Apple," said Cliff Malodono, BayStreet Research's senior analyst, who tracks device sales. "I don't think they ever can turn the tide."

Before rising to become Samsung's mobile chief in late 2015, the 56-year-old Mr. Koh helped develop the original Galaxy Note phone and create

## Grapple With Apple

U.S. premium smartphone market share, by phone activations



\*Wholesale price at \$500 or more

Source: BayStreet Research

THE WALL STREET JOURNAL.

its S Pen stylus. Despite last year's woes, Samsung executives never seriously considered discontinuing the Galaxy Note or skipping this year's release and waiting for next year, he said.

Internally, Mr. Koh told Samsung employees: "I will not give up on the Note series."

## LG ELECTRONICS

### Company is Planning U.S. Car-Parts Facility

**LG Electronics Inc.** said Wednesday that it will spend about \$25 million to build an electric-car parts factory in the Detroit suburb of Hazel Park, Mich., as the company seeks new engines of growth while it reels from losses at its once-lucrative mobile business.

In a written statement, LG said its new U.S. plant will produce battery packs for electric cars. It will expand into other components later.

The company began supplying parts to General Motors Co.'s Chevrolet Bolt EV last year, pro-

duced mostly in its South Korea plant. For LG, the Michigan plant will be its first vehicle-components factory in the U.S. The Seoul-based company already has existing production facilities in five countries, including China, Vietnam and Brazil.

—Eun-Young Jeong

#### VERIZON COMMUNICATIONS

### Carrier to 'Throttle' Video Streaming

**Verizon Communications Inc.** said it would start limiting video quality for all customers across its network, months after the No. 1 U.S. carrier by subscribers launched unlimited data plans.

The video-throttling tech-

nique, which is also employed by rival carriers, came alongside new data plans that effectively raise the price of Verizon's current unlimited data offer. The company said it would limit video qualities for both users of its unlimited plans as well as customers with monthly amounts of data.

Verizon said starting Wednesday it would sell an unlimited data plan that doesn't stream videos in high definition, starting at \$75 a month for one line, alongside an unlimited plan with HD-quality video, starting at \$85 a month for one line. (Both prices include discounts for enrolling in automatic payments and paperless billing.)

The tiered unlimited plans il-

lustrate how wireless carriers have struggled to make money off increased data usage. For years, carriers primarily sold capped plans that charged per gigabyte of usage. But consumers, struggling to understand what constitutes a "gigabyte," flocked to unlimited-data offers.

—Ryan Knutson

#### ESPN

### Announcer Robert Lee Pulled From Game

In the wake of the violent clashes between white nationalists and counterprotesters in Charlottesville, Va., stemming from plans to remove a statue of Confederate Gen. Robert E.

Lee, an ESPN sports announcer named Robert Lee has been pulled from covering a coming University of Virginia football game.

ESPN said it made the decision with Mr. Lee to take him off the game and assign him elsewhere. The Sept. 2 game is being streamed by ESPN's ACC Network Extra.

"We collectively made the decision with Robert to switch games as the tragic events in Charlottesville were unfolding, simply because of the coincidence of his name. In that moment it felt right to all parties," ESPN said. "It's a shame that this is even a topic of conversation and we regret that who calls play by play for a football

game has become an issue."

The change, which was first reported by the sports blog Outkick the Coverage, drew immediate criticism on Twitter and elsewhere, with ESPN being mocked for worrying that people would be upset by a broadcaster named Robert Lee calling a game in Charlottesville.

ESPN executives felt that Mr. Lee would likely face jokes and mocking on Twitter for his name while calling that particular game and wanted to spare him the negative attention, a person familiar with the network's thinking said.

ESPN is majority-owned by Walt Disney Co.

—Joe Flint

## BUSINESS NEWS

# BHP Makes Board Changes Amid Elliott's Pressure

By ROBB M. STEWART

MELBOURNE, Australia—**BHP Billiton** said it plans to replace two directors amid its months-long tussle with activist investor **Elliott Management Corp.**, after the mining company's decision earlier this week to exit its American shale oil and gas business.

Elliot has built a 5% stake in BHP's British shares, and specifically called on BHP to leave the U.S. shale business. Elliott and others have called for deeper changes, including adding more industry veterans to the board.

It wasn't clear whether Elliott had a role in the board changes BHP detailed Wednesday, including the departure of Grant King just six months after his appointment. The New York hedge fund declined to comment. BHP stressed the decisions by Mr. King and Malcolm Brinded to step down were their own.

Elliott's agitation, made public in April after months of talks, brought into the open shareholder disquiet over BHP's mistimed investment in shale as well as its subsequent impairment charges. The hedge fund's tussle with the British-Australian company threatened to cast a shadow over annual shareholder meetings in October and November, when shareholders are to vote on board members.

Among its proposals, Elliott had called for the appointment of Chairman-elect Ken MacKenzie to be followed by new directors with skills to simplify BHP's structure, improve returns and allocate capital "more wisely." Other shareholders had sounded out potential board nominees more sympathetic to focusing on shareholder returns.

Mr. King's departure is a victory for investors unhappy with his appointment. The new directors bring decades of



Mining company BHP said it plans to replace two directors.

finance- and energy-industry experience between them.

Whether a direct response to Elliott or not, the board shuffle is another victory for the activist fund, which has had mixed success effecting change at some of its overseas targets recently. A bid by Elliott to force Dutch paint com-

pany Akzo Nobel NV to discuss a merger with U.S. rival PPG Industries Inc. ultimately wasn't successful. It also hit resistance from Australia's government to a proposal that BHP's dual structure be collapsed around a single main listing in London.

On Wednesday, outgoing

Chairman Jac Nasser said Mr. King had decided not to stand for election to the board at the annual meeting because of concerns expressed by some investors. Mr. Brinded has opted not to stand for re-election as a nonexecutive director because of his involvement in continuing legal action in Italy related to his past employment at Royal Dutch Shell PLC, Mr. Nasser said.

In their place, the resource company's board will bring in Terry Bowen, finance director at Australian coal and retailing gorup Wesfarmers Ltd., and former BP PLC veteran John Mogford, starting in October.

Mr. Nasser, who will step down as chairman at the end of the month, said he regretted that Mr. King would also leave the board at the end of the month.

Mr. King led Origin Energy after it was spun off from building-products company Boral Ltd. in early 2000 until

last year. He faced a backlash in Australia at the end of his tenure over the company's debt-fueled investment in one of three gas-export projects in Queensland state that was launched amid a slump in prices, weighing heavily on the company's share price.

Mr. Brinded, a director since April 2004, will step down from the board in October, although Mr. Nasser said he looked forward to him being able to return in the future. He chose to leave given his involvement in continuing legal proceedings in Italy related to Shell, where he was a director between 2002 and 2012. Italian prosecutors are investigating Shell's involvement in a US\$1.3 billion deal in 2011 with Italian oil firm Eni SpA and the Nigerian government for a lucrative Atlantic Ocean oil license.

Neither Mr. King nor Mr. Brinded were immediately reachable for comment.

ADVERTISEMENT

## The Mart

## BUSINESS OPPORTUNITY

### GOVERNMENT OF MAHARASHTRA PUBLIC WORKS REGION NASHIK PUBLIC WORKS DIVISION (East) NASHIK E-TENDER NOTICE NO.04 for 2017 -2018 (Online)

The Public Works Department, Government of Maharashtra, The Principle Secretary, Public Works Department (the "Authority") represented by the Executive Engineer, P.W. Division, (East) Nashik is engaged in the development of highways and as part of this endeavor, the Authority has decided to undertake development and operation/ maintenance of the single Project (the "Project") on [Design, Build, Operate and Transfer (the "DBOT")] Hybrid Annuity basis, and has decided to carry out the bidding process for selection of a private entity as the Bidder to whom the project may be awarded.

Sr. No.	State	Dist.	Pack. ages	Project	Project Length in (km)	Project Cost	Earnest Money/ Bid Security	Duration of the Project	Cost of Tender Fee Document
1)	Maharashtra	Nashik	NSK-41	A) 2-Lane with Paved Shoulder of Improvement to Niphad Khadak Malgaon Bhoyegaon Ganur Chandwad Road MDR-64 Km 0/00 to 35/50 Tal Chandwad/ Niphad Dist Nashik (30.050)  B) 2-Lane with Paved Shoulder of Improvement to Road in Industrial Sector, Dist Nashik (Malgaon, Ajarg, Kashit, Yeola 6.500)	36.55 km	81,65,38,686 Crore	81,65,387 Crore	18 months	50,000/- Online payment through NEFT/ RTGS

## E-TENDER SCHEDULE

Sr. No.	Event Description	Start Time & Date
1.	Invitation of RFP(NIT)	Dt.14.8.2017 at 10.00 am. to Dt. 23.10.2017 at 18.00 pm
2. A	(Download period of online tender)	Dt. 23.10.2017 at 18.00 pm
2. B	Last date for receiving queries for pre-bid No.1	Dt. 7.9.2017 upto 10.30 am
2. C	Pre-Bid meeting 1	Online or in the office of the Chief Engineer, Public Works Region, Nashik on or before Dt. 7.9.2017 up to 11.00 am.
3. A	Last date for receiving queries for pre-bid -2	Dt. 13.09.2017
3. B	Pre-Bid Meeting 2	28/9/2017 upto 10.00 am
3. C	Authority response to queries for Pre-Bid Meeting 2	Online or in the office of the Chief Engineer, Public Works Region, Nashik on or before Dt.28.09.2017 up to 11.00 am
4.	Bid due Date (submit Hash to create online tender by bidder) (Technical and financial Bid Last Date and time)	Dt.06/10/2017
5.	Physical submission of Bid Security/POA etc (as per clause 2.11.2 of RFP)	Dt. 27/10/2017 till 17.00 pm
6.	Opening of Technical Bids	Till 11.00 am on 27/10/2017 in the office of Superintending Engineer, Public Works Circle, Nashik

## Note:-

1. The payment towards the cost of Tender forms will be done online only through RTGS / NEFT. It should be noted that one should complete these activities at least one day in advance.
2. All eligible/interested Bidders who want to participate in tendering process should compulsorily get enrolled on e-tendering portal "<http://mahatenders.in>".
3. Contact below for difficulties in online submission of tenders:-(NIC-Toll Free Ph.No.1800 30702232)
4. Bid submitted through any other mode shall not be entertained. However, Bid Security, proof of online payment of cost of bid document, Power of Attorney and joint bidding agreement etc. as specified in Clause 2.11.2 of the RFP shall be submitted physically by the Bidder on or Before Dt.27/10/2017 upto 11.00 am.
5. Other terms and conditions are detailed in online e-tender form. Right to reject any or all online bid of work, without assigning any reasons there of, is reserved with department.
6. Short Tender Notice is displayed on P.W.D. website [www.mahapwd.com](http://www.mahapwd.com).

Executive Engineer, Public Works Division (East) Nashik  
Contractor No.of Corrections Executive Engineer  
D.G.I.P.R. 2017/2018/2387

## BUSINESS OPPORTUNITY

### GOVERNMENT OF MAHARASHTRA Office of the Executive Engineer, PUBLIC WORKS DIVISION No. 2, Nagpur

E-mail : [div2nagpur.ee@mahapwd.com](mailto:div2nagpur.ee@mahapwd.com) Tel. No. 0712-2565048

## E-TENDER NOTICE NO.03 / 2017 -2018

Online E-tenders in 'R.F.P. (Turn Key Basis) are invited by Executive Engineer, Pulic Workks Division No.2, "Bandhkan Sankul" Civil Lines, Nagpur for the following works from the Eligible who satisfy the qualifying criteria. The tender documents should be downloaded from the Government website <http://mahatenders.gov.in>. The competent authority reserve the right or reject any or all the tenders. Conditional tenders will not be accepted.

Sr. No.	Name of Work	Estimated Cost Lakh (Rupees Crore)
1)	RFP for Nagpur Package No. 68: (1) Improvement to S.H.346 to Patansawangi Bharatwada Fetari Hingna road Km. 0/00 to 32/00 (2) Improvement to Hingna Kanholibara Bibi Chowki Junagadh (Jungli) Kelzara road to N.H. 369 to join road Km. 0/00 to 31/00 S.H.344 (37/650 to 68/650) 31/00 to 32/380 MDR-27 (0/00 to 1/380) 32/380 to 38/380 MDR-14 Km. (24/200 to 30/200) (3) Improvement to Narkhed Ghabadmet Zilpa Saoner Patansawangi road Km. 0/00 to 34/00 S.H.335 (4) improvement to road in Nagpur District to join Tourism plane (Pench Sillar) (5) Construction of Nagpur City Ambazari road MDR. 53(2) Km. 0/00 3/800 Concrete road (To join Tourism road). (6) Construction of Concrete road in Nagpur City Ambazari Futala road MDR. 53(4) Km. 0/00 to 3/600 (To join tourism road) in the State of Maharashtra under MRIP on Hybrid Annuity Mode.	278.60 Crore
2.	EMD / Bid Security	Rs. 2.79 Crore (Online Payment through NEFT/ RTGS)
3.	Cost of Tender Form	Rs. 50,000/- (Online Payment through NEFT/ RTGS)
4.	Tender Download	From Dt.16.08.2017 to Dt. 18.10.2017 upto 17.30 Hrs.
5.	Tender Pre-Bid Meeting	For works Sr. No. 01 on Dt. 08.09.2017 16.00 Hrs. at Chief Engineer, Public Works Region, Civil Lines, Nagpur
6.	Physical submission of Hard Copy & Document of Tender	At any place within 72 hours after Bid online Bid lock. 1) Public Works Department (Pvt.) Mantralaya, Mumbai-32. 2) Chief Engineer, P.W. Region, Bunglow No.39/1 Office. Ladies Club, Civil Lines, Nagpur 3) Superintending Engineer, P.W. Circle, Civil Lines, Nagpur 4) Executive Engineer, P.W. Dn. No.1 Nagpur 5) Executive Engineer, P.W. Dn. No. 2 Nagpur
7.	E-Tender Opening	For works Sr. No. 01 Office of the Superintending Engineer, Public Works Circle, Nagpur Dt. 26.10.2017 to Dt. 27.10.2017 upto 17.30 Hrs. (As per Schedule)

All information of e-tendering is available on the following website / Notice Board.

## Terms &amp; Conditions :-

1. <https://mahatenders.gov.in>
2. <https://mahapwd.com> (if there s any changes in the notice, then the information will be communicated on the above website)
3. Executive Engineer, Public Works Division No.2, Nagpur Office Notice Board.
4. For any correspondence contact. Above mention e-mail & Telephone No.

## Notice :-

- 1) All eligible / interested Contractor are downloading and mandated to get enrolled on e-tendering portal <https://mahatenders.gov.in> in and further need to empanelled online on sub portal <https://mahatenders.gov.in> in the appropriate bidder applicable to them.

- 2) Bidders are requested to contact on following telephone numbers for any doubts / information / difficulty regarding online enrollment or obtaining digital certificate. Help Desk Number — 0120-4200462, 0120-4001002.

- 3) Tender Document Fee and EMD. is to be paid via Online E-payment Gateway mode only. EMD Exemption Certificate shall not be considered. The information of E-payment Gateway is available on E-tendering website <https://mahatenders.gov.in>.

- 4) Outward No. 3831 / Tender / Dt. 5/8/2017

- 5) D.G.I.P.R. 2017/2018/2385 Executive Engineer, Public Works Division No. 2, Nagpur

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## FINANCE &amp; MARKETS

# Ruling Clarifies Law on Insider Trading

By NICOLE HONG

A federal court upheld the 2014 insider-trading conviction of former SAC Capital Advisors LP portfolio manager Mathew Martoma, in a ruling that could ease the government's ability to prosecute corporate insiders.

In a 2-1 opinion, the Second U.S. Circuit Court of Appeals in Manhattan rejected Mr. Martoma's request for a new trial, saying the jury was properly instructed. It also found the government adequately showed at trial the tipper received a financial benefit from providing inside information to Mr. Martoma, which is key to proving insider-trading crimes.

Mr. Martoma is serving a nine-year sentence after a jury convicted him of trading on inside information provided by two doctors about the trial of an Alzheimer's drug.

Joon Kim, the acting Manhattan U.S. attorney, said in a statement he was gratified by the ruling. A lawyer for Mr. Martoma didn't respond to requests for comment.

At the heart of Mr. Martoma's appeal was a question about what the government must show to convict someone of insider trading.

Wednesday's ruling rejected part of a 2014 Second Circuit opinion in a case known as U.S. v. Newman that said the government must prove the tipper and tippee have a "meaningfully close personal relationship" to win a conviction. Mr. Martoma's oral appeals argument had focused on whether he and the doctors shared such a relationship.

After the Newman decision, the Manhattan U.S. attorney's office dismissed charges against seven men who had been convicted of insider trading, including two former SAC employees. The office kept Mr. Martoma's conviction in place because the evidence at trial showed Mr. Martoma had paid for confidential information.

The Newman decision also said the government needed to prove the tipper gained a tangible reward, or "personal benefit," for providing information.

But in a 2016 Supreme Court ruling known as *Salman v. U.S.*, the justices said proving a tipper and trader were relatives was enough to bring a criminal prosecution.

Mr. Martoma's first appeal was argued in 2015, but the judges ordered a reargument after the *Salman* decision.

Citing the *Salman* decision, Chief Judge Robert Katzmann wrote in Wednesday's opinion that insiders can personally benefit from disclosing inside information as a gift even without a close relationship with the tippee.

Judge Katzmann said a businessman that gives an insider tip to his doorman as an end-of-year gift would be committing illegal insider trading, even if he and the doorman weren't close friends. The judges said Mr. Martoma met with one doctor more than 40 times and paid him \$1,000 an hour to feed him information.

White-collar lawyers called the ruling a major step in clarifying insider-trading law.

"It is significant for the industry because it removes an additional hurdle for prosecutors in bringing insider trading cases," said Antonia Apps, a partner at Milbank Tweed Hadley & McCloy LLP who prosecuted the Newman case.



# Banks Lend as if Rates Won't Rise

By RACHEL LOUISE ENSIGN

After years of waiting for interest rates to rise, some banks are lending as if that day will never come, loading up on a record amount of loans and securities that carry low rates for long periods.

The percentage of bank assets that won't mature or change rates for more than five years reached a high in the second quarter, according to Federal Deposit Insurance Corp. data released Tuesday. That means banks are allowing more borrowers to lock in low rates for long periods, a potential risk should rates move sharply higher.

"The interest-rate environment and competitive lending conditions continue to pose challenges for many institutions. Some banks have responded to this environment by 'reaching for yield' through higher-risk and longer-term assets," FDIC Chairman Martin Gruenberg said in remarks accompanying the data.

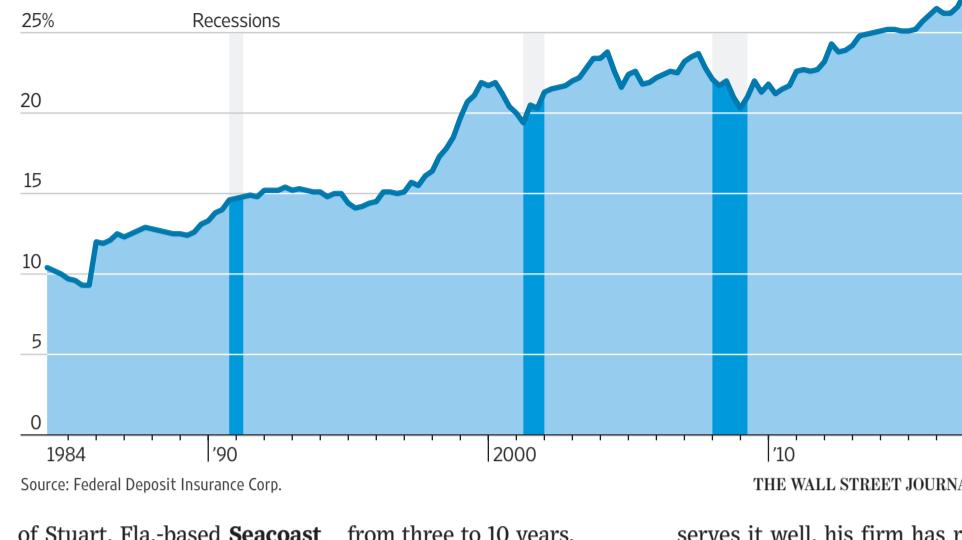
Banks largely make money in two ways: from lending and fees. Midsize and smaller lenders tend to rely more on lending profits than bigger banks that have fee businesses like wealth management. Lending profits typically come from the difference between what banks pay out on deposits and what they earn on loans and securities.

But rock-bottom interest rates following the financial crisis eroded those margins across the industry, leading some banks to lend for longer so they can capture more yield. Increasing their volume of loans also helped them compensate.

"It's a struggle for everybody in the industry," said Denny Hudson, chief executive

## Going Long

Bank assets with terms greater than five years as a percentage of total assets, quarterly



Source: Federal Deposit Insurance Corp.

of Stuart, Fla.-based Seacoast Banking Corp., which has \$5.3 billion in assets. He said his firm tried to keep its lending in check, but added there is a downside to being too careful.

"You could be smart all day long waiting for rates to increase, and you'll get killed by investors" rooting for loan growth, Mr. Hudson said.

Regulators and bank investors typically worry about interest-rate risk because banks borrow money at low rates on a short-term basis, usually by taking deposits, and lend it out at higher rates for a longer term. By locking in longer terms for loans at lower rates, banks could face a profit squeeze if they have to raise deposit rates sharply in the future.

An added worry: Much of this lending for longer is in the booming area of commercial real estate, in which borrowers finance offices and apartment buildings typically with loans that have fixed-rate periods

from three to 10 years.

"Every meeting I went to, bankers said, 'We're not going to go past five years'" on commercial real estate, said Scott Hildenbrand, chief balance sheet strategist at Sandler O'Neill + Partners. Within a year or so, the bankers were saying, "We're not going to go past 10 years."

Englewood Cliffs, N.J.-based ConnectOne Bancorp Inc. has expanded quickly in recent years largely through commercial real-estate lending. These loans made up more than half of the bank's assets at the end of 2016 and most of them were originated in the past three years, the bank said.

Competition for such borrowers was fierce, though it has slowed a bit in recent months after regulators raised concerns about the sector broadly, Chief Executive Frank Sorrentino said in an interview. While Mr. Sorrentino said his bank, which has \$4.7 billion in assets, has expertise in the sector that

serves it well, his firm has recently started to diversify lending.

"There's risk in everything that we do," Mr. Sorrentino said of banking. "That's what we do, take credit risk and interest-rate risk."

Across all banks, the percentage of total assets that are at a fixed rate for more than five years was 27.5% in the second quarter of 2017, its highest since the FDIC started tracking it in 1984. The metric reached 33.7% in the second quarter at banks with \$1 billion to \$10 billion in assets.

Commercial real-estate loans made up 31.5% of assets at those midsize and smaller banks in the quarter, up from 25.7% in the second quarter of 2012. The figure is far lower at bigger banks, at 6.4%, and has remained steady in recent years.

So far, the reach for yield hasn't proved a problem as long-term rates have remained low, despite the Federal Reserve data.

Still, regulators have warned that the increasing share of longer-term and commercial real-estate loans at some banks could be risky. A heavy concentration in commercial real-estate loans could become an issue if credit issues begin to crop up.

Between 2015 and early 2017, commercial real-estate loans generally rose at a pace above a 10% annual rate at smaller lenders, according to Federal Reserve data.

"This was generally what they knew and knew well," Christopher McGratty, an analyst at Keefe, Bruyette & Woods, said of commercial real-estate lending at smaller banks.

—Rachel Witkowski contributed to this article.

# Property Deal Highlights Demand

By ESTHER FUNG



Stonemont Financial's deal included a MetLife campus in New Jersey.

real-estate firm Oak Street Real Estate Capital, will continue to provide management services to Stonemont.

The acquisition was structured with \$1.1 billion in financing, including \$800 million from floating-rate loans packaged into commercial mortgage-backed securities and two levels of mezzanine financing totaling \$274 million. The remainder was in equity.

Stonemont recently launched a fund focused on long-term, diversified assets with investment-grade yield. This is the fund's first acquisition.

The seller of the portfolio, Chicago-based private-equity

team secured the financing from J.P. Morgan Chase, with Deutsche Bank and Barclays as co-lenders, said CBRE, which also brokered the transaction.

The portfolio of buildings derives 96% of its net operating income from investment-grade tenants with an average lease of about 12 years. They include six campuses occupied by MetLife Inc., as well as offices occupied by Mylan Technologies Inc. and Ericsson AB, and stores that have such ten-

ants as Dollar General. The portfolio is 100% occupied.

While financing could be harder to come by for riskier property projects, lenders still favor top-tier assets, especially those judged to be as creditworthy as investment-rated corporate bonds.

"There's a lot of capital chasing good-quality assets," said James Millon, executive vice president in debt and structured finance at CBRE.

Issuance of commercial mortgage-backed securities amounted to more than \$21.2 billion in the second quarter, doubling the \$10.5 billion recorded in the first quarter, according to real-estate research firm Trepp Inc. The market has been adapting to the new rules implemented late last year that required issuers of commercial mortgage-backed securities to keep at least 5% of the bonds they create.

"Overall, the market has gained a better sense of how the process is carried out under risk retention, and new benchmark pricing levels for these deal types are slowly stabilizing," Trepp said in a recent research note.

# Canadian Bank Increases Dividend

By CARA LOMBARDO

Royal Bank of Canada's fiscal third-quarter profit topped expectations amid growth in its wealth-management business, even as unfavorable market conditions caused revenue to slide.

Canada's largest bank by revenue also announced a 5% increase in its quarterly dividend, the second time it has raised the payout by 5% this year.

The Toronto-based bank posted a quarterly profit of 2.8 billion Canadian dollars (US\$2.23 billion), or C\$1.85 a share, relatively unchanged from a year ago but slightly more than analysts polled by Thomson Reuters expected. Revenue, meanwhile, slipped 3% to C\$9.99 billion from C\$10.26 billion.

Net income from RBC's wealth-management segment jumped 25%, mainly due to larger asset balances and higher interest rates. RBC's net interest income inched up 3% while fee-based income dropped 7%.

RBC also saw noninterest expense rise 7% from a year earlier, as salaries increased and the company spent more on severance costs and marketing and public relations.

Chief Executive Dave McKay said the bank has been investing in digital capabilities and key markets to drive growth. Still, RBC has had to contend with a slowing Canadian real-estate market and lagging auto sales.

The bank had a loan-loss provision of C\$2.24 billion in the quarter, up from C\$2.18 billion a year earlier.

The bank raised its quarterly dividend to C\$0.91 from C\$0.87.

# Robo-Adviser Aims at Muslim Investors

By DAVID GEORGE-COSH

total more than \$2 trillion by the end of 2020.

Wealthsimple's Halal Investing portfolio is aimed at setting the company apart from its peers, said Michael Katchen, the company's chief executive and co-founder.

"The Muslim community in North America is extremely large and underserved," Mr. Katchen said. He expects the portfolio's interest to closely mirror the company's socially responsible products, which began as a niche offering and grew to one of its biggest services.

The new portfolio will track a group of 50 companies traded in the U.S. and Canada that don't generate more than 5% of their revenue from alcohol, tobacco, gambling or pork production, and don't make significant income from interest. Wealthsimple's fees are a flat 0.5% for the first \$100,000 invested and drop to 0.4% on any additional investment.

Mr. Katchen said there is a lack of affordable options aimed at Muslim investors, which opened the opportunity for the company to develop its own offering. He cited the

Global Iman Fund managed by Global Growth Assets Inc., with a management fee of 2.82%, as a competitor. Another rival is New York-based Wahed Invest, which offers Sharia-compliant investments with management fees ranging from 0.29% to 0.99%.

"This is a way for people to achieve their long-term goals and make it acceptable to a group which hasn't had that kind of option in the past," Mr. Katchen said.

Privately held Wealthsimple has raised 100 million Canadian dollars (\$79.6 million) over several funding rounds over the past three years led by a subsidiary of the Power

Corporation of Canada Inc., a Canadian-based financial-services company controlled by the Desmarais family. Mr. Katchen said he expects to tap another round of venture funding before seeking an initial public offering.

The company has more than \$1 billion in assets under management and operates in the U.S. and Canada. It plans to launch in the U.K. next month, Mr. Katchen said. The company was founded in 2014 and has about 130 employees.

"There's a very long-term partnership [with Power Corp.] where we're not going to sell ourselves in the interim," Mr. Katchen said.

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EDUARDO MUÑOZ/REUTERS

Mathew Martoma, in 2014

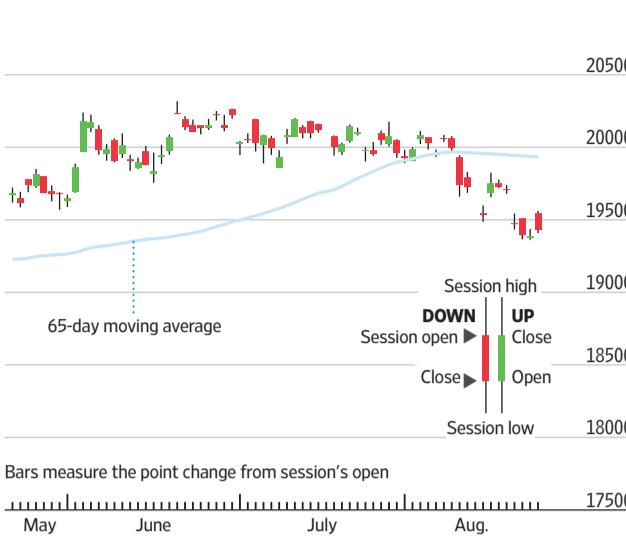
## MARKETS DIGEST

**Nikkei 225 Index****19434.64** ▲ 50.80, or 0.26%

High, low, open and close for each trading day of the past three months.

Year-to-date  
52-wk high/low  
All-time high

▲ 1.68%

20230.41 16251.54  
38915.87 12/29/89

Bars measure the point change from session's open

May June July Aug.

17500 18000 18500 19000 19500 20000 20500

**STOXX 600 Index****373.92** ▼ 1.88, or 0.50%

High, low, open and close for each trading day of the past three months.

Year-to-date

52-wk high/low

All-time high

396.45 328.80  
414.06 4/15/15

▲ 3.46%

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## FINANCE &amp; MARKETS

# Weak Earnings Hurt U.S. Stocks

BY RIVA GOLD  
AND AMRITH RAMKUMAR

Disappointing earnings and political turbulence put renewed pressure on U.S. stocks Wednesday.

The Dow Jones Industrial Average fell 87.80 points, or 0.4%, to 21812.09 after its largest one-day advance since

April, and

**WEDNESDAY'S** the S&P

500 shed

0.35%. The

Nasdaq

Composite declined 0.3%, following the tech-heavy index's best session since late June.

In Europe, the Stoxx Europe 600 edged down 0.5% to 373.92 following its best session in more than a week.

Company reports drove some of the day's biggest moves in individual stocks. Lowe's was among the worst performers in the S&P 500, down 3.9% in late trading after the home-improvement retailer posted earnings that fell below analyst expectations and lowered its outlook for the year. The report caused Home Depot shares to fall 0.5%.

Coty was an S&P 500 laggard for the second consecutive day after reporting weak beauty sales in the most recent quarter. Shares fell 5.3%.

The media sector led declines in Europe as shares of WPP, the world's largest advertising company, fell 11% after it lowered its forecast for the year, reflecting a wider slowdown in industries such as consumer goods and retail.

Peers Omnicom Group and Interpublic Group of Cos. were down 7% and 6.3%, respectively, in the U.S.

Some analysts and investors said President Donald Trump's threat to shut down the government to secure funding for a wall on the southwest border with Mexico contributed to Wednesday's declines in the U.S.

"That's giving investors a

bit of a cautious stance," said Michael Hans, chief investment officer at Clarfeld Financial Advisors. "There's no panicked feeling of risk-off. It's just a little bit of a pullback and caution," he said.

Last week, some weak earnings and fallout from Mr. Trump's comments about the protests in Charlottesville, Va., weighed on stocks as several business leaders distanced themselves from the president.

Some said a quiet period with few economic data releases was also partially responsible for recent market jitters. The Dow jumped nearly 200 points on Tuesday as shares rebounded from a recent dip.

"With valuations elevated here, the market is going to be more vulnerable to short-term negative news and negative shocks," said Katie Nixon, chief investment officer at Northern Trust Wealth Management.

"But unless something really impacts the economy, it's unlikely that the market impact will be long-lasting," she said, given the current state of growth and corporate earnings.

The Mexican peso, among the year's best-performing currencies, dropped 0.3% against the dollar after Mr. Trump's comments.

Government bonds rose, with the yield on the 10-year U.S. Treasury note falling to 2.171%, according to Tradeweb, from 2.215% Tuesday. Yields fall as prices rise.

Elsewhere, Japan's Nikkei Stock Average jumped from its lowest close in months but pared gains to 0.3% as the yen rose against the dollar.

The Shanghai Composite Index declined less than 0.1%, ending a four-day rally, with steel and precious-metals stocks the biggest decliners. Trading in Hong Kong was halted as Typhoon Hato passed by the city.

# Metals Prices Tumble in China

SHANGHAI—Chinese metals prices slid as sentiment was battered by fresh warnings that a recent upsurge in steel was unsustainable, the latest move by regulators to tame volatility in the futures market.

The main steel-rebar futures contract in Shanghai snapped a four-day series of gains to close down 4% Wednesday at 3,779 yuan (\$567.60) a metric ton, while hot-rolled-coil futures tumbled 4.4% to 3,865 yuan a ton.

On the Dalian Commodity Exchange, iron-ore futures fell 3.8% to 578.5 yuan a ton, after soaring more than 20% over the past four sessions.

The China Iron and Steel Association said steel prices surged in July thanks to a confluence of factors including stable demand, capacity cuts and policies to reduce pollution.

The rise in prices "goes against stable operation of the steel industry" but is unlikely to persist in coming months as new capacity is set to ease a potential supply shortage, the group said late Tuesday.

The industry body also said higher iron-ore prices and a surge in steel-product prices triggered 19.3 million tons of decline in steel exports during



REUTERS

An industry body says a recent steel surge is unsustainable.

the first seven months of this year, down 29% from a year ago.

On the same day, the country's top prosecutor vowed to intensify a crackdown on financial crimes that disrupt securities and futures markets.

It will thoroughly investigate and deal with "financial crocodiles" who have caused a stir on the market as well as those engaged in insider trading, the Supreme People's Procuratorate said.

"Investors fled the market out of rising pressure from policy makers, who want to avoid big fluctuations on the commodity market," said Ye Yanwu, research director at

Chaos Ternary Futures.

"We believe that downstream demand will remain relatively robust in the later half of this year, which could cause a slight supply shortage," Mr. Ye said.

Stronger-than-expected economic growth in China, a weaker U.S. dollar and government-led capacity cuts have buoyed bullish sentiment in metals futures this year to multiyear highs. As speculators have swarmed into trading metals, unease has mounted over whether the current boom could be followed by a bust.

"The strong rally in steel and iron-ore prices in recent

weeks is vulnerable to an expected moderation in construction-sector activity in coming months, together with oversupply conditions for iron ore, with still-high stockpiles of iron ore at Chinese ports," said Rajiv Biswas, the Asia-Pacific chief economist at IHS Markit.

"Strong speculative trading in Chinese commodities markets has also contributed to the metals and iron-ore price rally, creating risks of greater price volatility," he added.

In July, China's iron-ore futures jumped 18% while steel rebar gained 15% before a period of declines kicked in following official warnings over irrational speculation. Yet both metals rebounded to year-to-date highs last week as investors bet on supply shortages later this year.

The CISA said on Aug. 10 that the surge in rebar futures was due to "speculative" behavior that wasn't caused by demand or reductions in supplies of steel.

A J.P. Morgan report this week said that "with the exception of aluminum, we still see fundamentally weaker markets in the second half of the year, especially towards year-end."

—Yifan Xie  
and Biman Mukherji

# Treasury Yields Drop on Trump Comments

BY AKANE OTANI

U.S. government-bond prices rose as combative rhetoric from the White House pressured stocks while stoking demand for assets seen as safer stores of value.

The yield on the benchmark 10-year U.S. Treasury note declined to 2.171% compared with 2.215% Tuesday. Yields fall as bond prices rise.

Stocks fell, while assets viewed by investors as havens,

such as government bonds and gold, climbed after President Donald Trump said Tuesday evening he would shut down the government if necessary to secure funding to build a wall along the southwest border.

Speaking at his first rally after a violent white-supremacist protest in Charlottesville, Va., Mr. Trump also attacked his Republican colleagues for their failure to repeal and replace the Affordable Care Act and said he might terminate the North American Free Trade Agreement.

"The rhetoric and belliger-

ence out of Washington is a gift that keeps on giving" to the bond market, said Bryce Doty, a portfolio manager at Sit Investment Associates.

Still, any rebound in the bond market is likely to be short-lived, investors and analysts say. Treasurys have largely traded in a narrow range this summer even after developments such as a flare-up in tensions between North Korea and the U.S., White House staffing changes and fallout in the business community over Mr. Trump's response to the Charlottesville

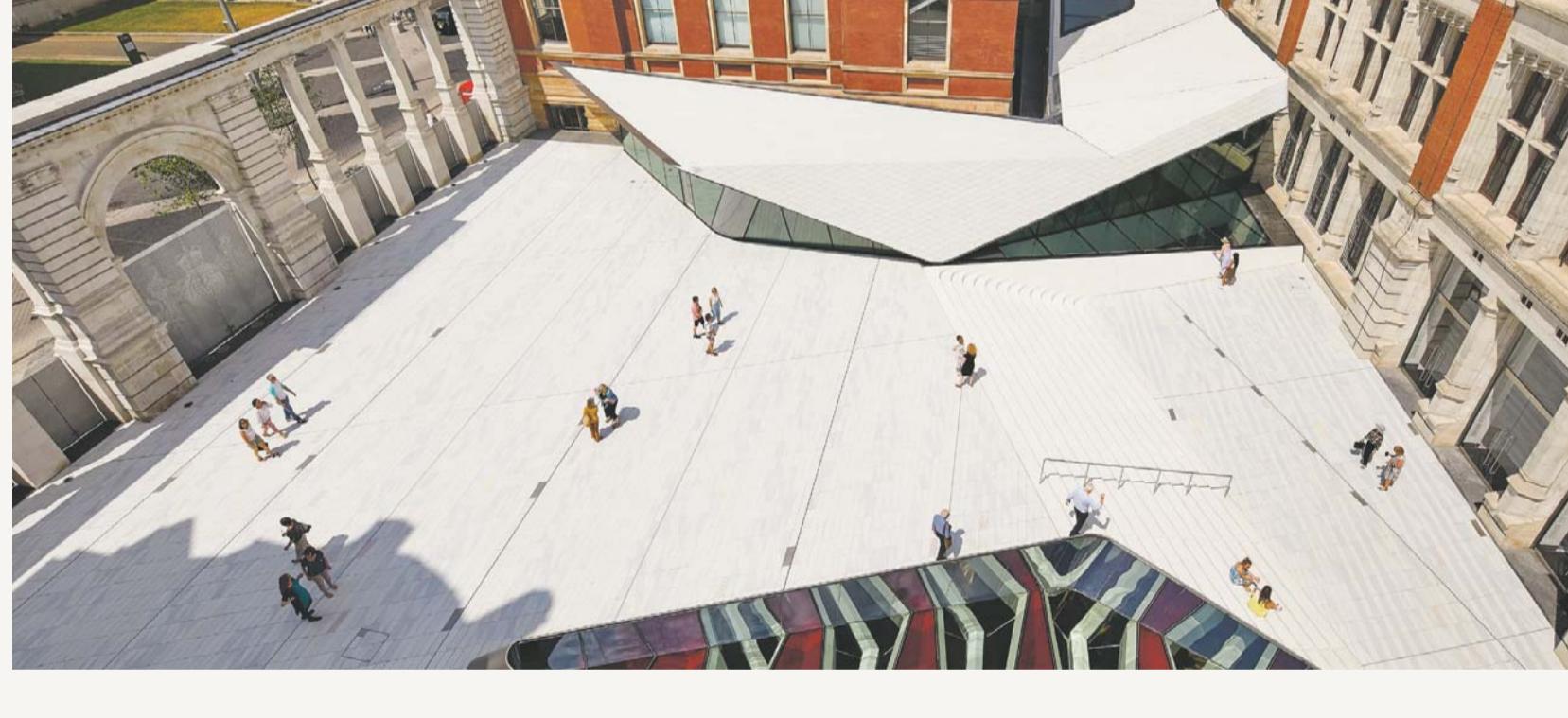
protests.

In another sign of a lull, a measure of expected volatility in the Treasury market—the

Bank of America Merrill Lynch MOVE Index—fell to an all-time low earlier this month. It has traded near that level since then.

The real risks to the Treasurys market, many say, won't come until next month, when the Federal Reserve is expected to begin reducing its vast portfolio of bonds and other assets, and possibly offer clues on the path for interest-rate increases.

WSJ TALK / EXPERIENCE / OFFER / GETAWAY



# Curating the Future

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## MARKETS

## A Fund's Case for Buying Venezuelan Debt

BY CHRISTOPHER WHITTALL  
AND GEORGI KANTCHEV

Last month, Venezuelan bond prices tumbled when President Nicolás Maduro won a controversial vote that his opponents said would pave the way to dictatorship.

But one large holder of Venezuelan debt, **Ashmore Group PLC**, thinks investors came to the wrong conclusion.

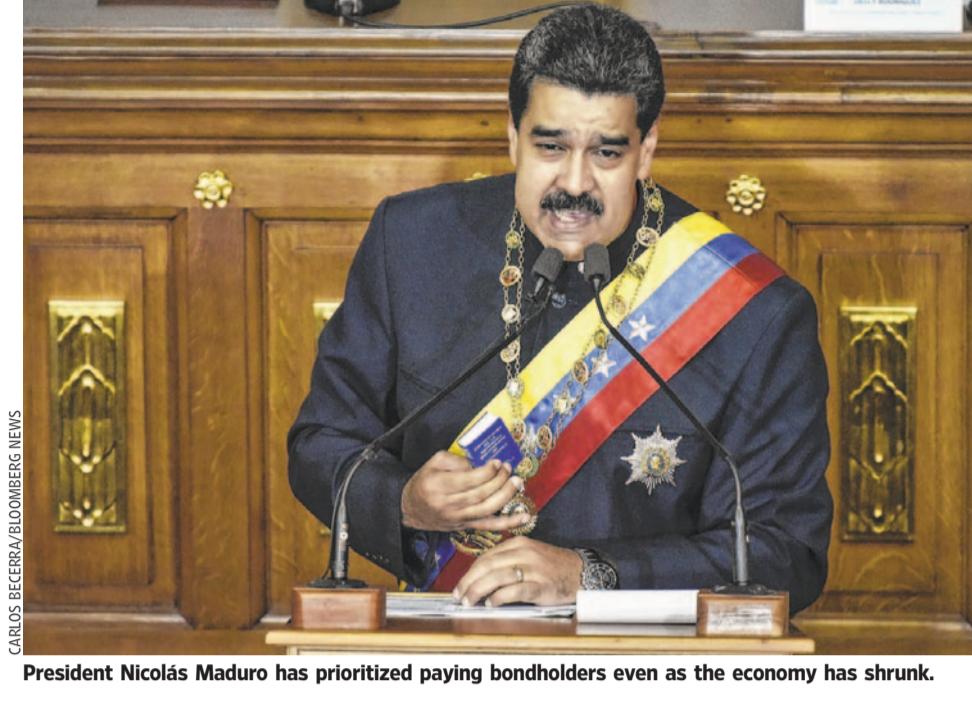
Mr. Maduro's political power "has just increased dramatically," said Jan Dehn, head of research at the emerging-market fund, which has \$56 billion under management. The July vote, which was widely seen as fraudulent, convened a powerful new assembly aligned with Mr. Maduro that will be able to override other institutions and redraft the constitution.

Mr. Maduro's administration has prioritized paying bondholders, even as the wider economy has shrunk, sparking widespread unrest and food shortages. As long as he retains a tight grip on power, that is unlikely to change, Mr. Dehn believes.

Mr. Dehn's response underscores how some big international investors remain intent on staying invested in Venezuelan debt, even as the country is buffeted by internal strife, lower oil prices and U.S. criticism. The Wall Street Journal reported late Tuesday that Washington is considering temporarily banning U.S.-regulated financial institutions from buying and selling dollar-denominated bonds issued by Venezuela and state oil company **Petróleos de Venezuela SA**, or PdVSA.

The bonds moved slightly lower on Wednesday following the news, according to data from Thomson Reuters. Mr. Dehn said that the report didn't change his view on Venezuelan debt and that Ashmore will comply if the law changes.

Mr. Maduro's political



President Nicolás Maduro has prioritized paying bondholders even as the economy has shrunk.

## High Returns

Cumulative total return on Venezuelan bonds\*



\*Bloomberg Barclays Emerging Markets USD Aggregate Venezuela bond index.  
Through Tuesday.  
Source: FactSet

strength is one of three factors that should mean the country "can continue to service the debt indefinitely," he said. The other two are that oil remains above \$40 a barrel and that PdVSA retains access to working capital.

Many Venezuelan bonds have rebounded since the vote, though they still trade at distressed levels.

For roughly three years, Ca-

racas has defied predictions that it would default on its external debt pile.

Most analysts and investors believe that this is because the government wants to keep the oil flowing. PdVSA is responsible for half of Venezuela's fiscal income and some 90% of its exports, according to Standard & Poor's.

Some analysts believe Venezuela's fear is that a debt de-

fault would push investors to try to seize PdVSA's foreign assets. Mr. Dehn has another theory over what is behind that fear: that PdVSA's joint-venture partners, such as Russia's PAO Rosneft and China, would pull lines of credit if the country defaulted. That would starve PdVSA of working capital and prevent it from producing oil. "If he stops [servicing the debt]...oil production will stop. The government will fall," said Mr. Dehn.

The Venezuelan government didn't respond to a request for comment.

There are many analysts who believe that Venezuela will default.

"The oil industry is under enormous pressure," said Helima Croft, head of commodity strategy at RBC Capital Markets. Ms. Croft believes that by autumn, the state-owned company could be faced with either a default on its debt or the need to stop salary payments.

In the past two years, production at PdVSA has fallen by nearly a fifth as a cash crunch saps investments, according to

## U.S. Weighs Curbs On Trading Bonds

WASHINGTON—The U.S. government is considering restricting trades in Venezuelan debt as it seeks to punish President Nicolás Maduro for undermining the country's democracy, according to people familiar with the matter.

The unprecedented move would temporarily ban U.S.-regulated financial institutions from buying and selling dollar-denominated bonds issued by the Republic of Venezuela and state oil company **Petróleos de Venezuela SA**, according to a person who was briefed on the proposal. Another person familiar with the matter cautioned that the measure was one of several steps under consideration regarding Venezuela. The person said the final decision would rest with President Donald Trump.

One option being considered is banning the trading in just some securities issued by the state oil company to limit its access to external funds, said a third person.

The ban would be the first step against the Venezuelan financial system since Mr. Trump promised "swift economic action" against Mr. Maduro for installing a parallel parliament staffed with loyalists earlier this month.

Until now, the progressive waves of U.S. sanctions have targeted dozens of Venezuelan officials, banning them from traveling to the U.S. and freezing any assets in the country for alleged human-rights abuses and corruption.

On Wednesday, Vice President Michael Pence was scheduled to speak to Venezuelan expatriates in Miami.

The ban is designed to damage Mr. Maduro's support among military officers and government contractors who hold Venezuelan bonds, without immediately hurting the wider population, said the person briefed on the matter.

Mr. Maduro's government has continued making bond payments even as the country is undergoing a severe recession, rewarding risk-tolerant investors with the world's highest yields. Many major U.S. fund managers rely on Venezuelan debt for growth at a time when some rich countries offer negative interest rates on their bonds.

The Venezuelan government has about \$65 billion of outstanding debt, which is among the most frequently traded in the emerging markets.

Mr. Maduro has prioritized international debt payments at all costs, even as the country sank deeper into an economic crisis and his government has cut back on imports of food and medicine.

the International Energy Agency.

**Citigroup Inc.** believes the government can cover debt-servicing payments this year unless oil prices plummet. But a 2018 debt restructuring is likely, not "because they want to, but because they have to," said Donato Guarino, a strategist at the bank.

The investment has proved controversial for some, given accusations of human-rights abuses in Venezuela.

**Goldman Sachs Group Inc.** came under fire after buying \$2.8 billion of Venezuelan bonds this year. **Credit Suisse Group AG** recently said it would not trade certain Venezuelan bonds.

Mr. Dehn said he didn't condone the actions of the Venezuelan government and said that Ashmore bought bonds on the secondary debt market. That means the fund manager isn't lending fresh money to the regime, he said.

## HEARD ON THE STREET

FINANCIAL ANALYSIS &amp; COMMENTARY

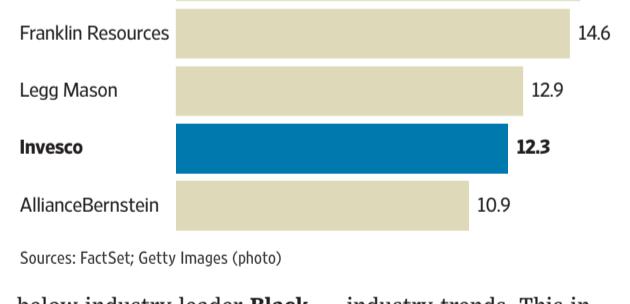
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Email: heard@wsj.com

## Invesco Has Right Mix at the Right Price

## Investable Invesco

Forward price/earnings ratios for listed asset managers



Sources: FactSet; Getty Images (photo)

below industry leader **BlackRock** at 65%, but well above the negligible levels of many others, including **Franklin Resources**, **Legg Mason** and **T. Rowe Price Group**.

This matters because passive funds are attracting the vast majority of inflows, especially in stocks.

Invesco's rising costs are mostly related to strategic investments to keep ahead of

industry trends. This includes the acquisition of a European ETF company and the development of a new robo-advisory service.

The company saw minor outflows in the second quarter due to some factors, including a redemption by a sovereign-wealth fund, but the underlying trend is strong. Over the past four quarters, Invesco has en-



THE WALL STREET JOURNAL.

About a third of assets are held by clients outside the U.S. This helps shield the firm from forces rocking the industry and positions it well should the U.S. dollar keep declining.

Despite all these advantages, Invesco trades at a discount to peers. It is currently valued at 12.3 times forward earnings, compared with an average 14.2 times for five other large, listed asset managers. It is also cheap relative to its five-year average of 13.1 times forward earnings.

Any investment in an asset manager is in part a bet on rising markets overall. That has worked out fine this year, but should markets falter, Invesco could suffer along with others.

That said, given its low valuation, solid fundamentals and superior positioning, Invesco is the best bet among the bunch. The recent sell-off in its shares makes for an enticing entry point.

—Aaron Back

## The Problem With Dissing Teen Retailers

Investing in teen retailer stocks has always been treacherous. Now, their volatility is being compounded by low expectations.

**American Eagle Outfitters** and **Express** reported better-than-expected second-quarter earnings Wednesday, but they weren't all that impressive. While American Eagle's Aerie brand posted 26% same-store sales growth, that metric was flat for its much larger namesake brand. Same-store sales at Express fell 4% compared with the 5.2% decline analysts had forecast. Merchandise margins fell at both retailers amid increased promotions.

Still, less-bad-than-feared was enough to win the day. Shares of American Eagle shot up 7%, while Express rocketed 23% in late Wednesday afternoon trading, both helped by a short squeeze.

Not all retailers have benefited from low expectations. Results for department stores **Macy's**, **Kohl's** and **Nordstrom** all exceeded forecasts, but investors weren't swayed.

Granted, the companies are working to improve their fates. American Eagle has secured an average 8% reduction in cash rents for the more than 350 leases it has negotiated or renegotiated over the past two years. Meanwhile, the growth at Aerie has been consistently strong. Express closed all of its Canadian stores in the quarter, eliminating an annualized net loss of about \$6 million, and is also closing U.S. stores.

These retailers may be doing better than expected, but investors shouldn't expect a miracle.

—Miriam Gottfried

## Clouds Are Parting for Europe This Year

As soon as the outlook improves in Europe, the worries start. The latest cloud on the horizon has been the rising euro, which has caused some jitters about the growth and inflation outlook, and may yet create a headache for the European Central Bank. But the eurozone of 2017 appears to be proving a resilient place.

The latest sign of that is the preliminary IHS Markit Purchasing Managers Index data for August. Economists had expected a small decline, but the surveys Wednesday showed a small increase from already-respectable levels.

The eurozone composite PMI came in at 55.8, versus

a forecast reported by FactSet of 55.6, and well above the 50 level that separates expansion from contraction.

And there was little sign of any impact from a stronger euro in the data. The German manufacturing PMI rose to 59.4 from 58.1 in July, and its French peer hit its highest level since 2011. IHS Markit reported goods producers were securing new export orders at the fastest pace in 6½ years.

Moreover, domestic demand has become a more important source of eurozone growth as the recovery has progressed.

Overall, the PMIs are consistent with growth running at 2.5% annually,

J.P. Morgan economists said. That is well above estimates of potential growth.

Importantly, eurozone data is still beating expectations, even after economists have become more optimistic. Citigroup's Economic Surprise Index for the eurozone has fallen from its highs earlier this year but has been in positive territory since the end of September 2016, in contrast to the steep plunge in its U.S. peer this year.

The eurozone has suffered plenty of economic false starts in recent years. Increasingly, 2017 looks like the year it got its groove back.

—Richard Barley

## OVERHEARD

American utilities reliant on solar power should have learned a lesson from relatively cloudy England.

Monday's coast-to-coast eclipse was the first in nearly a century and the first ever to test the renewable energy sector. Of the 21.75 gigawatts of solar generating capacity in the U.S., about 20 gigawatts were at least 50% obscured and four gigawatts were 90% obscured, according to the U.S. Energy Information Administration. That led utilities to bring on lots of extra juice to make up for the shortfall and some power traders to bet on a rise in prices. Instead, though, there was a surplus.

It turns out something that

captures almost an entire nation's attention makes people act differently. Britain's National Grid observed a sudden 11% surge in electricity use in 1990 as an estimated 1.12 million tea kettles were switched on during halftime of a key England World Cup match.

Or they could have taken a clue from a U.S. sporting event. Power usage is 5% lower during the game on Super Bowl Sunday than on a comparable winter day, according to Opower. Despite the widespread viewing of energy-hungry TVs, many people congregate around a single screen.

Crowd behavior can overpower cosmic forces sometimes.