

# THE WALL STREET JOURNAL.

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## What's News

Business & Finance

Gilead Sciences agreed to pay about \$11 billion for Kite Pharma and its promising technology for harnessing the body's immune system to fight cancer. **A1**

♦ Investors are returning to synthetic CDOs, a villain of the global financial crisis, and so are concerns about the products. **A1**

♦ Gasoline prices surged after Harvey knocked out refineries. Traders assessed damage to the Houston area and prepared for a potential shortage. **B1**

♦ Uber's board voted to appoint Expedia CEO Dara Khosrowshahi as its new chief, capping a tumultuous nine-week search. **A1, B1**

♦ The U.S.'s CBS plans to buy Australia's Ten Network, beating out a bid from media moguls Bruce Gordon and Lachlan Murdoch. **B3**

♦ Apple has scheduled a product announcement for Sept. 12, reinforcing expectations it will release new iPhones and a smartwatch. **B4**

♦ The FDA is stepping up oversight of fledgling medical treatments based on the potential of stem cells. **B3**

♦ An Australian regulator said it would establish an independent inquiry into the nation's biggest bank. **B5**

♦ Fitch downgraded Qatar's debt, citing concerns that the economic blockade imposed by Arab neighbors would persist. **B7**

♦ Saudi Arabia and Russia are pushing to extend a deal to limit oil output. **B7**

### World-Wide

♦ Tropical Storm Harvey was poised to re-enter the Gulf of Mexico on Monday and make another landfall closer to Houston roughly two days later, prolonging a flooding disaster. **A1, A6-A7**

♦ Many of the homes and businesses that have been inundated by Harvey aren't insured for flooding. **A6**

♦ Rescue efforts are taxing Houston's resources. **A7**

♦ A knife attack on police in Russia's Dagestan left one officer dead, adding to worries about the spread of improvised terrorist attacks. **A4**

♦ South Korea's Moon ordered changes to the nation's military so it could "immediately switch to an offensive operation" if North Korea launches an attack. **A3**

♦ U.K. and EU negotiators resumed Brexit talks but officials played down the prospect of breakthroughs. **A4**

♦ The Trump administration is considering major reductions in cultural-exchange programs, including those for au pairs and summer workers. **A5**

♦ U.S. cities and public universities are evaluating ways to prevent violent protests without limiting free speech rights. **A5**

♦ China and India said they had negotiated a solution to a two-month-long standoff on a remote Himalayan plateau. **A3**

♦ Pope Francis is set to travel to Myanmar in November for a visit expected to highlight the struggles of the Muslim minority. **A3**

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## WORLD NEWS

# Trump's Squabbles: Careless—or Calculated?

**CAPITAL JOURNAL**

By Gerald F. Seib

Here are two ways of looking at how President Donald Trump has spent his August:

He has ruined the month—perhaps even his

presidency—by mindlessly picking fights with Republican congressional leaders and the media, and by wallowing in divisive cultural issues rather than pushing his economic agenda.

But here is another:

Rather than stumble and fumble into these controversies, Mr. Trump has quite deliberately chosen his issues and his enemies.

He has drawn attention to cultural issues—immigration, his border wall, defending Confederate symbols, Maricopa County Sheriff Joe Arpaio—precisely because they speak clearly to middle America. There, they resonate with both his core supporters and a wider universe of people who don't love the president but think the nation's elites have walked away from them on social issues.

Similarly, he has picked his targets for wrath—the media and the Republican establishment—carefully rather than cavalierly.

Targeting the news media is a winner with his base as well as a much broader segment of GOP voters. And by attacking Republican senators, he is trying to be sure they are blamed rather than him for failures on health care—while also creating grassroots pressure on them to atone for that failure by delivering on tax reform this fall.

"He's framing the fall," says Jason Miller, who was communications director of the Trump campaign and maintains close ties to the White House. "I think the president masterfully knows how to work the synergy of this counterculture, anti-Washington-elite sentiment to help him push forward on his agenda."

In short, perhaps Mr. Trump is simply doing exactly what he did during last year's presidential campaign, which is to use controversy and even seeming chaos to show that he stands apart from establishment forces that many Americans think have failed them. He won by running essentially as a political independent and, after seven rocky months in office, he appears to be gambling on that course again.

That doesn't mean this is the wisest approach, or that it won't blow up in the presi-



JOSHUA ROBERTS/REUTERS

**President Donald Trump at a rally in Phoenix last week attacked the media and fellow Republicans.**

dent's face. It's certainly risky to think that angering rather than wooing congressional leaders of his own party is going to produce a productive working relationship this fall. It's equally hard to grasp why Mr. Trump is pursuing this approach after having eased out of the White House its main proponent, Steve Bannon.

Still, it isn't mindless. It is controversy generated for a purpose.

Trump aides believe—and there is ample evidence to support them—that cultural anxiety among working-class voters was as big a factor

as economic anxiety in his campaign victory. Look at the list of issues Mr. Trump has touched upon in recent weeks—transgender Americans in the military, sanctuary cities, the racially charged march in Charlottesville—and you can see him returning to that path.

In doing so, he has stoked deep divisions in the country, particularly with his language that appeared to equate white supremacists with those who protest them. Yet while many in Washington hear defense of neo-Nazi groups when Mr. Trump talks, his

supporters make clear that what THEY hear is defense of historic Confederate statues—and, by implication, a traditional version of American culture.

House Democratic leader Nancy Pelosi has responded by calling for removing every Confederate statue from the U.S. Capitol—something Mr. Miller calls "a very dangerous spot of overreaching."

Similarly, when Mr. Trump revives tough immigration talk, he is embracing an issue that helped him steal white working-class voters away from the Democrats.

Democratic pollster Stan-

ley Greenberg calls immigration a "critical element of the Democrats' working-class challenge." His survey work has found that, among 2016 voters, white working-class men—a traditional Democratic group who became a core Trump constituency—were twice as likely to call immigrants an economic burden on the country as were college-educated white women, a core Democratic constituency.

**C**hicago Mayor Rahm Emanuel, who is in Mr. Trump's crosshairs over his city's policies toward immigrants, thinks he sees another motive: an attempt to distract attention from the administration's failure to produce economic policies that help the working class. "Each of these announcements is of a single piece: to grab voters they have lost on economic issues with cultural red meat," he says.

Heading into the fall, the paramount economic issue for the Republican Party and the White House is the quest for tax reform and a broad tax cut. Across the GOP there is no more important priority, and party leaders know they can ill afford to fail.

Mr. Trump's criticisms of party leaders are designed, Mr. Miller says, to add to the pressure. The president is saying: The party establishment failed me—and you—on health care. It's not my fault. Don't let them fail us on taxes.

## GILEAD

*Continued from Page One*  
acquisition to diversify its portfolio beyond its leading position in infectious-disease treatments and provide a new revenue stream as sales of the company's hepatitis C drugs decline.

The deal for Kite would be one of Gilead's biggest, rivaling the company's \$11 billion purchase of liver-disease drugmaker Pharmasset in 2012. Through that acquisition, Gilead gained hepatitis C therapies that are among the world's top-selling drugs.

Now Gilead is betting that Kite can provide a similar payoff. Kite, of Santa Monica, Calif., is a leader among several companies that aim to use genetic engineering to weaponize a patient's own immune T cells and then deploy them to attack lymphoma and other blood cancers.

Kite's main drug, known as axi-cel, is up for approval in the U.S. and Europe. Analysts predict it would have worldwide sales of \$1.7 billion in 2022, according to EvaluatePharma, which ranks the drug among the industry's top 10 compounds in terms of sales potential. Such expectations have already pushed the company's shares sharply higher this year.

"This technology is really going to be transformative to

the field," Gilead CEO John Milligan said in an interview.

Axi-cel is likely to face swift, steep competition. Novartis AG, one of the leading cancer-drug makers, beat Kite to be the first company to ask the Food and Drug Administration to approve a bioengineered T-cell drug. Several other companies are developing the drugs, too.

Dr. Milligan said Gilead is accustomed to operating in competitive drug markets. He said Kite's technology could be used beyond its initial focus on an advanced form of lymphoma to other blood cancers including multiple myeloma and perhaps in combination with other immunotherapies.

Some of the drugs that various companies were working on have produced serious, even deadly, side effects during development. Dr. Milligan said doctors have learned how to cut the risk of side effects, and Gilead and Kite would work on developing improved treatments.

Gilead made its name selling treatments for HIV/AIDS. The biotech company surged in value after launching the hepatitis C treatments developed at Pharmasset. The drugs, Sovaldi and Harvoni, helped Gilead double its sales in 2014. It now has a market value of roughly \$100 billion.

Last year Gilead had \$30 billion in sales, including \$9.1 billion from Harvoni and \$4 billion from Sovaldi.

Yet the anti-viral drugs' commercial success has also proved to be an albatross. Gilead faced public criticism and a Senate investigation for listing Sovaldi at \$1,000 a day, even though the therapy cured most patients at a cost of less than a liver transplant.

The hepatitis C drugs' sales were squeezed in recent years when Merck & Co. launched a rival treatment, forcing Gilead to offer steep discounts to health plans. And partly because of the drugs' success curing the disease, fewer patients needed treatment.

The company's second-quarter hepatitis C drug sales fell to \$2.9 billion world-wide, down from \$4 billion during the period a year earlier.

Gilead has faced pressure from investors and analysts to find new revenue sources. Management responded by touting its next generation of HIV/AIDS treatments as well as drugs in development to treat a liver disease known as NASH, for nonalcoholic steatohepatitis.

But Wall Street said Gilead needed to do another deal. Gilead fanned speculation by hiring Alessandro Riva from Novartis to run its hematology and oncology division, as well as its former adviser, investment banker Andrew Dickinson, from Lazard.

After years of surging volume, pharmaceutical deal making has been slow this year, with very few mega-

mergers aside from Johnson & Johnson's roughly \$30 billion deal to buy Actelion Ltd. Drug companies have been digest-

ing earlier acquisitions and have also been hampered by uncertainty surrounding tax reform because many of them

have large amounts of cash overseas.

—Dana Mattioli contributed to this article.

## CDO

*Continued from Page One*  
out the financial system.

Synthetic CDOs crammed with exposure to subprime mortgages—or even other CDOs—are long gone. The ones that remain contain credit-default swaps referencing a range of European and U.S. companies, effectively allowing investors to bet whether corporate defaults will pick up.

Desperate for something that pays better than government bonds, insurance companies, asset managers and high-net-worth investors are scooping up investments like synthetic CDOs, bankers say, which had largely become the preserve of hedge funds after 2008.

Investment banks, which create and sell CDOs, are happy to oblige. Placid markets have made trading revenue weak this year, and such structured products are an increasingly important business line.

Synthetic CDOs got "bad press," says Renaud Champion, head of credit strategies at Paris-based hedge fund La Française Investment Solutions. But "that market has

still view the products as unnecessarily complex and are concerned they may be hard to offload when markets get choppy—as they did in the last crisis.

"We don't see that demand from our clients and we wouldn't recommend it," said Markus Stadtmann, chief investment officer at Lloyds Private Banking, citing concerns over the products' lack of transparency and lack of liquidity, meaning it could be hard to exit a position when needed.

The return of synthetic CDOs could present other risks. Even if banks are currently less willing to loan money to help clients juice returns, credit-default swaps can be very leveraged, potentially allowing investors to make outsize bets.

Structured products accounted for nearly all the \$2.6 billion year-on-year growth in trading-division revenue at the top 12 global investment banks in the first quarter, according to Amrit Shahani, research director at financial consultancy Coalition.

"There has been an uptick in interest in any kind of yield-enhancement structure," said Kokou Agbo-Bloua, a managing director in Société Gé-

nrale SA's investment bank.

The fastest growth this year has come in credit—the epicenter of the 2007-08 crisis. The top 12 global investment banks had around \$1.5 billion in revenue in structured credit in the first quarter, according to Coalition, more than doubling since the first quarter of 2016. Structured equities are largest overall, a business dominated by sales of derivatives linked to moves in stock prices, with revenue of \$5 billion in the first quarter.

These days, the typical synthetic CDO involves a portfolio of credit-default swaps on a range of companies. The portfolio is sliced into tranches, and investors receive payouts based on the performance of the swaps. Those investors owning lower tranches tend to get paid more but are subject to higher losses if the swaps sour.

For instance, an investor can sell insurance against a pick-up in defaults in the lowest—or "equity"—tranche of the iTraxx Europe index, a widely traded CDS benchmark that tracks European investment-grade companies. In return, the investor will receive regular payments, but those will shrink with every com-

pany default and stop altogether once 3% of the portfolio has been wiped out through defaults.

Synthetic CDOs have evolved since the crisis, bankers say. For instance, most are shorter-dated, running up to around two to three years rather than seven to 10 years.

Some banks will only slice and dice standardized CDS indexes that trade frequently in the market rather than craft tai-

lored baskets of credits.

There are also fewer banks involved in arranging these trades. Those active include BNP Paribas SA, Citigroup Inc., Goldman Sachs Group Inc., J.P. Morgan Chase & Co. and Société Générale SA.

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## CORRECTIONS & AMPLIFICATIONS

**KonMari Media Inc.** is legally registered in Delaware and has its main operations base in San Francisco. A Life & Arts article Aug. 10 about tidiness guru Marie Kondo incorrectly said the company was based in New Jersey.

The **Rumble Seat** column about the Ferrari 812 Superfast was published in the Aug. 18-20 edition. A correction published Monday incorrectly said it was published Aug. 19.

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

## WORLD NEWS

## Seoul Retools Military for Quick Response

South Korea orders a new structure better suited to react to any attack from the North

By JONATHAN CHENG

President Moon Jae-in ordered changes to South Korea's military structure so the country could "immediately switch to an offensive operation" in the event that North Korea "crosses the line" or launches an attack on Seoul, the South Korean capital.

His remarks, made during a meeting Monday with his defense minister, are the latest in a series of steps he has taken to boost South Korea's military posture against a threat from the North, even as he continues to extend an olive branch to Pyongyang.

They came as his country's intelligence agency told lawmakers that North Korea appeared ready to conduct a sixth nuclear test, according to a lawmaker who attended the closed-door session, and as House Foreign Affairs Committee Chairman Ed Royce (R., Calif.), who is leading a U.S. congressional delegation to South Korea, said officials in Seoul had told him Pyongyang had successfully miniaturized a nuclear weapon and continues to improve its long-range missile capabilities.

"This is very concerning," Mr. Royce said in an interview after meeting with Mr. Moon. "We need to be focused right now on keeping up this pressure."

While North Korea has steadily extended the range and capabilities of its missiles, experts remain divided on whether it can shrink a nuclear device to fit on the tip of a missile.

Last month, the Defense Intelligence Agency issued an analysis concluding North Korea had produced nuclear weapons small enough to be carried by intercontinental ballistic missiles, U.S. officials confirmed. But U.S. officials say there isn't any indication its miniaturized nuclear warhead could withstand re-entry into the earth's atmosphere.

In addition to the new military posture, Mr. Moon is pushing ahead with the temporary deployment of four missile-defense launchers in southern South Korea meant to defend against North Korean missile attacks. That move came after North Korea conducted a pair of intercontinental ballistic missile launches last month, and as Pyongyang has batted away Seoul's proposals for dialogue.

Mr. Moon's call on Monday for a new military structure "more suited to modern warfare" and capable of a rapid offensive response to any



Kim Jong Un observes a drill by North Korea's special-operations forces in this undated photo.

provocations appears to take Seoul a step closer toward a firmer deterrent posture.

It follows warnings from the administration of U.S. President Donald Trump about strong retaliation against any further provocations by North Korea.

"We must respond firmly to North Korea's provocations with overwhelming military power," Mr. Moon said, according to reports released by the presidential office, noting that "North Korea was focused

on developing asymmetric military capabilities, such as nuclear and missiles."

Four years ago, Mr. Moon's predecessor, Park Geun-hye, warned North Korea that the South Korean military had changed its rules of engagement to allow front-line units to quickly and forcefully retaliate against any attacks from the North, without having to first seek approval from Seoul.

That came after South Korea's military was criticized for what was seen as a relatively weak response to North Korea's shelling of a South Korean island in 2010.

But Mr. Moon's call to respond quickly and offensively has spurred concerns for James Kim, a research fellow at the Asan Institute for Policy Studies in Seoul, about the possibility that an otherwise-limited border incident in the demilitarized zone between the two Koreas could escalate into a larger military confrontation.

Mr. Kim said while warn-

ings of an offensive attack in retaliation for a strike on Seoul were a restatement of longstanding policy, Mr. Moon appeared to allow for some ambiguity in warning North Korea against "crossing the line."

"He was very unclear about what that means," Mr. Kim said. "Does he mean a provocation involving the targeting of Seoul? Or a provocation like a landmine incident? He's unclear."

Mr. Moon's intention, he added, appeared to be regaining Pyongyang's attention and putting Seoul back into the picture.

"It seems to me this is more a statement that...South Korea is here and it's a player, and wants to be reinserted into the debate," Mr. Kim said.

Mr. Royce, who was slated to meet Tuesday with top U.S. military officers involved in joint war games being held in South Korea, said that he supported Mr. Moon's tougher language.

"I think the South Koreans have a right to indicate that they're going to defend themselves against an attack," Mr. Royce said. "It's such a *de minimis* statement compared to the onslaught of verbal assaults that they receive every day from North Korea."

—Min Sun Lee  
and Kwanwoo Jun  
contributed to this article.

## China, India Ease Border Standoff

China and India said they had negotiated a solution to a more than two-month-long standoff on a remote Himalayan plateau, ending a stalemate that had raised concerns about a potential military conflict.

By Niharika Mandhana  
in New Delhi  
and Eva Dou in Beijing

But statements on Monday from both sides created confusion over terms of the detente. India's Foreign Ministry said the two sides had agreed to the "expeditious disengagement of border personnel of India and China at the face-off site."

Beijing said Indian troops had withdrawn and, responding to a question about Chinese troop deployments, said it would make "necessary adjustments."

The dispute began in mid-June after Indian soldiers halted Chinese efforts to construct a road in an area claimed by China and Bhutan, a close Indian ally sandwiched between the two Asian giants.

India doesn't claim the territory in question, known as the Dolam Plateau, but said defending it was crucial to protecting its own security and the interests of Bhutan.

Bhutan had asked China to retreat until the boundary dispute between them was settled.

Beijing had for weeks accused India of "illegal trespassing" and called on Indian soldiers to withdraw.

Neither side would comment on whether Beijing would abandon its road-building project as part of Monday's deal. China's Foreign Ministry said border guards would continue to patrol the disputed area.

Monday's announcement came days before a summit of the Brics countries, scheduled to take place in the Chinese city of Xiamen in early September. That meeting—between the leaders of Brazil, Russia, India, China and South Africa—was likely to be overshadowed by the border dispute between its two prominent members.

Indian Prime Minister Nar-



THE WALL STREET JOURNAL

endra Modi and Chinese President Xi Jinping will meet after weeks of acrimony and charged rhetoric. Chinese media has run commentary reminding India of a 1962 war between the two countries that China won.

Officials and analysts around the world have been watching to see how the two countries resolve the issue.

China is also embroiled in potentially destabilizing maritime disputes with other Asian countries.

Jia Xudong, a senior research fellow at the China Institute of International Studies, said the border standoff has aggravated broader conflict between the two countries over competing spheres of influence and China's closer

ties with Pakistan.

"There are multiple conflicts between the two countries," he said.

In a press conference earlier Monday previewing next month's Brics summit, Chinese officials played down the border dispute and emphasized trade prospects between China and India.

Zhang Jianping, an official at a research institute under China's Commerce Ministry, said the summit was an "excellent opportunity" for India and China to work out any differences face-to-face.

Ties between India and China, never close, have frayed in recent years as Beijing has grown in strength and confidence.

India has stayed away from China's ambitious Belt and Road Initiative, an expansive infrastructure plan that seeks to tie dozens of countries to its global ambitions.

China's growing economic and diplomatic footprint in India's neighborhood and the Indian Ocean have irritated officials in New Delhi.

—Grace Zhu in Beijing  
contributed to this article.

## Pope's Myanmar Visit To Spotlight Minority

Pope Francis will travel to Myanmar in late November for a visit expected to highlight the struggles of the embattled Muslim minority.

By Francis X. Rocca  
in Rome and Myo Myo  
in Yangon

The Vatican announced Monday that the pope will visit Myanmar from Nov. 27 to Nov. 30, then travel to neighboring Bangladesh to Dec. 2. The announcement came a day after the pope decried the "persecution" of "our brothers the Rohingya" in Myanmar.

Myanmar has said more than 100 people have been killed since Friday in battles in western Rakhine state. An intensified military campaign against militants there has sent thousands of Rohingya fleeing to the border with Bangladesh.

The government doesn't consider the Rohingya citizens and refers to them as Bengalis, indicating origins in what is now Bangladesh, though many Rohingya have lived in territory in Myanmar for generations.

Pope Francis' Sunday remarks, in which he called for the Muslim ethnic group to be given their "full rights," were his latest of several statements on behalf of the Rohingya.

Myanmar's leader, Aung San Suu Kyi, has adopted a hard line on the Rohingya. Her office has called the military's actions "clearances," accused the Rohingya of burning their own homes, and said aid groups were supporting terrorism.

Insurgency in northern Rakhine state has been increasing since October, when militants killed nine border guards and the military launched counter-insurgency operations that U.N. human rights investigators said were marked by rape. The latest round of fighting started Aug. 25, when Rohingya militants launched gun and machete attacks on police outposts.

The Rohingya, who have long faced severe discrimination, were the targets of inter-communal violence in 2012 that killed hundreds and drove about 140,000 from their homes to camps for the internally displaced.



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## WORLD NEWS

# U.K., EU Resume Exit Talks

By VALENTINA POP

**BRUSSELS**—British and European Union negotiators resumed Brexit talks Monday but officials played down the prospect of breakthroughs on a handful of nettlesome issues related to the U.K.'s departure from the bloc.

Officials on both sides have in recent days said discussions—set to run through Thursday—will be technical, aimed at clarifying their positions before more critical talks next month.

That round—the fourth since negotiations began in June—is expected to determine whether the EU will agree to talk about its post-Brexit relationship with the U.K., a topic London wants tackled as soon as possible but the EU has said it won't address until other issues are resolved.

Speaking on his way into the meeting, U.K. Brexit negotiator David Davis said position papers published in recent weeks covering the withdrawal and the vision for a future partnership with the EU should drive forward talks in all areas.

Mr. Davis's upbeat tone wasn't replicated by his EU counterpart, Michel Barnier, said the U.K. still needs to clarify its position on several separation issues and "start negotiating seriously."

"I am concerned. Time passes quickly," Mr. Barnier said. "The sooner we remove the ambiguity, the sooner we'll be able to discuss the future relationship and a transitional period."

—Emre Peker contributed to this article.

# Russia Knife Attacks Raise Alarm

By NATHAN HODGE

**MOSCOW**—A knife attack on police officers in the Russian republic of Dagestan left one officer dead, following a stabbing spree in Siberia this month, adding to worries here about the spread of improvised terrorist attacks like those that have been claimed by Islamic State in Europe.

On Monday, two unidentified attackers struck police officers with knives at a filling station in the city of Kaspisk, the local branch of the federal Investigative Committee said. One officer was killed and the other was wounded before a third shot and killed the attackers.

Video footage from the scene showed a black jihadist banner said to have been found on the attackers, and Islamic State claimed responsibility, according to SITE Intelligence Group, which monitors extremist activity.

The Investigative Committee, a federal agency charged with probing high-profile crimes, didn't describe the incident as a terrorist attack, and said a criminal investigation was under way.

The incident came days after a man roamed the streets of the Siberian city of Surgut with a knife, slashing seven bystanders before he was killed by police. The attack was also claimed by Islamic State.

Russian authorities declined to label the Aug. 19 incident as terrorism, but said terrorism wasn't being ruled out by investigators. Authorities initially described the attacker as mentally ill.

Following the attack, Islamic State released a video



Officers stand by the body of a man shot by police after he stabbed people in Surgut on Aug. 19.

describing the man as a holy warrior and showing a masked man identified by the nom de guerre Masud of Surgut, seated next to a hatchet and an Islamic State flag, vowing to attack nonbelievers.

"Soon blood will flow like the sea," a voice chants in the video.

While Islamic State has declared itself to be behind numerous attacks that investigators also attributed to the group, Islamic State has a record of falsely claiming responsibility, and it remains unclear if the group had any operational link to the latest incidents in Russia.

Russian President Vladimir Putin has responded with force to some past terrorist attacks. He came to power on a promise to wipe out militants in the north Caucasus region, and he

launched a military campaign in Syria in 2015 that he described as an effort to defeat Islamic State.

But Russian officials have on occasion been cautious about playing up terrorism threats. When a passenger plane flying to St. Petersburg went down over Egypt's Sinai Peninsula in 2015, killing all 224 people on board, Russian officials initially dismissed an Islamic State claim and reports that a bomb brought down the plane.

It took Moscow over two weeks to say they had evidence it was a terrorist attack.

The response by authorities in playing down the possibility of terrorism in the Aug. 19 attack in Surgut indicated worries about public perception, said Alexey Malashenko, a Moscow-based researcher.

"If they admit it's a terrorist act, then you have to ask the question of what the authorities are doing" to combat it, he said. "It's convenient to describe it as a criminal act."

Mr. Malashenko said he believed the Surgut stabbing was terrorism. "It's a repeat of what's happened in Finland and Spain," he said, referring to a knife attack in the Finnish city of Turku that is being investigated as terrorism, and vehicle attacks in Barcelona and the Spanish town of Cambrils.

Over the past two decades, Russia has seen a number of terrorist attacks led by Islamist militants, from a siege in a Moscow theater in 2002 to a horrific hostage-taking in a school in the southern Russian town of Beslan.

More recently, Russian authorities identified a man

from the Central Asian republic of Kyrgyzstan as the suicide bomber who caused a deadly subway-train blast in St. Petersburg, Russia's second-largest city.

The Caucasus Emirate, a militant group that pledged loyalty to Islamic State in 2015, continues to fight a low-level insurgency in the north Caucasus region. In a separate incident on Monday in Dagestan, a member of the security services was killed and two were wounded in a shootout with militants near the town of Khasavyurt, Russian news agencies reported.

Over 2,000 miles away, Surgut, a city of 360,000 in Khanti-Mansy Autonomous Okrug and a major center for oil and gas production, has seen an influx of job-seeking migrants from Muslim-majority regions of Central Asia and the north Caucasus.

The arrival of migrant workers has raised tensions in cities in the region, according to a 2015 report by the Carnegie Moscow Center think tank.

Cities in the Khanti-Mansy region, the report added, "remain hotbeds of the Salafist movement," shorthand for an austere brand of Islam that experts say isn't traditional in the region. Russia has a substantial and diverse Muslim population, but authorities are wary of the rise of what they deem religious fundamentalism.

Arkady Dubnov, an expert on Central Asia, said local authorities needed to be more responsive to possible terror incidents, making it clear to the public when they happen.

"You need to establish the diagnosis in order to prescribe the medicine," he said.

# Angola Recovery A Tall Order for New President

By GABRIELE STEINHAUSER

**LUANDA**, Angola—João Lourenço's portrait has stared down at Angolans from buildings, buses and flags for weeks, but to many of them, the country's first new president-elect in 38 years remains a man of two faces.

With 98% of the vote counted last week, the election commission declared Mr. Lourenço, a former three-star general who rose through the ranks of the ruling People's Movement for the Liberation of Angola, the winner of Wednesday's vote, where the MPLA received 61% of the vote.

To some voters, he is an aparatichik, chosen to implement the party line with an iron fist. Others see him as a deft strategist who carefully takes steps to cement power.

The 63-year-old now faces the challenge of guiding Africa's No. 2 crude producer and its 29 million citizens out of the country's gravest economic crisis in more than a decade and keep international companies investing in its rapidly depleting oil reserves despite falling prices.

Angola's leading opposition parties—the National Union for the Total Independence of Angola, or Unita, and the Broad Convergence for the



Supporters celebrate the election last week of João Lourenço, who must overhaul the economy amid falling revenue.

Salvation of Angola-Electoral Coalition, or CASA-CE, which received 27% and 9.5%, respectively—rejected the results.

"We don't believe that a people looking for change as the Angolan people [are] right now would give a qualified majority to the MPLA," CASA-CE Vice President Cesinanda Xavier said on state television.

Mr. Lourenço will have to assert himself against an angry opposition and his predecessor, José Eduardo dos Santos. As head of the MPLA, Mr. dos Santos retains control over much of government policy and personnel.

The departing president made some 11th-hour moves to extend his reach, giving his intelligence, security and military leaders an extra two years in office and appointing his vice president, who has been indicted on a charge of bribery and corruption in Portugal, to head a powerful panel on overhauling the economy. Mr. dos Santos's daughter Isabel is president of state oil company Sonangol and his son José Filomeno heads the sovereign-wealth fund.

Mr. Lourenço rejected claims he would be Mr. dos Santos's puppet. "I believe I will have all the power. I would only not have all the power if there were two presidents."

Angola's leading opposition parties—the National Union for the Total Independence of Angola, or Unita, and the Broad Convergence for the

dents of the Republic, which isn't the case."

Quiet and reserved, Mr. Lourenço has struggled to electrify voters. In speeches, he likes to start sentences with "The people know" before monotonously running through a litany of old party slogans. But those who know him say he is adept at forming alliances within his party, while avoiding ties to any faction.

That, they say, should allow him to push through plans for overhauling an economy that depends on oil for 95% of its exports and whose banks have been cut off by U.S. counterparts amid corruption and

money-laundering allegations.

At the age of 20, Mr. Lourenço joined the struggle for independence from Portugal, organizing the MPLA's first group of fighters to enter Angola after the fall of colonial rule. He joined the party's Politburo during its Soviet-supported war against the U.S.-aligned Unita and became its secretary-general in 1998.

"He's done all the right things. He was governor of all the right provinces," said Roger Ballard-Tremear, former South African ambassador to Angola.

Succeeding in the presidency won't be easy. Falling

oil prices have hurt government revenue and ground the economy to a near halt. The International Monetary Fund expects gross domestic product to expand 1.3% this year, devastating for an economy that grew at double-digit rates in the first decade of the century and whose population is adding 80,000 people a year.

Inflation has slowed from its peak of 41% last year, to 29% in July, while a dollar buys around 375 kwanza on the black market, more than double the official rate of 165 kwanza. The central bank has been burning through its foreign-exchange reserves to

make sure the country can keep importing goods.

Mr. Lourenço left open the possibility of seeking IMF or World Bank help, as repayments of loans from China and other debts become too much of a burden. His wife, Ana Dias Lourenço, until recently an executive director at the World Bank and now a member of Parliament, could play an important role. She helped negotiate Angola's \$1.4 billion rescue loan from the IMF in 2009, gaining the respect of officials at international financial institutions.

—Neanda Salvaterra contributed to this article.

## WORLD WATCH

## SINGAPORE

### U.S. Recovers Bodies Of Missing Sailors

The U.S. Navy said it recovered the remains of all 10 sailors who went missing when the USS John S. McCain collided with a tanker near Singapore a week ago, a development that focuses attention on investigations under way into the causes of the crash and what will happen next to the stricken destroyer.

The Navy said diving teams had been combing through flooded compartments in the destroyer, after a search at sea turned up empty-handed. The Navy identified the dead sailors, found inside the ship, as junior servicemen, mostly working as electronics and communications technicians, ranging in age from 20 to 39.

The McCain is docked at a Singapore military base while the crash is investigated. It wasn't clear what would happen to the ship, or where repairs would take place. The McCain's collision was the latest of at least four accidents involving Navy vessels in the past year. In June, the USS Fitzgerald destroyer hit a merchant ship, the ACX Crystal. Seven American sailors died in that accident.

—Jake Maxwell Watts

## MEXICO

### Trade Deficit Shrank Year-to-Year in July

Mexico ran up a \$1.52 billion trade deficit in July, a shift from the surplus seen in June but smaller than the \$1.83 billion deficit in the year-earlier period as growth in exports outpaced the in-

crease in imports, the National Statistics Institute said Monday.

Exports rose 8% from July 2016 to \$32.16 billion on increased shipments of crude oil and gains in exports of manufactured products, agricultural goods and minerals.

Imports rose 6.6% to \$33.69 billion.

—Anthony Harrup

## GERMANY

### Convicted Nurse May Have Killed Scores

A male nurse convicted of killing patients in Germany with overdoses of heart medication is now believed to have killed at least 86 people—and the true number of deaths could be larger, investigators said.

Niels Högel, now 40, was convicted in 2015 of two murders and two attempted murders at a

hospital in the northwestern town of Delmenhorst. He was sentenced to life in prison. But prosecutors have long said they believe he killed many more people.

—Associated Press

## INDIA

### Guru Gets 10 Years In Prison for Rapes

A judge sentenced a popular Indian spiritual guru to 10 years in prison on charges of raping two female followers. The sentence was pronounced at a jail in Rohtak where the guru, Dr. Saint Gurmeet Singh Ram Rahim Insan, has been held.

His conviction sparked violent protests by the guru's followers that left at least 38 people dead and hundreds injured.

—Associated Press



SUHAIB SALEM/REUTERS

FROM ABOVE: A Muslim pilgrim prayed on Mount Noor, overlooking the Saudi Arabian holy city of Mecca on Monday.

## U.S. NEWS

# Cultural Exchange Visas Under Review

Trump administration is considering cuts to summer work travel, au pair visa programs

By LAURA MECKLER

WASHINGTON—The Trump administration is considering major reductions in cultural exchange programs, including those for au pairs and summer workers, that allow young people from foreign countries to work in the U.S., people familiar with the administration's planning said.

President Donald Trump's "Buy American and Hire American" executive order, issued in April, calls for a review of U.S. immigration rules

to ensure the interests of domestic workers are protected. No decisions have been made, but supporters of the program worry changes will be made without a full public debate.

A White House-led inter-agency working group is particularly focused on five employment-based programs that are part of the J-1 visa exchange visitor program, according to people familiar with the discussion.

"The administration has concerns" about all of the visas that allow for guest workers, said Jessica Vaughan, director of policy studies at the Center for Immigration Studies, which wants to limit legal and illegal immigration. "But there are particular programs that need more attention be-

cause of their size, their effect on the U.S. labor market, and because a significant number of people overstay their visas."

People familiar with the conversations said the review includes the summer work-travel program, which brings more than 100,000 students to the U.S. each summer, often stationed in tourist destinations such as beach resorts and national parks. It also includes the smaller au pair program, through which foreigners live in American homes and provide child care as well as take classes and participate in intercultural exchanges with their host families. Other programs under discussion include those for camp counselors, interns and trainees.

The J-1 visa program also

includes 10 other categories that don't involve work, such as those for college students, which aren't under review, people familiar with the talks said.

The visa was instituted by statute, but the individual categories were created by past administrations and could be changed or eliminated by executive action. Some changes might need to go through the regulatory process, which provides an opportunity for public comment.

Options on the table include eliminating these visa classes, as well as imposing new requirements on participants. For instance, employers could be required to show that they couldn't find Americans for these jobs, as is required for

other visa programs, according to the people who are tracking the internal debate.

A recent directive to the agency at the State Department responsible for these programs instructs officials to rewrite regulations in a way that would effectively end these five categories of the J-1 visa program, according to an administration official. It was unclear whether the intent was to move forward with such a regulation or if the request was aimed at facilitating internal discussion.

A State Department official declined to comment on the debate and referred questions to the White House. "Presently, we continue to implement the J-1 visa programs at the same levels we have for

the past few years, and we appreciate the support that American businesses have shown for the program and its value to their local communities," the official said.

White House press secretary Sarah Huckabee Sanders said she had "nothing to announce at this time."

Supporters view these programs as facilitating cross-cultural exchanges while filling gaps in the U.S. labor market. They give young people from foreign countries the opportunity to come to the U.S. and gain exposure to American culture and values before returning home.

Critics say foreign workers are a source of cheap labor who create unfair competition for American workers.

## Pressure Mounts for Senate Republicans

BY SIOBHAN HUGHES  
AND KRISTINA PETERSON

SHELBYVILLE, KY.—Tensions between President Donald Trump and Senate Republicans are rising, as lawmakers are being blamed by the president, House colleagues and many voters for the party's failure to pass a major legislative initiative.

"I'm sick of them," said Matthew Walters, a 58-year-old construction worker who lives in Shelbyville, Ky., and has been eager for the GOP to repeal the Affordable Care Act as his wife's insurance premiums jump. "They've said for six years if we get a Republican in the White House we're going to get this repealed. What is the problem? What are the excuses? I'm sick of it. We elected Donald Trump for change."

Similar sentiment is being expressed in town hall meetings and street-corner conversations, ratcheting up the pressure on GOP lawmakers as they face a difficult September.

Next month, the Republican-led Congress must pass a measure to keep the government funded beyond Sept. 30, when a current law expires, and raise the borrowing limit to guard against the risk of failing to pay its bills on time, including payments to Social Security beneficiaries, government employees, troops and U.S. debtholders.

Mr. Trump is complicating that work by threatening to reject any funding bill that doesn't include \$1.6 billion toward construction of a wall on the nation's southern border, a move that likely would result in a partial government shutdown.

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

Some House Republicans say that the GOP-led Senate needs to scrap its procedural traditions, which require 60



Protesters at an event in Graves County, Ky., earlier this month where Senate Majority Leader Mitch McConnell was one of the speakers

votes to pass most legislation, and allow for bills to pass on a simple majority—even though the Senate wasn't able to find a majority for its health plan.

"The rules fundamentally paralyze the U.S. Senate, and Mr. McConnell should be ashamed of allowing that to occur," said Rep. Trent Franks (R., Ariz.), in a reference to Senate Majority Leader Mitch McConnell (R., Ky.). Mr. McConnell has said he won't change the Senate rules.

Debbie Thomas, an educator who attended Nebraska Republican Rep. Don Bacon's town hall this weekend in Omaha, said she supported Mr. Trump's willingness to shutter the government to extract border wall funding.

"If that's what it takes to get somebody to listen," said

Ms. Thomas, a conservative. Mr. Trump is "standing behind what he has always said," she said. Mr. Bacon told reporters Saturday he didn't want to shut down the government.

Republican senators have defended each other from Mr. Trump's criticisms, and over the recess have responded the way many did when they were up for re-election last year, focusing on local issues.

Sen. John Cornyn (R., Texas) spent the weekend helping Texans who were hit by the hurricane, and Sen. Rob Portman (R., Ohio) went fishing in Lake Erie to argue against Mr. Trump's proposed cut to a federal program to restore the Great Lakes.

Some voters take their side over Mr. Trump's.

"I don't see [the president]

coming to the table and working with people," said Melanie Roll, a Millard, Neb., resident who runs a small business and voted for Mr. Bacon in last year's election. "I see him stirring the pot over and over."

At the center of the GOP infighting is Mr. McConnell, who failed by a single vote to pass a measure aimed at repealing the ACA.

"The only problem I have with Mitch McConnell is that, after hearing Repeal & Replace for seven years, he failed! That should NEVER have happened!" Mr. Trump said in a tweet last week.

On Saturday, Mr. McConnell said that voter frustration over congressional inaction had been fanned by the media and obscured the fact that legislative change has come

slowly all across history.

"When you've been given the responsibility of governing, people expect an outcome, but the process along the way is oftentimes pretty challenging," Mr. McConnell said at a Kentucky Republican dinner.

"A lot of people look at all that and find it frustrating, messy. Well, welcome to the democratic process," he said. "The only reason people are so focused on it now is 24-hour cable news and the internet."

The president has also lashed out at Arizona's two Republican senators, Jeff Flake and John McCain, and Sen. Bob Corker of Tennessee. Sen. Dean Heller of Nevada, one of the most vulnerable Republicans, has also been target of Mr. Trump's frustrations.

## St. Louis Rescinds A Wage Increase

By ERIC MORATH

The minimum wage in St. Louis fell by \$2.30 an hour Monday, making it a rare city to buck the national trend of municipal pay floors rising above federal and state levels.

Many low-wage workers in the Gateway City will lose raises they received in May, when the minimum wage increased to \$10 an hour. A state law that took effect Monday mandates that Missouri municipalities follow the state minimum of \$7.70 an hour, nullifying the higher wage St. Louis officials had sought since 2015.

Some business owners have already pledged to maintain the higher wage in a region where the jobless rate is lower than the national average. Others have told their employees to expect cuts.

Rolling back an already implemented raise shows the effectiveness of some business groups and state lawmakers in pushing back on a wave of municipal minimum-wage increases since 2014 that spanned more than 30 cities and counties from Portland, Maine, to Pasadena, Calif.

"We can't let the biggest economic engine in the state, St. Louis, become an island that employers avoid due to higher labor costs," Missouri Chamber of Commerce & Industry President Daniel Mehan said in an interview Friday. Elevated city minimum wages would cost workers jobs and encourage businesses to automate, he said.

Economists and policy makers see costs and benefits of minimum-wage rises. While the policy directs more money to low-wage workers, it gives employers less incentive to add to their payrolls, leaving some workers behind.

## Cities, Schools Struggle With Safety, Free Speech

By SARA RANDAZZO

Cities and public universities are evaluating ways to prevent violent protests without limiting free speech rights in the wake of the recent violence in Charlottesville, Va., a balancing act likely to tie up lawyers and public dollars in the coming months.

"There's a difference between free expression on the one hand and violence on the other," said Mike Feuer, the Los Angeles city attorney. Mr. Feuer said that while he strongly supports peaceful protest, he would like to more heavily scrutinize those applying for permits to make sure they don't have plans to incite violence. The Los Angeles Police Commission, with consultation from Mr. Feuer's office, runs the permitting process.

The constitutional right to free speech is firmly ingrained in the public consciousness, and those on both sides of the political spectrum typically agree that attempts to constrain the First Amendment can be fraught.

"When talking about the First Amendment, the thing

that we are most terrified of is that the government is choosing either people they like or messages they like," said Jessica Levinson, a professor at Loyola Law School in Los Angeles.

Cities and other public entities are allowed under the First Amendment to limit the time, place and manner of speech or public assembly, as long as the restrictions are applied evenly and not as a means of suppressing speech.

But finding grounds to deny a permit ahead of time can be tricky, legal experts said, because it isn't enough to say violence might occur. Instead, there must be evidence that the protesters clearly intend to incite violence.

"It becomes a really difficult call, in terms of, at what point do you say there's an imminent threat of violence?" Ms. Levinson said. Courts have been wary of censoring events before they happen, she said.

Mr. Feuer said denying a permit would be the last resort. The city could also control events by prohibiting what people bring, creating physical barriers between pro-

testers and counterprotesters, and deploying more law enforcement. He pointed to Boston, which banned sticks, bats and backpacks ahead of a white supremacist rally this month and cordoned off counterprotesters.

"There's no First Amendment right to carry a stick," Mr. Feuer said.

On Sunday, violent scuffles

erupted and 13 people were arrested Berkeley, Calif., where counterprotesters had arrived to oppose a planned "No to Marxism" demonstration that also was canceled by organizers Friday. City officials had denied a permit to the Berkeley event.

Universities have slightly more leeway when deciding how to control events, and it

can matter if speakers are invited by a student or faculty, or are looking to rent space on campus for their own event.

At least five universities have denied recent requests by white nationalist Richard Spencer's organization to hold events on campus, including Pennsylvania State University, the University of Florida and Michigan State University.

Continued from Page One  
RBC Capital Markets. Mr. Khosrowshahi's awareness of what it takes for a technology company to compete may have set him apart from other candidates.

At the same time, his background at IAC, where financial acumen is a key

part of the DNA, suggests he is savvy about the metrics and practices that appeal to investors. In addition to completing numerous acquisitions, a spinoff of TripAdvisor in 2011 and the IPO of Trivago in December 2016, Expedia pays a dividend and consistently buys back stock.

Another skill that may have been valued by Uber's board was Mr. Khosrowshahi's ability to get along with Barry Diller, Expedia's demanding chairman.

Mr. Kalanick, Uber's ousted CEO, remains a member of the ride-hailing company's deeply divided board.

Mr. Khosrowshahi faces serious challenges to get Uber ready for public life. His history says he has a good chance of overcoming them.



Demonstrators argued during a free-speech rally on Sunday in Berkeley, Calif.

## UBER

Continued from Page One

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## STORM BATTERS TEXAS

# Many Hurt May Lack Insurance

More bad news for Houston: Many of the homes and businesses that have been inundated by Hurricane Harvey aren't insured for flooding.

By Nicole Friedman,  
Rachel Witkowsky  
And Leslie Scism

Data provider CoreLogic says 52% of the residential and commercial properties in Houston that are at high or moderate risk of flooding due to Hurricane Harvey aren't in federally designated flood zones.

Most residential flood insurance is provided by the federal government's National Flood Insurance Program, which also insures some businesses.

Federal flood maps are generally used to determine which property owners need to buy flood insurance. Homeowners in flood zones, for example, are required to maintain the coverage by their mortgage companies.

Those outside federally designated flood zones aren't required to buy the expensive protection, and often forgo it. Standard homeowners policies don't cover flood damage.

The storm also poses new hazards to the federal flood insurance program, a giant insurer that is already facing mounting debt and a reauthorization fight in Congress.

The program, created about 50 years ago because private insurers were unwilling to risk catastrophic flood losses, could be inundated with billions of dollars in new claims following Harvey's initial Category 4 winds and colossal rainfall.

Yet it is scheduled to expire on Sept. 30 and has just \$5.8 billion left it can borrow from the Treasury to meet new claims, according to January figures reported to Congress. Many people buy the govern-

ment policies through private-sector insurers, which are compensated for that service.

Members of Congress are discussing a number of options, ranging from a temporary renewal of the program to a more-comprehensive fix designed to return the program to solvency. Congress returns from recess on Sept. 5.

"From a public-policy perspective, Hurricane Harvey reinforces the narrative of why the national flood-insurance program is so important," said Christopher Gillott, legislative director for Sen. Bill Cassidy (R., La.).

What makes the debate in Washington so challenging is that the program already has a debt of roughly \$25 billion from earlier weather disasters. Much of that is from Hurricane Katrina in 2005 and superstorm Sandy in 2012. Sandy alone cost \$8.4 billion initially, according to the Federal Emergency Management Agency, which manages the program.

The program had to borrow another \$1.6 billion from the Treasury in January just to pay interest on its debt and storm claims, according to FEMA.

It will take days, if not weeks or longer, for claims to emerge from Harvey. More than 200,000 homes along the Texas coast could be at risk, according to information and analytics firm CoreLogic. In 30 Texas counties labeled disaster areas by the state's governor there are nearly 450,000 NFIP policies covering \$125.7 billion in insured value, according to the program's website. More than half of that value is in Harris County, which includes Houston.

Sticking points in Congress over the program include whether lawmakers will address its finances in part by increasing rates gradually for home-



The storm damaged many homes—some of them seen in an aerial view above—in the Key Allegro neighborhood in Rockport, Texas.

### Freight Companies Are Left Scrambling

Trucking fleets, railroads and shipping lines are scrambling to reroute cargo and set up alternate supply lines as tropical storm Harvey promises to disrupt freight traffic across southeast Texas for days.

The region has experienced days of heavy rains, strong winds and catastrophic flooding since Harvey made landfall Friday night. Seaports in Houston and Corpus Christi have been closed

to most ships since Friday, and rising waters threaten stretches of highways and railroad tracks, bringing freight transportation to a virtual standstill.

Many freight companies say they have no idea when they will resume operations. The storm is expected to linger over the Texas coast until later in the week. Even after the weather clears, it could be days before floodwaters recede enough to allow dockworkers back into ports, or trucks to resume normal routes.

The storm's impact will quickly radiate outward through the nation's transportation net-

work, affecting retailers and manufacturers far from Texas. Other cities could see a shortage of trucks because big rigs aren't making their scheduled trips from Houston, and railroads could see backlog as far away as Arizona, said Noël Perry, chief economist at Truckstop.com, an online load board.

Mr. Perry said nearly 10% of the nation's trucking capacity could be affected by Harvey, and that prices to book big rigs have jumped anywhere from 5% to over 20% after other large-scale weather events.

"This may be unprecedented

when all is said and done," said Mark Rourke, chief operating officer at Schneider National Inc., a large trucking company. He said it could be two weeks before normal operations resume.

The storm's impact rippled out across the region. **Kansas City Southern** Co. canceled cross-border service at Laredo, Texas. **United Parcel Service** Inc. said it was suspending freight service in Houston and Beaumont, Texas, and offering limited service as far west as San Antonio.

—Paul Page and Brian Baskin

## STORM

*Continued from Page One*  
from behind the Barker dam. Those will gradually increase to 8,000 cubic feet per second total, further flooding Buffalo Bayou which is already at historically high levels.

Mr. Turner warned there would be more flooding to neighborhoods near the bayou, but said officials had no choice but to release the reservoir water. Some engineers warned that if the reservoirs were to breach, it could release flooding on an unprecedented level.

"If they don't do it...the situation would be exponentially worse," Mr. Turner said.

But releasing more water threatens to pressure city resources that have already been taxed to their limits.

Officials said Monday that they still had not responded to 185 critical rescue requests. Houston Police Chief Art Acevedo said his department had handled 56,000 emergency calls since Friday evening, but had more to do.

"Hopefully today we'll get to the rest of you. Please don't give up on us, we won't give up on you," Mr. Acevedo said.

At the edge of the Addicks Reservoir, a few residents remain in their homes with water lapping at their driveways and front yards.

Sonia D. Alcantara, who cares for her 15-year-old autistic daughter, Shirley, still had no plans to leave.

"Never, never have I seen it like this," she said. "I don't know what's going to happen. Only God knows."

In Fort Bend County, roughly 35 miles southwest of Houston, officials said they expected to see the Brazos River crest sometime Tuesday afternoon or evening, topping local levees. County Judge Robert Hebert issued a mandatory evacuation order for 10 areas around the levees, and a voluntary evacuation for 10 more.

"A flood of this magnitude is an 800-year event and it exceeds the design specifications of our levees, and is poten-

tially dangerous for a good portion of Fort Bend County," Judge Hebert said. "If you are in a Mandatory Evacuation zone, please leave."

Federal Emergency Management Agency Administrator Brock Long said Monday that some 30,000 people would be placed in temporary shelters.

"This is a landmark event for Texas," said Mr. Long.

He defended local officials' decision not to evacuate Houston ahead of the storm, saying carrying out such an operation in a city of Houston's size—2.3 million people—would have taken days.

Federal officials said flooding in the area continued to recede slowly and called on citizens to help with recovery efforts.

The U.S. Coast Guard on Monday said that rescue efforts in Houston had been made difficult because the tropical storm was still raging around them, unlike Hurricane Katrina where recovery operations unfolded after the storm had ended. The Coast Guard said it had devoted every available resource to responding to the disaster.

Five deaths believed to be storm-related had been re-

ported in the Houston area as of Sunday evening, and more than 3,000 water rescues had been performed, officials said.

The disaster swamped businesses, including patches of the energy industry, and will disrupt travel this week.

The White House said President Donald Trump planned to travel to Texas on Tuesday to survey the damage from Harvey, which made landfall as a Category 4 hurricane Friday

near Corpus Christi before losing strength and becoming a tropical storm over the weekend.

Mayor Turner said on Sunday only one death in the city was confirmed so far as storm-related. He said a woman drove into high water in southwest Houston and drowned while trying to escape.

Even in a city accustomed to flooding, the rapidly rising

water caught many off-guard, raising questions about whether the city should have been evacuated.

"No one thought it would be this bad," said Aeisha Brimzy, a stay-at-home mom plucked from the rising waters around her apartment building by constables, who also rescued her six daughters, mother and sister. The family went to the George R. Brown Convention Center downtown,

which the city had turned into an evacuation center.

Rescued families there sat on folding chairs or laid on the floor, many still clutching white towels they had been given with which to dry off as they received assistance from the Red Cross.

Mr. Turner said the city was also opening libraries, community centers and other locations as "lily pads" to provide safe harbor in neighborhoods.

"This is a storm that is testing the city of Houston," he said.

Most rescues were from vehicles that got stranded after driving into floodwaters, with responders assisting on foot, in large vehicles, by boat and via helicopters.

"This is historic, devastating rainfall," said Jeff Lindner, a meteorologist for the Harris County Flood Control District who is working with emergency personnel. "There is water in homes that have never flooded before, and we've received reports of water going into the second story of homes."

Harris County Judge Ed Emmett, the area's top emergency official, asked citizens with boats to help rescue people trapped by rising water. Boats and other vehicles the city hoped to receive from the state couldn't arrive because roads were blocked by flooding, he said.

He said Ben Taub Hospital, Houston's main public hospital, was being evacuated because of flooding in its basement. Bayshore Medical Center in Pasadena, Texas, on the outskirts of Houston, said it was evacuating nearly 200 patients.

More than 150 roadways were flooded throughout Houston on Sunday, and both of Houston's airports closed.

The mass flooding was reminiscent of Tropical Storm Allison in 2001, which killed more than 20 people in the Houston region, destroyed more than 2,700 homes and caused billions of dollars in damage.

—Bradley Olson, Arian Campo-Flores, Miguel Bustillo and Russell Gold contributed to this article.



People evacuate a Houston neighborhood inundated by flood water, above, while other flood victims rest at the George R. Brown Convention Center, which, along with city libraries and facilities, has been turned into an emergency shelter.



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## STORM BATTERS TEXAS

# Rescue Efforts Tax Houston Resources

County official urges residents to help their neighbors; 'we need your help'

HOUSTON—As the waters rose around them, families headed to attics and rooftops, where they called for help, overwhelming emergency call centers.

By Arian Campo-Flores, Dan Frosch and Erin Ailworth

Frantic friends and relatives worried about stranded loved ones took to social media to plead for assistance. The city of Houston's Twitter feed grew into a litany of urgent appeals Sunday. "Please help! Parents and 4 children in danger of drowning," read one post.

As first responders rushed to perform 3,000 rescues across the sprawling city—which covers an area larger than Manhattan, Chicago, Philadelphia and San Francisco combined—a chaotic picture was emerging from the floodwaters of Harvey as the region faces days of more rain and the disaster continues to unfold.

For a city that is prone to flooding, the severity and pace of the rainfall from Harvey caught even longtime residents off guard and raised questions about whether Houston should have been evacuated.

As of Sunday afternoon, the city had nearly 6,000 calls for help, said Houston Mayor Sylvester Turner. Since Saturday night, 911 operators had gotten more than 56,000 calls, compared with a typical 24-hour volume of 8,000, he said.



Neighbors in Friendswood, Texas, used their own boats to rescue Jane Rhodes on Sunday, as Harvey, downgraded to a tropical storm on Saturday, battered Texas.

Some personnel as well as boats and rescue vehicles that Houston officials had hoped to receive from the state didn't arrive as a result of roads being blocked by flooding, Harris County Judge Ed Emmett, the county's chief executive, said. He urged Houstonians to help rescue their neighbors. "Those of you who have boats and high-water vehicles that can be used to help people out of harm's way, we need your

help," he said.

In a Houston neighborhood near Buffalo Bayou, Tim Dodson, who runs a disaster and recovery service, drove through water 3- to 4-feet deep in his large truck Sunday afternoon. He was preparing to rescue seven elderly Catholic nuns who were stuck in the Cenacle Retreat House.

Awhile later, Ryan Oakley arrived in the area carrying a yellow kayak. He said he was

heading to a friend's house to rescue a family, including 6- and 9-year-old children, trapped on their roof. As he prepared to paddle away, he gathered a yellow rope.

"We can tie it up and support it on the roof and have the kids climb down," Mr. Oakley said. "Because there's no way to get a ladder out there."

The 911 system was overwhelmed by the volume of calls on Sunday, said Chief

Darryl Coleman of the Harris County Sheriff's Office at a news briefing. Some calls were dropped and unable to connect, he said. Officials were bringing in additional operators and trying to return all dropped calls.

Sharon O'Neal struggled to get through to a 911 operator to seek help for her brother, who lives in a northern Houston neighborhood. The water in his first-floor apartment

had reached his knees by Sunday morning, and he had spent the night sleeping on his dining table, she said.

Ms. O'Neal took to social media, posting on Twitter, Facebook and Snapchat that her brother needed help. "My brother is very nonchalant," she said. But "my mom and sister and I are going crazy."

—Bradley Olson, Russell Gold and Miguel Bustillo contributed to this article.

## Those Who Stayed Behind Face Damage With Grit

BY DAN FROSCH  
AND ERIN AILWORTH

ROCKPORT, Texas—As lashing rains and 130-mile-an-hour winds battered the concrete and steel home Max Rinche helped build, he frantically hammered nails into plywood planks that other men struggled to hold over a broken window.

While the Category 4-rated Hurricane Harvey raged outside, Mr. Rinche's worried wife scribbled his Social Security number on his arm—just as the mayor of this coastal city had urged residents to do if they defied evacuation orders. If they were killed Friday night, at least someone would be able to identify them.

On Saturday, Mr. Rinche, his tool belt dangling from his hip like a holster, walked through the torn-up streets, eyeing mangled homes, and chatting with other locals to get the latest updates on which houses got hit and how bad.

"There's going to be a lot of chainsaw work," the 32-year-old said. "If you got tools, use 'em. If you're breathing, you can work. This is Rockport. We'll be fine."

Up and down the central coast of Texas, a string of small cities and beach towns remained unnervingly populated as Hurricane Harvey bore down. Many thousands had obeyed evacuation orders and fled inland to hotels and shelters; meanwhile, some had

stayed—out of necessity, fear of looters or sheer stubbornness.

Others who chose to ride out the storm were older residents, their memories hardened by past storms they had endured.

So far, local officials said they knew of one person killed in the storm in Rockport, the small fishing and resort community devastated by Hurricane Harvey. There, the storm tangled power lines and felled hulking oaks that now cluttered the streets. Roofs, garage doors and even entire homes were crumpled by Harvey's power. The air was heavy with the odor of leaking gas.

As the storm pressed north, those who remained on the coast emerged to take stock of

the damage, count their blessings and face the next challenge: the aftermath.

"We lost what we had," said Juan Hernandez, who stayed in his Aransas Pass, Texas,

home with his family. They sat in the dark, watching as the storm took their fence line. Then they noticed the leaks in their roof.

"That's when everything

started caving in," said Mr. Hernandez, a 65-year-old pipe fitter. "We've got one room good: that's the kitchen."

Mr. Hernandez said his family has food, but he was hoping help would arrive soon.

"We survived," he said, searching for a cellphone signal in the parking lot of a damaged Wal-Mart. "At least nobody got hurt."

The flashing red "Open" sign paired with the handwritten message posted on a boarded window—"HOT COFFEE"—was a beacon in the dark, broken disaster zone of this Rockport neighborhood.

Matthew Otero posted the message Saturday morning when he opened Rockport Donuts, the business he and his

wife have run for nearly six years.

"My first thing was, 'thank God the building survived,'" he said as he served the occasional customer the promised hot coffee as well as kolache pastries hand-rolled by his wife and mother-in-law.

"What can you do, you gotta wipe off your knees and keep going," Mr. Otero said. He surveyed the shop with red-rimmed eyes. He said he would be putting off plans to expand after the storm damaged a separate commercial building he owns.

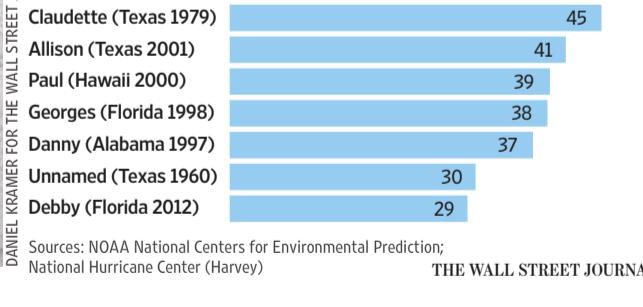
"You're set back, you know," he said, his voice shaky. "I'm fortunate. There are people who have lost their homes."



DANIEL KRAMER FOR THE WALL STREET JOURNAL

### Measuring the Downpour

Highest rainfall totals for hurricanes and tropical storms in the U.S.



Sources: NOAA National Centers for Environmental Prediction; National Hurricane Center (Harvey)

THE WALL STREET JOURNAL

### By the Numbers

50

Average annual rainfall in Houston, in inches

50

Maximum rain amount forecast for the region from Harvey

6.5

How many millions of people are threatened with flooding in the Houston area

3,000+

Number of people rescued from cars and homes over the weekend due to the storm

## Stay, Go? Any Order Torments Officials

BY CHRISTOPHER M. MATTHEWS

HOUSTON—A split between Texas Gov. Greg Abbott and Houston Mayor Sylvester Turner over whether the metropolis should have been evacuated is raising questions about officials' response to floodwaters as a catastrophe continues to engulf the region.

Mr. Turner, a Democrat, and other local officials urged residents to stay in their homes as Hurricane Harvey, which has since been downgraded to a tropical storm, approached Houston on Friday.

But at a Friday news conference, Gov. Abbott, a Republican, suggested otherwise. "Even if an evacuation order hasn't been issued by your local official, if you're in an area between Corpus Christi and Houston, you need to strongly consider evacuating."

By Sunday, the storm had poured as much as 24 inches of rain in 24 hours onto areas that had been soaked the previous day. Five fatalities have been reported in the Houston area, according to the National Weather Service, though Mr. Turner said Sunday that only one in the city was confirmed so far as storm-related. More than 3,000 water rescues had been performed by Sun-

day afternoon, officials said. The offices of Messrs. Turner and Abbott didn't respond to requests to comment.

Families were stranded on rooftops, and parts of the city that residents say hadn't flooded before were submerged.

The National Oceanic and Atmospheric Administration's Weather Prediction Center is now projecting that some areas could see as much as 50 inches of rain—around as much as the region normally gets in a year—up from an earlier estimate of up to 40 inches.

Looming over the decision not to evacuate was Houston's experience with Hurricane Rita. More than 100 people died while evacuating as 2.5 million people fled that storm in 2005. Some of the stories were horrific—23 nursing-home patients were killed as a bus evacuating them caught fire and exploded near Dallas. Houston hasn't ordered evacu-

ations ahead of hurricanes since then.

Retired Army Lt. Gen. Russell Honoré, who led the Department of Defense response to hurricanes Katrina and Rita, said that experience has made officials wary of ordering an evacuation. But, he said, officials should have evacuated residents of flood-prone neighborhoods as well as other vulnerable populations like the elderly and homeless.

"I'm not trying to be critical of the mayor and history will prove whether they guessed right or they guessed wrong," he said. "But I do not believe we should leave people in [a] place we know is going to flood. It's counterintuitive."

He also said Gov. Abbott should immediately mobilize the entire National Guard. So far, 3,000 guardsmen have been activated. Mr. Honoré said the state would need closer to 15,000. "I'm very concerned because they don't understand the scale they need

for the response," he said.

Mr. Turner defended his decision on Sunday, saying it would have been foolish to evacuate 6.5 million people from Houston and surrounding areas without knowing the course of the storm.

"There is no question in my mind, the best decision and the right decision was to tell people in Houston and Harris County don't get on the road," Mr. Turner said in a television interview.

"Now is not the time to second guess the decisions that

were made," Mr. Abbott said Sunday. He said he left several messages on Mr. Turner's cellphone offering assistance, but hadn't heard back.

Harris County Judge Ed Emmett, the area's top emergency official and a Republican, bristled at criticism that the city should have evacuated.

"To suggest we should have evacuated two million people is an outrageous statement," he said. "What we're facing now is an effort to respond to a tragedy....We've never seen water like this before."

R. David Paulison, the former acting-director of the Federal Emergency Management Agency appointed by President George W. Bush after Hurricane Katrina, said the decision to call for an evacuation is among the hardest.

Mr. Paulison said during Hurricane Katrina, FEMA urged Ray Nagin, the mayor of New Orleans at the time, to evacuate and was dismayed he didn't. But during Katrina, the path of the storm was clear, Mr. Paulison said, which hasn't been true for Harvey.

# SPORTS

BOXING | By Jason Gay

## When Boxing Goes Low, I Go High

Our columnist makes a (legally!) altered visit to the absurd Floyd Mayweather-Conor McGregor tangle in Nevada

**Las Vegas**  
I was somewhere outside of the T-Mobile Arena when the drugs began to take hold.

My proposal had been simple and innocent: travel to Las Vegas for the ridiculous Floyd Mayweather-Conor McGregor boxing match on Saturday.

And before the fight, partake in a little of Sin City's latest indulgence:

Legalized marijuana.

I'd keep it low-key. No fear. No loathing. I asked my Journal boss if it'd be OK.

"I've assumed you were smoking something whenever I've read pretty well anything you've written," he said. "Fine with me."

Friday night, upon arrival, I made the buy. Vegas stinks of weed dispensaries now; Nevada went recreational-legal on July 1 and they're popping up everywhere, like Taco Bells. I chose one called Reef, not far from the Strip. The world's happiest line curled out of the door, like a nightclub's.

Inside: It was crazy. Or rather: It was crazy because it wasn't crazy at all. The showroom resembled an Apple store...actually, you know that store at the airport where you can buy an iPhone charger, or a pair of headphones? It looked like that. Clean lines, well lit, friendly store associates, samples of the merchandise in jars to smell (no smoking inside!) and...menus.

I knew I wanted edibles, i.e. candy or a snack infused with THC. Edibles would be simple, easy to carry, no smoke, no mess.

I tried to be cool talking to the store associate: *Yeah I want something, you know, chill, like to go to the...um...movies.*

Of course, I look like a Dad taking other Dads to a Dad Convention in a Dad Car.

"Gummies," she recommended sweetly.

I went with two gummy packets, to have options: mango edible chews and grape hybrid sour gummies. The whole shopping experience was blisteringly normal; it's more intimidating to go to the butcher. My purchase was sealed in a white 8x11 packet, like a set of wedding photos.

The total was \$44.38. I believe I can expense this.

Fight night, I was ready. Now I know what you're thinking, my Journal gang: *You got to take it easy with edibles, man.* I knew that. I didn't want to have a bad trip like Maureen Dowd; I worry she's still curled up on that hotel bed in Denver. Popping special



Floyd Mayweather Jr., left, lands a shot against Conor McGregor during Saturday's bout in Las Vegas.

when it was over. "He's a tough competitor."

"I've been here before," McGregor said, referring to a UFC loss a couple of years ago. "I've been strangled on live TV and came back."

Both men seemed chipper, and why not? Reportedly, they'll collect nine-figure paydays for the half-hour or so of trouble. Mayweather, now 50-0, said he's "done," retired for good, and McGregor said he'll wind his way back to the UFC, but we've seen this movie too many times to rule anything out, especially with the fight's charitable afterglow of *that wasn't as terrible as I thought it would be.*

That's what the world has come to, folks. From sports, to air travel, to reading the world news headlines in the morning, *"That wasn't as terrible as I thought it would be"* is the new "This is great!"

Gummy haze still kicking, I headed out of the arena with the end of the crowd. In the plaza in front of the entrance, a cluster of McGregor fans wrapped in Irish flags merrily danced. A pair of men passed by in matching Versace bathrobes. Fight T-shirts were on sale for a price-slashed \$10.

As I got around the corner, outside of the New York-New York Hotel and Casino, I saw it: a ghastly replica of the Brooklyn Bridge, the actual magnificent version of which is just a few blocks from my home. It did not soar like the real thing; it merely stood there, as if embarrassed for itself. It had a sign for Bud Light at its top, and nearby, a store called Stupidiotic.

Why did anyone think this fight didn't make sense? It made perfect sense, especially here, another brilliantly inane proposition in a city that is itself an inane proposition. Stupidiotic is what people love about this town—from gambling away the rent, to 36 oz. margaritas, to legal and candidly fantastic grape hybrid sour gummies, Las Vegas has always been a comical representation of our national id. Loud, shameless and driven by money, Floyd Mayweather boxing Conor McGregor was exactly the sporting event America deserved in 2017.

*Buy the ticket, take the ride,* Thompson had written all those years before.

That's what I thought about as the desert night wound down on the madness.

I also stared for a long time at a water fountain, and ate a whole bag of potato chips back at the hotel.

## COLONEL

Continued from Page One

Mr. Bevin took office, include a tattoo artist, retired electrician and Navy SEAL.

"There's not a lot of official requirements," said former Kentucky Gov. Steve Beshear. "It's just one of those long-standing traditions that people in Kentucky think is very special and also fun."

A colonelcy carries some mystique. According to the Kentucky Encyclopedia: "The Kentucky colonel has come to represent the daring, glamour, dignity, wit, charm, and attraction of outstanding men who have claimed the title—the stereotype of a southern gentleman."

Mr. Beshear, who estimates he commissioned more than 100,000 colonels during his two terms as governor, which ended in 2015, says they outrank honorary titles granted by other states. Nebraska has admirals, for instance, and Indiana has the Sagamore of the Wabash award.

Application criteria have long been vague. There was talk in 1934 of granting colonelcy only to those who had witnessed a horse race, according to a news account at the time of a meeting attended by Col. James A. Farley, then the U.S. postmaster general.

Another apparently tongue-in-cheek rule considered: "No colonel shall wear a goatee lest it cause unemployment among barbers."

There have been concerns about colonel inflation. In 1921, an item in the Louisville, Ky.,



Courier-Journal complained about a Secret Service agent winning a commission after playing golf with the governor.

The worry was that "Kentucky Colonels will soon be cheaper than German marks."

Colonels multiplied in the early 1930s when Gov. Ruby Laffoon saw commissions as a way to promote Kentucky. Hollywood celebrities such as Shirley Temple later joined their ranks.

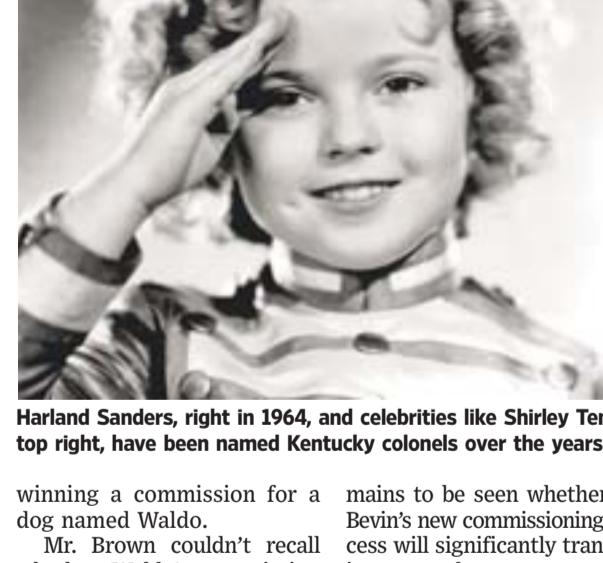
At a 1934 banquet, where there was discussion of requirements, Mr. Laffoon claimed he would appoint a million colonels in the next year "to obtain their votes when Col. Franklin

D. Roosevelt becomes tired of being president," according to a published account.

Mr. Sanders, the fried-chicken purveyor, later became an international symbol for KFC and the Bluegrass State.

"He certainly broadened the recognition of being a Kentucky colonel—no question," said John Y. Brown Jr., the businessman who bought KFC from "The Colonel" and later became Kentucky governor.

Vetting of prospective Kentucky colonels has at times been less than extreme. In 1980, during Mr. Brown's administration, a newspaper reporter proved the point by



Harland Sanders, right in 1964, and celebrities like Shirley Temple, top right, have been named Kentucky colonels over the years.

winning a commission for a dog named Waldo.

Mr. Brown couldn't recall whether Waldo's commission was revoked. "Those kind of things do slip through," he said.

Messrs. Brown and Beshear say they often commissioned colonels when trying to lure businesses to the state. "It's really been a good marketing tool," Mr. Brown said.

The Honorable Order of Kentucky Colonels doles out grants across the state.

Last year, it spent about \$1.5 million in donations on projects such as new air conditioners at a halfway house, food for needy schoolchildren and an elevator at a school in Appalachia, according to Ms. Crose.

Ms. Crose said about 25% of the approximately 7,000 colonels named last year became active members of the Honorable Order by donating. It re-

mains to be seen whether Mr. Bevin's new commissioning process will significantly translate into more donors.

Mr. Bevin's office declined to respond to questions about its vetting procedures or the process generally. His office denied a request by the Journal for rejected applications, citing exemptions in Kentucky's open-records law.

Under Mr. Bevin's process, those who nominate must be colonels active with the Honorable Order. Applications include a spot for listing nominees' charity or community-service work.

The path to colonelcy varies widely. "Happy Days" star Henry Winkler was made a colonel after an appearance at a Bowling Green, Ky., book fair in 2013. He said his framed certificate is hanging at his Los Angeles home.

Mr. Bevin awarded Vice President Mike Pence a commission when Mr. Pence visited Louisville earlier this year. A spokesman for Mr. Pence declined to comment.

L.D. Gorman, the Eastern Kentucky coal magnate who nominated Mr. Trump, declined to say much about how he came to nominate the president's son. "I'm a friend of his," said Mr. Gorman, whose brother was mayor of Hazard, Ky., and bestowed the honor of "Duke of Hazard."

A representative of Mr. Trump declined to comment.

For some colonels, the commission comes as a surprise. Retired electrician Thomas Nitschke, 74, still has no idea who nominated him for his work helping low-income fellow residents of Dry Ridge, Ky.

"One day I went to the mail, and there it was," said Mr. Nitschke.

Emanuele Filiberto, who claims the title of crown prince of Italy and whose grandfather was king before the country abolished the monarchy in 1946, didn't know he was a colonel until he was contacted by the Journal. "I never even went to Kentucky," Mr. Filiberto said. "I only ate Kentucky Fried Chicken, which I like."

Turns out, an associate asked a Louisville doctor to commission Mr. Filiberto, regarded by many as heir to Italy's nonexistent throne.

While he said he was honored that his charity work was recognized with a colonelcy, Mr. Filiberto observed: "It's easier to become a colonel than for the monarchy to come back in Italy."

# LIFE & ARTS



**BONDS: ON RELATIONSHIPS** | By Elizabeth Bernstein

## Are You Aware of How Others See You?

We don't always read how the outside world reads us; how to improve 'external self-awareness'

**MOST OF US** are not as self-aware as we think we are.

Research shows that people who have a high level of self-awareness—who see themselves, how they fit into the world and how others see them clearly—make smarter decisions, raise more mature children and are more successful in school and work. They're less likely to lie, cheat and steal. And they have healthier relationships.

Tasha Eurich, an organizational psychologist from Denver, spent three years conducting a study on self-awareness and has a new book on it titled "Insight." When it comes to self-knowledge, she says there are three types of people: those who have it, those who underestimate how much they have (she calls them "underraters") and those who overestimate how much they have ("overraters").

Underraters beat themselves up unnecessarily. Overraters believe

they do everything well. She found no gender differences in her research.

Internal self-awareness is introspective—what happens when we know ourselves well. External self-awareness is what happens when we correctly understand how others see us. You can excel at one and not the other.

External self-awareness may be trickier to achieve, Dr. Eurich says. We can go to therapy or keep a journal to try to learn about ourselves, but we're still looking at the world through our own lens. Other people can give us a much more objective view of ourselves.

How can we truly know how others see us? Those who know us best often won't tell us the truth, especially if it's critical. Social media, with all its "likes" and "friends" can give us a false sense of self, too. And technology strips away a lot of feedback, such as body language and tone of voice,

that helps us understand how we come across.

Dr. Eurich says you can boost your external self-awareness. For her study, she and her colleagues reviewed more than 800 studies on self-awareness. They also surveyed approximately 5,000 people

**Family members may not give the most honest feedback. Look for someone more objective.**

around the world, and conducted in-depth interviews with 50 people who had significantly improved their own self-awareness over time.

Dr. Eurich identified seven categories of self-knowledge—areas that we need to cultivate in ourselves

and seek feedback on from others if we want to be more self-aware. These are our values, passions, aspirations, fit (what type of environment is going to make us happy and engaged), personality, strengths and weaknesses, and the impact we have on people around us.

She has advice for how to more clearly see how others see us:

**Pick the right person to ask for feedback**

It might not be someone really close to you. A spouse, best friend or family member has a motive to try to please you. And those relationships can be emotionally complex, so there is a greater risk of conflict if you don't like the feedback.

Look for someone who is a more removed and might be more objective. Studies have shown that people can watch a stranger for five minutes on video, without ever meeting the person, and eval-

uate his or her personality as accurately as a close friend or family member can.

You will also want to pick a person who sees you in the right context. For example, if you want to know how members of the opposite sex see you, you need to ask one.

### Be specific about what you want to know

"Don't write them a blank feed-back check," Dr. Eurich says. "You're opening the door to things you might not want to hear or might not be ready to work on."

Do some reflecting first, she suggests. Think about how you want to be viewed by others.

Here's an example: If you want to be seen as someone who is funny and charming, ask someone who was at that party with you last night how you really came across. What you did that helped you? What got in your way?

### Pay more attention to people's reactions

We're often lost in our own heads, making up stories for ourselves about what other people think that are based more on our insecurities than their opinions.

Dr. Eurich says to think about what your goal is and compare that with the outcome. You wanted to be funny at the party. Did people laugh at the long joke where your mother-in-law was the punchline? Or did they sit silently, looking around at the others?

### Watch whether people treat you differently

It's not enough to observe their body language—some people are animated or subdued no matter what.

Pay attention to how they respond to others. Is that the same way they react to you? Are they listening to you more or less? Laughing more or less?

It's also important to observe whether a person's response has changed over time, especially if you know that person well. Personality is fairly consistent, so any changes may be about you.

### Perform a friend audit

Dr. Eurich suggests you ask yourself: "Who are the people who would bail me out of jail at 2 a.m.?" Family members don't count. If you don't have at least one or two people on that list, think about what you could do differently so that you have people in your life who would do anything for you.

### Create an imaginary therapist

This is like an imaginary friend, but more honest. Imagine your therapist observing your behavior and then gently telling you what he or she sees.

"You need to change your perspective," Dr. Eurich says. "And this helps you be objective and not wrapped up in your own defenses."

*Write to Elizabeth Bernstein at elizabeth.bernstein@wsj.com or follow her on Facebook, Twitter or Instagram at EBernsteinWSJ.*

### FILM REVIEW

## 'POLINA': RISKY LEAPS, MOVING ODYSSEY

BY JOHN ANDERSON

**GIVEN THE** customary fate of beautiful, talented, self-possessed Russian heroines, a sense of foreboding might accompany viewers into the voluptuous world of "Polina," despite its gorgeous dancing and people. And passion. And art. And Slavic melancholy. Well, no one ends up under a train. But it's certainly an epic. And it's certainly cinema.

Directed by the wife-and-husband team of Valérie Muller and Angelin Preljocaj, "Polina" could provide some of that good P.R. Russia sorely needs, even as Stalinist repression echoes through the movie's dance halls and Putin-esque corruption molders in the cracks of its storyline. Ms. Muller has directed only one previous feature-length film; her husband is a prominent choreographer. It doesn't matter: The French couple's film is not only emotionally compelling and brilliantly acted, it's a finely calibrated clockwork of movement, dreams, romance and reality that incorporates everything from a bar fight to the architecture of Berlin.

Adapted from the graphic novel by Bastien Vives, "Polina" begins in Moscow, with a tiny, perfect piece of ballet physiognomy

named Polina (Veronika Zhovnytska) being pushed, pulled, pinched and measured for a spot with the fearsome, Balanchine-like Bojinski (Aleksey Guskov). He betrays an interest in her. What is dancing about, he asks the 8-year-old. "It happens by itself," she says; he responds, "You think so." It isn't really a question.

There's a deliriously beautiful sequence of little Polina leaving the dance school and improvising a routine that is a hybrid of jazz and classical, but mostly just free and, like so much of what happens in the movie, a harbinger of things to come, a clue to who she is and what will happen. The accomplished older Polina—played by the former Mariinsky Theatre ballerina Anastasia Shevtsova, who acts as well as she dances—will leave the Bolshoi to follow a male colleague (Niels Schneider) to France, become part of a contemporary troupe led by the Twyla Tharpish choreographer Liria Elsa (Juliette Binoche), injure an ankle, leave the theater, and become a barmaid in Belgium, all the while searching for a means of expression that's entirely her own.

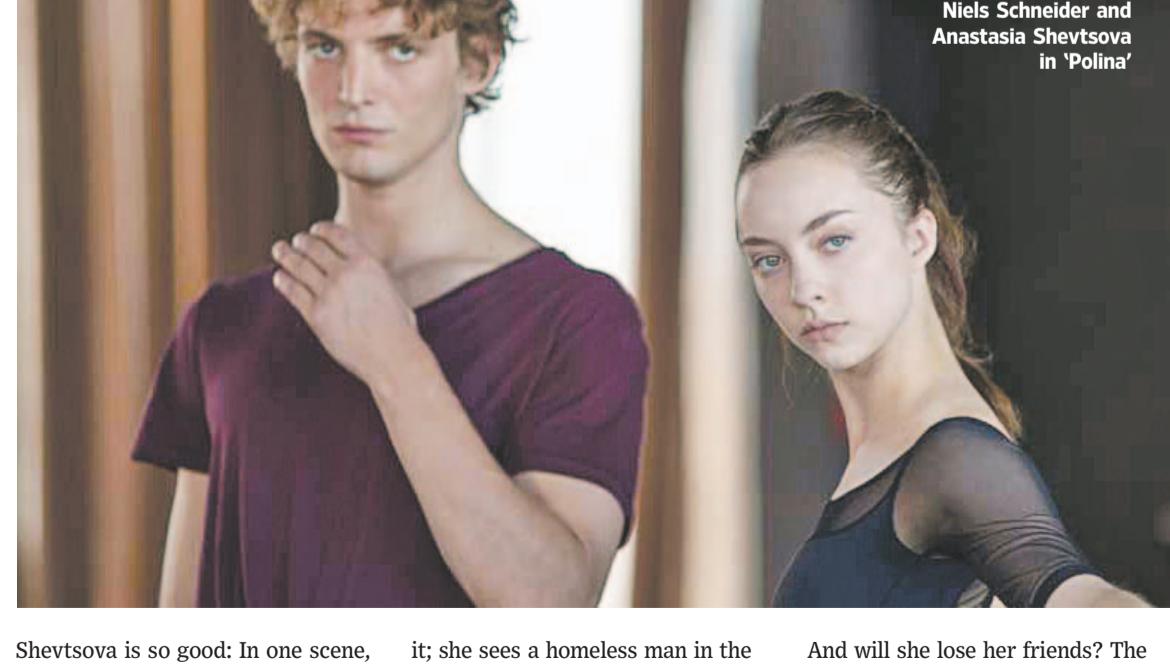
We believe it all, emotionally, because the world of the film makes sense, because the stakes are made real—her parents have given up everything for her—and because Ms.

Shevtsova is so good: In one scene, as she watches two dancers perform, the tears well up in her eyes, but never quite spill out; she's too Russian for tears. It's breathtaking.

Elsewhere, we can read the canniness and exploration in those eyes: She sees a fight in a bar and you know she's digesting the movement, intending to make art out of it; she sees a homeless man in the subway who begins crawling across the floor (is it in her mind?), and there's a startling synthesis of her process and her fears: She's intrigued by the motion, but she's also lost her job—will she lose her home? She watches as two old friends embrace and wants to translate their movements into dance.

And will she lose her friends? The creative process is always an elusive thing for filmmakers to capture, but amid all the startling visuals and the splendid acting, "Polina" rises, gloriously, to the challenge.

*Mr. Anderson is a Journal TV critic. Joe Morgenstern is on vacation.*



Niels Schneider and Anastasia Shevtsova in 'Polina'

## OPINION

## REVIEW &amp; OUTLOOK

## Labour's Brexit Pains

The Brexit news of the weekend is that Britain's parliamentary democracy is stirring back to life. The Labour Party's announcement that it will formally support a "soft Brexit" means Theresa May's Conservatives now face genuine opposition on Britain's most important policy debate.

Labour will push for a transition arrangement that would keep Britain within the single market and the customs union after March 2019, the party's Brexit spokesman, Keir Starmer, wrote Sunday in the *Observer* newspaper. Labour says such a transition should be time-limited to avoid what Mr. Starmer calls "a never-ending purgatory." But the party also favors a post-Brexit relationship with the European Union that encompasses cooperation on a range of matters beyond trade, including education, medicine and culture.

Mr. Starmer's proposal for the transition period contrasts with Mrs. May's approach. The Tory leadership is pushing for a decisive break from the EU customs union in 2019 to be followed by a yet-to-be-determined transition arrangement. Labour also supports deeper integration with the EU under a permanent Brexit deal than Tory Brexiteers say they want.

Mr. Starmer's statement is a significant step for a party that has been as deeply divided as the Conservatives over Brexit. Far-left tribunes such as leader Jeremy Corbyn tacitly or openly support Brexit out of suspicion of the EU's pro-trade agenda, but they're at odds with their young, urban supporters who are pro-EU. Labour centrists such as Mr.

## The party endorses a 'soft' exit from the EU in contrast to the Tories.

Starmer are pro-EU, but their traditional working-class supporters were more likely to vote for Brexit in the 2016 referendum.

Labour appears to be resolving these tensions by supporting a very soft Brexit. That means the party at last can start acting as an effective opposition to Mrs. May's government, which so far has enjoyed—and often wasted—the free rein it gained from Labour's disarray.

Either party can still win the debate over transition arrangements. The Tory approach would give Britain the flexibility to negotiate wide-ranging new trade agreements with partners such as the U.S. or Australia, which wouldn't be possible from inside the EU customs union. However, that entails significant disruption for businesses, and voters may come to prefer Labour's softer option if the Tories fail to deliver enough free-trade advances to ease the pain.

Most important, Labour is setting itself up to wage the Brexit debate over the effect on the British economy. "We will always put jobs and the economy first," Mr. Starmer wrote. This plays to Mr. Corbyn's most successful debating points in June's election, which spoke to voters' worries about jobs, wages and entitlements.

Tories should take this as a warning that they have to deliver a free-trade, economic-reform Brexit that benefits households, or their opponents will grab those votes in the next election. The Conservatives can benefit from the discipline imposed by a more organized opposition, but if they fail to get Brexit right, their political legacy will be a new government led by Mr. Corbyn.

## Disaster and the Wealth of Nations

Americans watched in shock and sympathy on the weekend as Hurricane Harvey poured record amounts of rainfall on south Texas and especially Houston, America's fourth-largest city.

The aerial scenes of flooding in the sprawling city are astonishing, as highways became rivers and whole neighborhoods were submerged amid 24 inches of rain in 24 hours with as much as 50 inches or more expected by the National Weather Service. By Sunday experts were calling the flooding the worst disaster in Texas history, with days of possible rain ahead.

The government—federal, state and local—seemed to be responding well under the conditions, at least to the extent one can tell from afar. The blame-shifting between state and federal officials that sometimes attends disasters wasn't apparent. Officials were rightly focusing first on search and rescue for those threatened by floodwaters, but in the days

## Texans will rebound from the awful flooding with their usual élan.

ahead the attention will focus on clean up and rebuilding. Red Cross and private companies are also doing what they can and will be doing more as people need food and temporary shelter.

The costs will be enormous in losses to property as the region dries out, but the good news is that a rich country like the U.S. has the resources to respond. The means to cope with disaster, natural or man-made, is one reason we put so much focus in these pages on policies that promote sustained economic growth and the wealth that flows from it.

Immunity from nature's fury is an illusion that humans cultivate until we are forced to confront that fury again. We forget the damage that storms and earthquakes can do. Complex societies can better cope with the damage if they have a reservoir of accumulated wealth that governments and private sources can devote to alleviating the suffering and helping communities rebuild.

## Trump's Arpaio Pardon

Candidate Donald Trump promised to abide by the rule of law that took a beating under the Obama Administration, and that theme may have helped him win the election. President Trump's pardon late Friday of deposed Maricopa County Sheriff Joe Arpaio undermines that promise and further politicizes the law.

The 85-year-old Mr. Arpaio became a hero of many conservatives with his brazen style and tactics targeting illegal immigrants. His aggressive enforcement drew a lawsuit and court injunction, culminating in a contempt conviction last month. While Mr. Trump praised Mr. Arpaio's long career of public service, that hardly justifies the sheriff's defiance of the law he swore to uphold.

In 2008 the American Civil Liberties Union sued the sheriff's office for racially profiling Latinos during traffic and saturation patrols. After several years of litigation, federal Judge Murray Snow ordered the sheriff's office to stop detaining individuals who had not committed a state crime merely based on the suspicion that they are in the country illegally.

Two years later the judge found officers had violated his preliminary injunction and ordered anti-bias training, a court-appointed monitor and patrol cameras, among other remedies. In 2016 Mr. Arpaio was held in civil contempt for flouting the judge's orders. He was also reprimanded for withholding video evidence.

Then last August Judge Snow referred Mr. Arpaio to the Justice Department for criminal contempt proceedings. In his defense, Mr. Arpaio argued that the court orders were unclear to him or officers. Because his violations were supposedly unintentional, he said criminal charges were unwarranted.

It's true there was some confusion as to what officers were allowed to do under state and federal law. A 2010 state law required officers to check the immigration status of individuals during a "lawful stop, detention or arrest" when there's probable cause they're in the country illegally. Federal judge Susan Bolton blocked the state law in 2010, but the Supreme Court in 2012 upheld a central provision obligating officers to check individuals' immigration status.

In any case, the legal uncertainty doesn't gainsay Judge Snow's charge that Mr. Arpaio

lied to him and judicially appointed monitors. Hence the criminal contempt citation, which Judge Snow said was needed "to vindicate the Court's authority by punishing the intentional disregard for that authority."

Criminal contempt is the only way to hold government officials personally responsible for violating court orders.

Mr. Arpaio may be right that the Obama Justice Department relished his prosecution, and some evidence presented at the trial was irrelevant to the case. But Judge Bolton considered the merits and, based on the evidence, determined that Mr. Arpaio had demonstrated a "flagrant disregard" for the law.

Mr. Trump's power to pardon is undeniable, but pardoning Mr. Arpaio sends a message that law enforcers can ignore court orders and get away with it. All you need is a political ally in the White House or Governor's mansion. Down that road lies anarchy. Attorney General Jeff Sessions understands this, which is why he reportedly urged the President to let the judicial process play out. Mr. Trump short-circuited the courts by pardoning Mr. Arpaio before he was sentenced or granted an appeal.

Some of our friends on the right say Mr. Trump's liberal critics had no problem dismissing Congress's contempt citations against former Attorney General Eric Holder and IRS official Lois Lerner as political. The left also supported the commutation of Bradley Manning, who leaked military intelligence.

All true and deplorable, but since when does liberal hypocrisy justify conservative disdain for the law? Mr. Trump should be setting a better standard than imitating Barack Obama, but polarized politics is leading America to a bad place where policy agreement or political support makes right. You pardon your lawbreakers and we'll pardon ours.

Mr. Trump may hope the pardon will energize supporters, but it is also dividing the GOP. Even before the contempt citation, Sheriff Arpaio's aggressive tactics were becoming unpopular, and in November he was defeated by 13 points. Mr. Trump's disdain for federal judges also isn't making friends in the federal judiciary that will have to rule on his decisions in the coming years. The Arpaio pardon is a depressing sign of our hyperpoliticized times.

## Liberal hypocrisy doesn't justify disdain for the rule of law.

## The Bitcoin Valuation Bubble

By Andy Kessler

The price of a Bitcoin broke \$4,000 this month. It's up 400% in 2017 and only two years ago it stood at around \$230. With 16.5 million Bitcoins in "circulation," and the potential for 4.5 million more, the market value of Bitcoin is now a whopping \$72 billion. Sister currency Ethereum is worth another \$32 billion.

Early Snapchat investor Jeremy Liew thinks Bitcoin will reach \$500,000 by 2030. Tech eccentric John McAfee believes it'll take only three years. That's \$1 trillion of digital coins. Now companies with an idea for applications built on top of these currencies are raising hundreds of millions through initial coin offerings.

Is Bitcoin the greatest rocket ship ever or will it end up a giant smoking hole in the ground?

In its simplest form, Bitcoin enables financial-transaction services on a peer-to-peer network that no one controls. Decentralized and anonymous, it uses an innovative software structure known as the blockchain to store a public ledger across an ever-growing network of servers.

Unlike Visa or Mastercard, no single company buys computers. Instead, an ingenious incentive system pays entrepreneurs fees and rewards in a made-up currency to add servers to run the intense math of cryptography algorithms.

Many sit in places where electricity is cheap, like Iceland, to minimize operating costs. This blockchain is the future and the path for decentralized innovation to roll out on the cheap.

And how does one value Bitcoins? Those who own them believe they are a currency or an asset like gold, valued for its scarcity. Others, like the U.S. Securities and Exchange Commission and the Internal Revenue Service, view them as a security to be regulated and taxed.

But Bitcoin is actually a business. Its software is a service—transactions for a price, like credit cards. To record a transaction on the blockchain, a customer pays an average recommended fee of 450 satoshi per byte. (A satoshi is one hundred millionth of a bitcoin.)

Miners also get bitcoin rewards for adding blocks to expand capacity. Around 1,700 bitcoins are paid daily in rewards. But business-wise, this is more like being paid in equity. Each day sees about \$1 million in fees and \$7 million in rewards.

Visa and Mastercard, who have a combined 75% of the credit-card market, get paid close to a 3% fee when you buy gas or stuff on Amazon. That is a ridiculously high fee in this day and age, and it is precisely what Bitcoin hopes to destroy.

Visa and Mastercard have a combined \$377 billion market capitaliza-

tion. Bitcoin can go up five times just stealing their market share, right?

Wait a second: Visa's value is based on those high 300-basis-point fees. I've been elbow deep into Bitcoin accounting, studying transaction fees, rewards and \$1 billion in daily transaction volumes. Bitcoin fees come to less than one-tenth of a basis point—some 3,000 times less than Visa—and I'm rounding up.

Let's generously assume these fees will rise to one basis point. That means even if Bitcoin and other cryptocurrencies take the entire credit-card market, this business is probably worth no more than a few billion. That pegs one Bitcoin's value at around \$100, assuming everything goes right.

## Faithful techies think in coming decades one digital coin will be worth \$500,000.

Or looked at another way, Bitcoin is a \$400 million a year software-as-a-service business like Salesforce, which sells for around eight times its sales. That implies a \$3 billion value. Potential profits might be 30% net and even at 50 times earnings you get at most \$6 billion or \$300 for each bitcoin in enterprise value.

I've spoken to developers who tell me they aren't seeing much traction with merchants accepting Bitcoin. Most transactions on the blockchain are still mining and trading. Silk Road used Bitcoin to transact illegal drug sales. Bitcoin is a favorite of money launderers and those evading capital controls and I think much of the rise in price is from Chinese and other foreign buyers trying to move capital out of their economies. Sixty percent of Ethereum was bought with Korean won. That's scary.

I'm not here to burst anyone's bubble. The blockchain will radically alter financial services, much as Napster changed the music business. But at some point the market will wake up and apply rational valuation techniques.

That price—\$4,361—implies a lot of belief in Bitcoin as a long-term store of value well beyond the economic value of the transaction platform. Solid currencies are based on the growth and productivity of their countries. You can't simply declare a currency value—not at \$72 billion, much less a trillion.

Sure, Bitcoin could trade to \$10,000, \$100,000, who knows? I just can't get there. Maybe coin owners should appeal for tax-exempt status if the IRS would consider Bitcoin a faith-based organization.

*Mr. Kessler writes on technology and markets for the Journal.*

## How Well Do We Know The Leader of North Korea?

By Robert Scales  
And Steve Israel

For U.S. officials navigating the standoff with North Korea, Sun Tzu's know-your-enemy maxim might seem impossible. Kim Jong Un, hidden behind his regime's shroud of secrecy and isolation, is often described as too irrational and erratic to predict. But details of the North Korean leader's background and circumstances make it possible to discern his motives—and counteract his strategy.

Regime preservation and forcible reunification of the Korean Peninsula have been the Kim family's overarching goals since 1948. Those doctrines have been handed down from each generation to the next, and Kim Jong Un was weaned on them. They are as much a part of his worldview as democracy and freedom are in the West.

Mr. Kim's dream of a reunified nation is obstructed by the approximately 35,000 American troops, and advanced weaponry including B-1 bombers, based at Andersen Air Force Base in Guam. He believes that South Korea's front door can only be unlocked when the U.S. vacates the premises.

Mr. Kim doesn't need hyperbolic rhetoric to know that a nuclear strike on American soil—or on America's allies and interests—will provoke an annihilating response.

But he may not believe he has to go that far. He may think that proving he has a bomb—and the wherewithal to deliver it—will be enough to force the U.S. to leave the neighborhood.

In his view, no American president would ever risk a nuclear attack on Seoul to protect Seoul.

The oft-repeated claim that Mr. Kim is so deranged that he might impulsively lob a missile at the U.S. doesn't add up. He may not actually be considering the costs and benefits of a nuclear confrontation. He may think all he needs to do is scare the Americans. Frightening the U.S., he may think, will force America's hand.

This regime has been in power for almost 70 years and understands the value of the long game. Mr. Kim wants to play

nuclear blackmail. It's evil, it's dangerous, it's potentially catastrophic—but it isn't unpredictable.

The U.S. can neutralize the blackmail threat by rapidly ramping up its defensive ballistic-missile capabilities. Israel's three missile-interceptor systems—Iron Dome, David's Sling and Arrow—aren't yet able to bring down an intercontinental ballistic missile. Nevertheless, America should build on those technologies to supplement its already impressive capability to strike missiles at various phases of launch, trajectory and orbital penetration.

## Kim Jong Un's game of nuclear blackmail is potentially catastrophic. But it isn't unpredictable.

Congress and the president should expand the economic sanctions regime against North Korea and build out the alliance with China. Keep in mind that Mr. Kim doesn't care about the 25 million North Koreans he's starving. He maintains power by enriching the elite network around him.

One day, the U.S. military may have to attack Mr. Kim's military infrastructure. But right now America has to attack his thinking. Mr. Kim is "rationally irrational." He calculates his moves, assesses threats and leverages his strengths. He's not unpredictable. The more the U.S. understands and exploits his thinking, the more predictable the outcome may be.

Sun Tzu's proverb about knowing the enemy was wise. It could prevent a catastrophe in North Korea.

*Mr. Scales, a retired major general and author of "Scales of War" (Naval Institute Press), served as commandant of the U.S. Army War College and a field artillery battalion commander in South Korea. Mr. Israel, a Democrat, was a U.S. representative from New York from 2001 to 2017 and now chairs the Global Institute at Long Island University.*

## OPINION

# Why the Left Can't Let Go of Racism

By Shelby Steele

**I**s America racist? It used to be that racism meant the actual enforcement of bigotry—the routine implementation of racial inequality everywhere in public and private life. Racism was a tyranny and an oppression that dehumanized—animalized—the “other.” It was a social malignancy, yet it carried the authority of natural law, as if God himself had dispassionately ordained it.

Today Americans know that active racism is no longer the greatest barrier to black and minority advancement. Since the 1960s other pathologies, even if originally generated by racism, have supplanted it.

**Liberals sell innocence from America's past. If bigotry is pronounced dead, the racket is over.**

White racism didn't shoot more than 4,000 people last year in Chicago. To the contrary, America for decades now—with much genuine remorse—has been recoiling from the practice of racism and has gained a firm intolerance for what it once indulged.

But Americans don't really trust the truth of this. It sounds too self-exonerating. Talk of “structural” and “systemic” racism conditions people to think of it as inexorable, predestined. So even if bigotry and discrimination have lost much of their menace, Americans nevertheless

yearn to know whether or not we are a racist people.

A staple on cable news these days is the “racial incident,” which stands as a referendum on this question. Today there is Charlottesville. Yesterday there were the deaths of Trayvon Martin, Michael Brown, Freddie Gray and others.

Don't they reveal an irrepressible racism in American life? At the news conferences surrounding these events there are always the Al Sharpton clones, if not the man himself, ready to spin the tale of black tragedy and white bigotry.

Such people—and the American left generally—have a hunger for racism that is almost craven. The writer Walker Percy once wrote of the “sweetness at the horrid core of bad news.”

It's hard to witness the media's oddly exhilarated reaction to, say, the death of Trayvon Martin without applying Percy's insight. A black boy is dead. But not all is lost. It looks like racism.

What makes racism so sweet? Today it empowers. Racism was once just racism, a terrible bigotry that people nevertheless learned to live with, if not as a necessary evil then as an inevitable one. But the civil-rights movement, along with independence movements around the world, changed that. The 1960s recast racism in the national consciousness as an incontrovertible sin, the very worst of all social evils.

Suddenly America was in moral trouble. The open acknowledgment of the nation's racist past had destroyed its moral authority, and affirming



GETTY IMAGES

At a protest in Lancaster, Pa., on May 20.

democratic principles and the rule of law wasn't a sufficient response. Only a strict moral accounting could restore legitimacy.

Thus, redemption—paying off the nation's sins—became the moral imperative of a new political and cultural liberalism. President Lyndon Johnson turned redemption into a kind of activism: the Great Society, the War on Poverty, school busing, liberalized welfare policies, affirmative action and so on.

This liberalism always projects moral idealisms (integration, social justice, diversity, inclusion, etc.) that have the ring of redemption. What is political correctness, if not essentially redemptive speech?

Soon liberalism had become a cultural identity that offered Americans a way to think of themselves as decent people. To be liberal was to be good.

Here we see redemptive liberalism's great ingenuity: It seized proprietorship over innocence itself. It took on the power to grant or deny moral legitimacy across society.

Liberals were free of the past while conservatives longed to resurrect it, bigotry and all. What else could “Make America Great Again” mean?

In this way redemptive liberalism reshaped the moral culture of the entire Western world with sweeping idealisms like “diversity,” which are as common today in Europe as in America.

So today there is sweetness at the news of racism because it sets off the hunt for innocence and power. Racism and bigotry generally are the great driving engines of modern American liberalism. Even a remote hint of racism can trigger a kind of moral entrepreneurship.

The “safe spaces” for minority students on university campuses are actually redemptive spaces for white students and administrators looking for innocence and empowerment. As minorities in these spaces languish in precious self-absorption, their white classmates, high on the idea of their own wonderful “tolerance,” whistle past the very segregated areas they are barred from.

America's moral fall in the 1960s made innocence of the past an obsession. Thus liberalism invited people to internalize innocence, to become synonymous with it—even to fight for it as they would for an ideology.

But to be innocent there must be an evil from which to be free. The liberal identity must have racism, lest it lose innocence and the power it conveys.

The great problem for conservatives is that they lack the moral glibness to compete with liberalism's “innocence.” But today there are signs of what I have called race fatigue. People are becoming openly cynical toward the left's moral muscling with racism.

Add to this liberalism's monumental failure to come even close to realizing any of its beautiful idealisms, and the makings of a new conservative mandate become clearer.

As idealism was the left's political edge, shouldn't realism now be the right's? Reality as the informing vision—and no more wrestling with innocence.

*Mr. Steele, a senior fellow at Stanford University's Hoover Institution, is author of “Shame: How America's Past Sins Have Polarized Our Country” (Basic Books, 2015).*

## The Lottery's Love Affair With Poor People

By Arthur C. Brooks

**W**hat is America's national anti-poverty strategy? Apparently, the Powerball lottery. All across the country last week, millions of people lined up for hours to get their shot at a payout that would end their financial struggles. On Wednesday night, one ticketholder won a \$759 million jackpot. That sounds like a lot until you hear the government's take.

Powerball—the lottery shared by 44 states, the District of Columbia and two territories—is just one of the sweepstakes run by 47 jurisdictions in the U.S. These games produce nearly \$70 billion a year in government revenue and enjoy profits of about 33%—much higher than margins in the private gambling industry.

Who are these lotteries' most loyal customers? Poor people. Lots of folks buy the occasional ticket, but studies have long shown a steady association between poverty

and lottery play. Many scholars report that the poorest third of Americans buy more than half of all lottery tickets, which is why states advertise so aggressively in poor neighborhoods.

Harmless entertainment, you may say, but poor people don't see it that way. They tend to view lottery tickets as an investment. Duke University social scientists Charles Clotfelter and Philip Cook reported in a 1990 study that people earning less than \$30,000 a year are 25% more likely to say they play the lottery for the money rather than the entertainment.

Hardly a surprise, since this is the idea that lottery advertising is selling. In California, the slogan is, “Imagine what a buck could do!” In New York? “Hey, you never know.”

Scholars have dug up evidence that states intentionally direct such ads at vulnerable citizens. A marketing plan for Ohio's lottery some years back recommended scheduling campaigns to coincide with the distribu-

tion of “government benefits, payroll and Social Security payments.”

These kinds of ads seduce poor people with the illusion of riches. Even if someone feels compelled to throw a financial “Hail Mary,” the

**It's bizarre: States push lotto tickets on the poor, earn \$70 billion, and then put the buyers on welfare.**

lottery is a terrible choice. The odds of winning last week's jackpot were about one in 292 million. And the average return from \$1 spent on lottery tickets is 52 cents, according to a 2002 paper by Melissa Kearney, an economist now at the University of Maryland.

But this isn't easy to see for those with low levels of education. My own analysis of survey data from the National Gambling Impact Study Com-

mission suggests that someone who didn't attend college may think the return on lottery tickets is 40% higher than the estimate given by a person of similar demographics who holds a degree.

Another common mistake is the “hot-hand fallacy.” The lottery is totally random, yet players are attracted to stores that previously sold winning tickets, as if they were lucky.

A 2008 study by Ms. Kearney and Northwestern's Jonathan Guryan showed that a winning ticket can boost a store's lotto sales by 38% in the week after the announcement. This is especially true among populations with high proportions of high-school dropouts and households on welfare.

What's the social cost of all this? Ms. Kearney says lottery players finance their tickets largely by cutting spending on necessities. After a state introduces the lotto, the bottom third of households shift about 3% of their food expenditures and 7% of their mortgage payments, rent and

other bills. Effectively, the lottery works like a regressive tax.

It might strike you as bizarre that the government spends billions on nutrition and housing programs for the poor while simultaneously encouraging poor people to move their own money away from these necessities and toward the state's gambling monopoly. In fact, that \$70 billion in annual lottery revenues is strikingly close to what the government spends on food stamps.

Is there any set of policies more contradictory than pushing lotto tickets on poor people, and then signing them up for welfare programs that make them financially dependent on the government?

Politicians who profess a desire to alleviate poverty often lament how few levers they have to pull. So here's a novel idea: Stop selling poor people a mirage of the American dream at the end of a convenience-store line.

*Mr. Brooks is president of the American Enterprise Institute.*

## Google's Broken Promise to Cubans

During his March 2016 visit to Cuba, Barack Obama raved about an impending Google-Cuba deal “to start setting up more Wi-Fi access and broadband access on the island.” Greater access, he predicted, would mean “more information [that] allows [the Cuban people] to have more of a voice.”

Eighteen months later Mr. Obama's forecast looks worse than a hollow platitude. Google has become a supplier of resources to the regime so that Raúl Castro can run internet at faster speeds for his own purposes.

Meanwhile the company appears to be wholly uninterested in the Cuban struggle for free speech, as the island democracy project Cuba Decide learned last month.

Google started out making big promises to Cubans. In a March 2016 blog post, Brett Perlmutter, “Cuba Lead” for Google Access, boasted that the company was “thrilled to part-

ner” with a regime-owned museum, featuring a Castro-approved artist. “New technologies and improved internet access can . . . help harness a country's creativity and ingenuity,” Mr. Perlmutter wrote without the slightest irony.

By then Google must have understood that the dictatorship had no interest in mass internet access. In July 2015 the Miami Herald reported that Mr. Perlmutter had visited Cuba and pitched a proposal to build an island-wide digital infrastructure. The government reportedly rejected the proposal and warned of internet imperialists seeking to “destroy the Revolution.”

In December 2016 Google sealed a deal with Castro's monopoly telecom company (and internet-service provider) Etecsa to put Google servers in Cuba. Google fired up those servers in April, emphasizing the improvement they bring to viewing video because they allow Google to store content locally. A fiber-optic cable from Venezuela has also increased internet speeds.

Access is another matter. The internet in Cuba remains tightly con-

trolled and, according to the 2017 “Freedom in the World” report, the regime has “cracked down” on “diverse independent digital media” and often blocks “critical blogs and websites.”

The report noted some of the creative ways that Cubans get around Etecsa's blocking, including the use of virtual private networks. But that doesn't work when Google is blocking access.

Rosa María Payá is the daughter of the award-winning Cuban dissident Oswaldo Payá. He was killed, most likely by the regime, in a suspicious 2012 car crash. In 2015 Ms. Payá launched Cuba Decide, a project calling for a national plebiscite to ask Cubans if they want free elections and free speech.

In the Miami Herald in March, Cuban-exile writer Jose Azel called the project a “strategic tool” to “spotlight . . . the people's prerogative . . . to decide their form of government.”

Yet Cubans cannot access the Cuba Decide website, and Google is to blame.

On July 22 Ms. Payá tweeted “google joins censorship in Cuba,” along with the screenshot of the Google error message that Cubans get

when they try to go to her website. I retweeted Ms. Payá's tweet, noting “Google bows to Cuban censorship.”

Mr. Perlmutter's response wasn't only condescending and arrogant. It was lazy. “id [sic] do more research,”

**The company denies access to a pro-democracy website and blames the embargo.**

he tweeted, accusing me of trafficking in “fake news,” and by extension slapping down Ms. Payá.

“Definitely nothing to do w Google,” he wrote in a follow up tweet. “This type of error is generated by Chrome often when sites are blocked bc of US embargo.”

Mr. Perlmutter didn't cite any provision of the U.S. embargo that requires the blocking of a nonprofit citizens' initiative—because there is no such provision. On Wednesday a Google spokesperson told me “we can't say for sure what's causing the issue with that site but it isn't something we're doing on our end. . . . If

you want more details, I recommend you check with the ISP.”

By Friday the company was no longer blaming the ISP. Instead, Google told me—in a paradox that must be delicious for Castro—that it is Cuba Decide's use of Google's Project Shield that is causing the problem. The shield is offered at no charge for “news sites and free expression” against “distributed denial-of-service” attacks. When it is used, it triggers the use of Google's App Engine even if Google isn't the website's host—which it isn't in this case—and Cubans cannot access the site.

The company claims this is because of sanction restrictions, i.e., the embargo. But there is no reason to block a website that exists purely to promote freedom and civic participation. If Google wanted to advance the cause of free speech it could have reached out to Ms. Payá to find a solution rather than fire off a snotty tweet.

Google told me that Mr. Perlmutter's Twitter comments “do not represent an official Google position.” It said they were made “before all the facts of the specific situation were known.” Talk about fake news.

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## LIFE &amp; ARTS

YOUR HEALTH | By Sumathi Reddy

# What Your Gait Can Tell Doctors

A new study measuring how elderly people walk could lead to important insights about dementia, Alzheimer's and more

**Bronx, N.Y.**

**DAVID VICTOR** is strolling up and down a walkway at a steady pace, reciting alternate letters of the alphabet aloud.

The 20-foot walkway the 73-year-old is on is embedded with pressure sensors that track every step he takes: his velocity, his cadence, how long his foot remains in the air. The measures pop up on a computer screen here in a laboratory at Albert Einstein College of Medicine. Later, Mr. Victor will repeat the exercises with a device on his head that measures his brain function in real time.

Gait, or how people walk, is increasingly viewed as an important indicator of health for elderly people. Changes in gait have been associated with an increased risk for falling and other health outcomes. And researchers have discovered that slowing down or walking more erratically can predict later cognitive impairments, even dementia and Alzheimer's disease, more than a decade before symptoms appear.

Roe Holtzer, a professor of neurology at Albert Einstein and Yeshiva University and Joe Verghese, director of the Montefiore Einstein Center for the Aging Brain, are collaborating on several research projects to shed light on the relationship between gait and cognition and how to improve them.

"We are treating walking abilities as an extension of brain function," Dr. Verghese says.

The researchers began annually monitoring 600 elderly area residents, including Mr. Victor, starting in 2011. Along with the analysis of their gaits, the seniors receive grip and balance tests, a battery of neuropsych tests and a routine health screening.

The researchers also measure changes in the oxygenation levels of the brain, using a functional near-infrared spectroscopy (fNIRS) device that looks like a headband.



David Victor takes a floor maze test at Albert Einstein College of Medicine.



Dr. Roe Holtzer, above, and Dr. Joe Verghese, below, are researching the relationship between gait and cognition.



COUNTERCLOCKWISE FROM LEFT: ADRIENNE GRUNWALD FOR THE WALL STREET JOURNAL (2); DEIRDRE BRANLEY/ALBERT EINSTEIN COLLEGE OF MEDICINE

Participants wear one on their forehead. Doctors connect the device to the electronic walkway and test the patients' gaits.

Among their findings: Executive function, which takes place in the brain's frontal lobe and is associated with complex planning, is critical when walking while talking. A study they published earlier this year in the journal Neurology found that the levels of activation in this brain region while walking and talking is good predictor of future falls.

"This suggests that there are changes in the brain that show up before clinical signs, like slow gait," Dr. Verghese says.

Now the researchers hope to improve gait by improving executive function in a federally funded study testing the effect of a com-

puterized cognitive training program.

Three times a week for eight weeks the participants come to Albert Einstein to play computerized brain games for 45 minutes. On a recent day, a computer prompted 84-year-old Pedro Falcon to click a mouse as part of a memory game involving Halloween candy. A research assistant helped Natividad Jusino, 80, do a word search on another computer.

The researchers have recruited about 120 participants so far. They plan to have 420. About half will be playing brain games by CogniFit, which have been shown to improve executive function. The company—which sells games designed to improve cognitive health—has no affiliation with either researcher and isn't funding

any of their studies.

The other half will be in a control group that also plays computerized brain games made by CogniFit, but ones the researchers don't believe stimulate the same cognitive processes.

The researchers are taking detailed measures of each participant's gait—both walking and walking while talking—before they start the eight weeks of training. They'll do so again post-intervention, as well as six and 12 months later, to see if any effects are durable. Doctors are also testing their brain activity during the tasks.

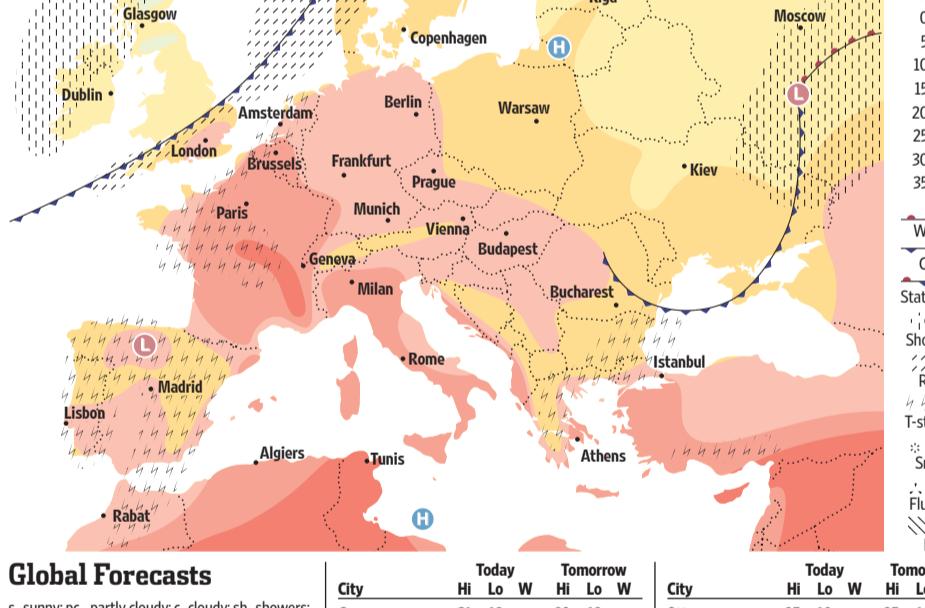
"One of the issues has been if you train someone to do a memory test, they appear to improve on memory, but not anything else," Dr. Verghese says. That's known as "near transfer."

They are hoping to show a far transfer effect, meaning that playing these games won't just improve the cognitive processes they're working on, but their walking as well.

A similar 24-person pilot study published in 2010 found that the intervention and control groups showed improvements in walking and walking while talking. But the intervention group showed much greater improvements. The control group didn't play any computer games, so the researchers are trying to control for any impact playing on a computer might have in the current study.

Their ultimate goal is to help clinicians identify seniors at risk for dementia and other health risks, such as falls, and to find interventions to improve gait.

## Weather

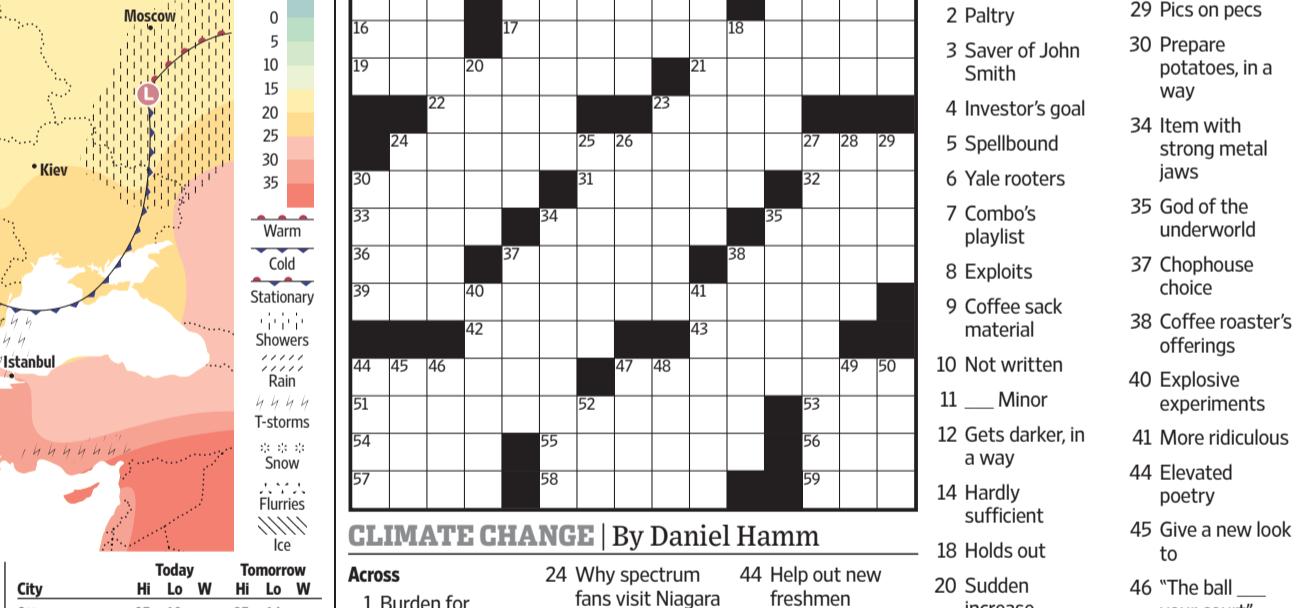


## Global Forecasts

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	27	16	t	19	14	r
Anchorage	15	11	r	15	11	sh
Athens	34	23	pc	27	22	pc
Atlanta	29	21	c	27	21	c
Baghdad	47	28	s	47	28	s
Baltimore	22	16	r	26	17	pc
Bangkok	33	24	sh	33	26	t
Beijing	24	15	pc	27	17	s
Berlin	25	15	s	29	18	pc
Bogota	19	8	c	19	8	pc
Boise	38	21	s	36	18	pc
Boston	20	14	pc	20	14	c
Brussels	30	18	t	23	13	r
Buenos Aires	21	8	r	17	7	s
Cairo	34	24	s	34	23	s
Calgary	28	11	s	33	14	pc
Caracas	32	25	pc	31	25	pc
Charlotte	25	17	c	29	20	pc
Chicago	25	16	pc	27	18	pc
Dallas	30	22	pc	28	22	t
Denver	33	15	s	34	16	pc
Detroit	23	16	t	27	16	pc
Dubai	42	31	s	41	31	s
Dublin	16	9	pc	17	8	s
Edinburgh	16	9	sh	16	8	pc
Frankfurt	29	18	s	30	18	t

## AccuWeather.com



## CLIMATE CHANGE | By Daniel Hamm

Across		
1	Burden for roadies	24 Why spectrum fans visit Niagara Falls?
4	Take by force	30 In poor condition
9	Launch, e.g.	31 Prom rides
13	Constellation between Cancer and Virgo	32 Through
14	Varnish undercoat	33 Poker player's payment
15	Minor	34 Magnate
16	Semicircle, say	35 Tokyo, for the 2020 Olympics
17	What wets the Washington Monument?	36 Penn in NYC, for one
19	Gourmet seasonings	37 Bivouac sights
21	Mavericks' home	38 Supplies with funding
22	Search	39 Gets dents in one's hood, say?
23	Flat-topped hill	40 Rocky peaks
		41 Peg at Pebble Beach
		42 Can't do without

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

## Previous Puzzle's Solution

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

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THE WALL STREET JOURNAL.

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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Tuesday, August 29, 2017 | B1

Euro vs. Dollar 1.1976 ▲ 0.44%

FTSE 100 (7401.46) Closed

Gold 1309.70 ▲ 1.33%

WTI crude 46.57 ▼ 2.72%

German Bund yield 0.380%

10-Year Treasury yield 2.159%

## Harvey Sows Disarray in the Oil Patch

By STEPHANIE YANG  
AND ALISON SIDER

Gasoline prices surged Monday after Tropical Storm Harvey knocked out refining operations and traders assessed damage to the Houston area, preparing for a potential shortage in gasoline supply.

Harvey barreled into Texas on Friday as a Category 4 hurricane, the strongest to hit Texas in half a century, but has since been downgraded to a tropical storm. Still, on Monday Harvey looked poised to move back over the Gulf of Mexico before coming back

ashore, dumping more heavy rain on Houston and the surrounding region.

Traders remained concerned about the possibility that Harvey might now approach Louisiana and that the onslaught would cause damage to fuel-making plants that could take weeks or even months to fix.

The storm had disrupted 15% of U.S. refinery capacity as of Monday morning, and the percentage was growing. Exxon Mobil Corp. said its 362,300-barrel-a-day refinery in Beaumont, Texas, is running at reduced rates. The total

amount of refining capacity offline could rise as high as 30% if Harvey moves toward Louisiana, according to Houston energy investment bank Tudor Pickering Holt & Co.

"There are so many things that are left up in the air here," said Tariq Zahir, managing member of Tyche Capital Advisors, who said the significant moves in energy prompted him to start trading at 6 p.m. New York time on Sunday, when Asian markets opened, and then continue into Monday.

Gasoline futures settled up 4.57 cents, or 2.7%, at \$1.7123

a gallon on the New York Mercantile Exchange, marking its fifth consecutive session of gains. Diesel futures increased 1.29 cents, or 0.8%, to \$1.6352 a gallon.

Volatility in energy markets had picked up on Thursday as Harvey was upgraded to a hurricane and traders braced for impact. As the storm developed over the weekend, the uncertainty over the lasting damage has added to the frenetic trading.

"I've gotten clients calling, [asking] what do we do?" said Mark Waggoner, president of Please see FUEL page B2



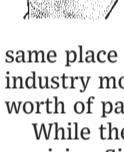
Marathon Petroleum's refinery in Texas City, Texas, on Friday. Tropical Storm Harvey has disrupted refinery operations.

F. CARTER SMITH/BLOOMBERG NEWS

### HEARD ON THE STREET

By Nathaniel Taplin

## U.S. Steel Is Positioned For Rebound



U.S. steel producers are poised to get a surprising boost from China, the same place that caused the industry more than a decade worth of pain.

While the focus has been on rising Sino-U.S. trade and geopolitical tensions, China has been chipping away at one of the main sources of friction: massive overcapacity in its domestic steel industry, which has tanked global prices and helped gut overseas producers.

Beleaguered United States Steel, with its volatile shares and heavy debt burden, is a risky but potentially rewarding bet on a rebound for global steel producers. Investors have pushed shares down 24% this year through Friday, despite the company posting its best margin since 2008 in the second quarter. U.S. Steel's profitable European operations are poised to benefit further from the same forces lifting Chinese margins: steel prices at multiyear highs paired with low prices for imported iron ore.

The company's flagship U.S. business would get a further boost from any movement on President Donald Trump's infrastructure or trade agenda.

The driving force is China. Since commodities bottomed in early 2016, steel prices have risen to nearly where they were at the tail end of China's last big stimulus in 2011, but iron-ore prices are less than half 2011 levels.

The reason is that iron-ore producers ramped up supply to serve what they believed was an insatiable Chinese appetite. Now, stocks at Chinese ports are near record highs—but the nation's net steel-product exports are down more than 30% from last year, due to a combination of furnace closures and buoyant construction.

U.S. Steel's European unit is poised to benefit. If lower iron-ore costs push third-quarter earnings per ton back near the postcrisis highs touched in the first-quarter, that alone would raise earnings before interest, taxes, depreciation and amortization for U.S. Steel by about 10%.

The company has reduced net debt by 40% since March 2016, when net debt to equity hit a high of 124% during the dark days of the commodity bust. U.S. Steel is now valued in line with competitors like Nucor and Steel Dynamics at 12 times forward earnings.

The main risk for steel right now is that the Chinese real-estate sector cools abruptly. A longer-term risk is a broad slowdown in the Chinese economy, likely sometime in 2018.

The global steel industry is in the best shape in years and U.S. Steel, while still risky, is well positioned to ride the good times.



AGENCE FRANCE PRESSE/GETTY IMAGES

A cargo ship unloading coal in Lianyungang. Chinese buying has helped solidify a business threatened by a spate of bankruptcies.

## China Spurs Coal's Resurgence

Revenue at publicly traded U.S. companies that mine the fuel rose 19% in first half of year

By TIMOTHY PUOKO

China's re-emergence as a coal importer has boosted the fortunes of U.S. producers who are now shipping more coal abroad than at any time in the past two years.

The trend has helped solidify a business that at the beginning of last year was suffering through a spate of bankruptcies and threatened with more.

Revenue at publicly traded U.S.

in recent years largely because of increasing competition from other fuels, and the Trump administration has pushed to cut regulations that make coal even less competitive.

Market forces, especially China, have a much bigger influence than anything the Trump administration has done, analysts said. While that has worked in the administra-

tions LLC. "That's difficult for anyone in the United States to get a clear angle on."

China set the rebound in motion a year ago as global prices and U.S. exports were bottoming out. In the middle of a world-wide glut, China used new environmental rules to limit the number of days its domestic mines could work. And new price controls that in-

As China imported more, it shifted trade and prices rose world-wide. Russian, African and South American coal that once went to Europe has been going to China, analysts said.

Importers all over the world have to pay more to fill the gap left behind.

The chain reaction led to more U.S. exports going to every continent. U.S. exports to Europe hit 11 million tons in the first quarter, up 70% from the first quarter in 2016. Exports to Asia rose by about half to 6.4 million short tons, U.S. government data show.

A year ago Cloud Peak Energy Inc. was selling so little coal abroad that it had to take losses on its contracts with shippers and pay them for doing nothing in lieu of taking coal. Now the company is back to being one of the largest exporters in the western U.S.,

Please see COAL page B2

*The growth comes as President Trump has tried to end a decline in domestic coal output.*

tion's favor so far, it could also overwhelm its deregulation efforts and put the coal industry into retreat if those factors swing back the other way.

"China is 100% the key determinant," said Mark Levin, analyst at Seaport Global Secu-

rities LLC. "That's difficult for anyone in the United States to get a clear angle on."

China set the rebound in motion a year ago as global prices and U.S. exports were bottoming out. In the middle of a world-wide glut, China used new environmental rules to limit the number of days its domestic mines could work. And new price controls that in-

creased intervention as prices moved outside a "green" zone of \$70 to \$80 a ton also curtailed production. Sharp capacity cuts hit as industrial demand took off and global benchmark prices are up 50% to 100% from about a year ago.

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Please see COAL page B2

## Amazon Rewrites Rule Book for Grocers

By HEATHER HADDON  
AND LAURA STEVENS

Amazon.com Inc. brought lower prices to its new Whole Foods Market Inc. division on Monday. It also brought a new rule book.

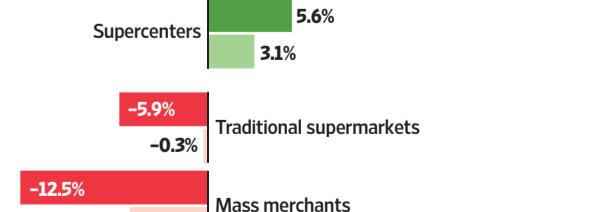
While Amazon doesn't need to make money from its grocery division yet, food sales are crucial for traditional players like Kroger Co., Wal-Mart Stores Inc. and Target Corp. The extremely competitive food-retail business demands high capital investments for low margins. Supermarkets' success has mainly relied on getting customers into conveniently located stores with deals.

By cutting prices on high-volume staples like bananas, eggs and ground beef in 470 Whole Foods stores, Amazon is signaling it will compete for that traffic. Even if it loses money, it hopes it can bring shoppers into stores, win their loyalty to the whole company and prompt them to spend

### Supermarket Sweep

E-commerce food sales are still small but growing rapidly, while those at most physical retailers are falling

#### Annual sales change of food and consumables



Source: Inmar Willard Bishop Analytics

THE WALL STREET JOURNAL

more money, say former Amazon executives.

At a Whole Foods in Brooklyn, N.Y., on Monday, 2 pounds of Atlantic salmon fillets were about \$2 cheaper at \$19.98 and a 1-pound bag of brown rice was selling for 20 cents less at \$2.49, according to la-

bels Amazon and Whole Foods affixed to products to advertise the shift. At a store in Chicago, organic avocados and bananas were also marked down and a big sign advertised the voice-activated Amazon Echo device on sale for \$99.99 rather than the list

price of \$179.99.

"Amazon's using the same playbook they always have when competing with booksellers and other retailers," said Chris McCabe, a former Amazon performance evaluation and policy enforcement investigator who now works with sellers on the retailer's marketplace. "They take out their revenue stream by killing them slowly on price."

Amazon and Whole Foods declined to comment.

The Amazon-Whole Foods deal, sealed about 10 weeks after its announcement, has weighed on the grocery sector, pushing food-retail stocks down 20% this year. Consumer-packaged good shares have fallen about 7% as legacy brands struggle with American consumers' increasing interest in the fresh and natural foods sold at stores such as Whole Foods, along with Kroger, Wal-Mart and a growing number of traditional supermarkets.

Please see AMAZON page B2

## INSIDE



SAUDIS, RUSSIA AIM TO EXTEND OIL DEAL

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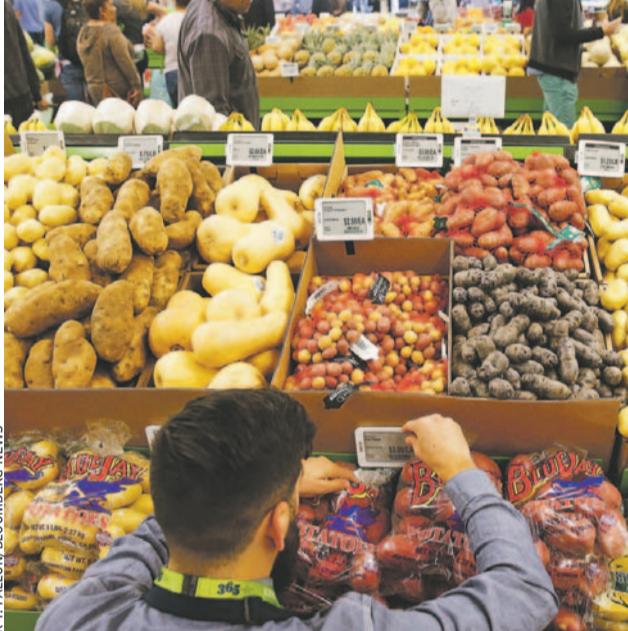
## INDEX TO BUSINESSES

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Amazon's strategy for its Whole Foods division will put pressure on traditional players in the extremely competitive business.

## AMAZON

Continued from the prior page

Wal-Mart, no stranger to Amazon's rivalry, is confident in its strategy and is spending billions of dollars to lower prices, spokesman Randy Hargrove said.

The retailer is working to spruce up its stores and offer e-commerce pickup options at 1,100 of its roughly 4,600 stores by year-end. Wal-Mart in the past has moved quickly to meet challenges from Amazon, most recently acquiring a string of e-commerce startups—including a \$3.3 billion deal for Jet.com—and testing same-day deliveries.

"Amazon is really good. We certainly have respect for them, and we have experience competing with Whole Foods," said Steve Schmitt, Wal-Mart's vice president of investor relations, when speaking to shareholders earlier this month.

Executives at Kroger, whose shares are among the hardest hit in recent weeks, say they

**Amazon has focused on the long term when it enters a new business.**

haven't changed their strategy following Amazon's push into grocery, but now feel a heightened urgency to invest in technology to better tailor promotions to shoppers and expand online-grocery pickup.

The U.S.'s largest traditional supermarket chain is also sacrificing profits in select markets. "If we have to sell a can of corn for 40 cents, we'll figure out a way to sell a can of corn for 40 cents," said Mike Schlotman, Kroger's chief financial officer, during a recent interview.

Kroger, which reports earnings next month, has lost more than \$7 billion in market valuation since it reported a disappointing financial outlook in June. Its stock is down by 36% since the start of the year.

News of the Amazon deal

has also hurt Target's stock, and the retailer is putting renewed focus on its grocery business. Target has hired a number of food-retail executives and given more attention to its assortment this year after grocery had declined in sales.

Amazon has focused on the long term when it enters a new business, with a pledge to make bold investments to gain market leadership.

While Amazon's grocery plan is still unclear, the company wants to draw customers into stores with lower prices and more convenience, adding perks like Amazon pickup lockers and Prime membership benefits, according to former executives.

Online grocery sales remain small, but they are growing fast. Same-store sales for online ordering at supermarkets are growing 26% year-over-year, with an average online transaction size of \$148—much higher than the \$35 average for in-store purchases, according to internal market research by consultancy Brick Meets Click.

Whole Foods had one of the poorest price perceptions among 13 national food retailers, according to a Morgan Stanley survey of 2,900 U.S. grocery shoppers last month, which also found its customers were nearly twice as likely to earn upward of \$125,000 a year than Kroger shoppers.

Whole Foods began to lower its prices in 2015 as its sales slipped, but the promotions did little to woo back customers. Those cuts weren't as extensive as analysts expect to see this week.

Still, Americans increasingly want to eat better, and the Whole Foods name continues to symbolize quality.

"The brand is incredibly aspirational. Amazon knows this," said Scott Mushkin, managing director at Wolfe Research, LLC.

Slashing prices is an easy first move, but more telling will be if Amazon can determine how to use data and algorithms for real-time price matching and better identifying what consumers are willing to pay in store, said Greg Portell, lead partner in the retail practice of A.T. Kearney.

## BUSINESS & FINANCE

# Wanda-Linked Shares Fall

Chinese group denies reports its chairman can't leave country; 'rumors...out of thin air'

BY SHEN HONG

SHANGHAI—Hong Kong-listed shares and bonds of Chinese billionaire Wang Jianlin's **Dalian Wanda Group** Co. plunged for the second time in two months, following what the company called rumors about its leader being barred from leaving the country.

Shares of **Wanda Hotel Development** Co., the Chinese real-estate and entertainment company's hotel and commercial-property arm, fell as much as 11% on Monday before closing down 8.1% at 1.59 Hong Kong dollars (20 U.S. cents) after Wanda Group issued a statement denying that an overseas travel ban on Mr. Wang was in place.

The company was responding to reports on Chinese social media that Mr. Wang was detained by police at Tianjin's airport on Aug. 25 and barred from taking a private jet to the U.K.

The reports said Mr. Wang was released but was told not to leave China.

"Some people with malicious intent have been spreading vicious rumors about Chairman Wang Jianlin,"



Rumors circulated on Chinese social media that billionaire Wang Jianlin was barred from leaving China.

Wanda Group said Monday. "These rumors are out of thin air, and we hope that people don't believe in them and don't circulate them either."

Wanda said it reported the rumor's distribution to police and other authorities and was prepared to take legal action to protect itself.

A U.S.-dollar-denominated bond that matures in 2024 issued by **Wanda Properties International** Co. also fell as much as 2.7% early Monday; it was down about 1.7% by mid-afternoon.

Monday's stock selloff was

the second to hit Wanda since late June, when Beijing launched a probe into overseas investments and financing by Wanda Group and other companies, including Anbang Insurance Group Co., HNA Group Co. and **Fosun International** Ltd.

The Chinese government has been trying to get a grip on high corporate debt and stem an outflow of capital. One of the deals called into question was Wanda's \$3.5 billion acquisition of Hollywood production company Legendary Entertainment in 2016.

The Wall Street Journal reported last month that China President Xi Jinping approved measures barring state-owned banks from making new loans to Wanda to help fuel its foreign expansion. Trading in shares of **Wanda Film Holding** Co., which is listed on the mainland, has been suspended since July 4 after the company said it had major acquisitions to disclose. Prices of Wanda Group's various domestically traded bonds are steady and appear little affected by the losses in the Hong Kong market.

## OSHA to Cut Fatality Reports in U.S.

BY ALEXANDRA BERZON

The Occupational Safety and Health Administration is reducing its reporting of fatalities in the U.S., part of a series of moves by the agency to cut back the amount of information about workplace accidents made available to the public.

The U.S. Chamber of Commerce, which had long complained about the practice, asked OSHA to roll back some of the information in the fatality reporting and other initiatives when the Trump administration took over.

The publication of the reports—listing the names, locations, employers and circumstances of people who were reported to OSHA as having died in apparent accidents at work—began early in the Obama administration.

Before that, OSHA did compile some information about fatalities, according to former OSHA officials. But they said

Obama administration officials made the reports more publicized and included additional information.

Last week, OSHA removed links to reports going back to 2009 from its website. Instead, the agency posted a more limited set of information about U.S. workplace fatalities that resulted in citations for companies dating to the beginning of the year.

An OSHA spokeswoman said the new fatality-data listing respects the privacy of surviving family members because they don't give out the name of the worker who died.

OSHA's weekly reports were, for some, an important regular reminder of the human cost of workplace accidents and a source of information about workplace safety.

"It's really important pieces of information just for raising public awareness," said Celeste Monforton, an occupational health lecturer

at George Washington University who writes extensively about OSHA.

To some companies, however, the release seemed an overreach of government that could produce unfair black marks on employers before the deaths had been fully investigated.

*Under the new system, OSHA is posting links to fatality citations.*

Under the Obama administration, "they saw this as a way to scare employers straight," said Marc Freedman, executive director of labor law policy for the U.S. Chamber of Commerce. The idea was that companies would work harder on compliance if they knew the details

of any accidental deaths at their facilities would be made public. The chamber disagreed with that approach and thought that it unfairly maligned some employers.

With the election of President Donald Trump, OSHA has taken several steps that have cut down on publicizing information about workplace accidents. In addition to the change in fatality reporting, OSHA has begun rolling back a regulation that went into effect Jan. 1 of this year to require workplaces to electronically file to the government the injury logs they keep at their work site. OSHA had planned to eventually post some data from the forms online.

Under the new fatality reporting system, OSHA is posting links to fatality citations, which don't include the name of the worker who died, for accidents only in states regulated directly by the federal agency.

## COAL

Continued from the prior page raising exports from almost nothing a year ago to an expected 4.5 million tons in 2017. That increased its revenue nearly 20% in the first half of the year even while domestic sales have fallen.

"We've had a good and stable year, which in our environment is a good year," said Heath Hill, the company's finance chief.

Industry leaders say that good fortune has been backed up by a change of sentiment led by Mr. Trump. Business would have been worse and future prospects would be lower under a Democratic administration that used new rules to move consumers further away from coal, they said.

But the rebound has been so dependent on exports that U.S. producers face a big risk if China undoes last year's policy changes. Chinese coal production is showing signs of picking up again and the government is starting to block some imports

to support domestic miners, researchers at Italian ship broker Banchero Costa said Wednesday. With U.S. year-to-date production up 14% from last year, the specter of oversupply is rising again, analysts said.

"When you're at the whim of Chinese policy makers, it's not really a great place to be," said Andy Blumenfeld, head of market analytics at Doyle. "Beyond the first quarter of next year, it becomes very risky."

Mr. Trump's team has made

moves primarily to boost the domestic market. It has taken the first steps to try to roll back President Barack Obama's Clean Power Plan that required utilities to reduce power plant carbon-dioxide emissions. The Trump administration also wants to streamline environmental permitting.

The goal is to signal to the market that coal won't be unfairly taxed by regulation, not to prop up coal compared with other fuels, according to an

administration official. It has also been pushing other policies to keep feeding a drilling boom that has already made natural gas cheaper and gas-burning plants more competitive against coal.

The Commerce Department did help get a new supply agreement for a U.S. company to ship coal to Ukraine. Pennsylvania-based coal marketing company Xcoal Energy & Resources this month started shipments of 700,000 tons of coal to Ukrainian power plants ahead of the winter. That is to help Ukraine diversify its supply and lessen its dependence on Russian fuels.

But that deal is on pace to amount to less than 1% of total U.S. exports this year. And Ukraine is a small buyer, making more deals of this type hard to replicate and hard to substantially improve the whole U.S. industry, Mr. Blumenfeld said.

"It is a price driven market, and if we weren't able to compete into Ukraine, we wouldn't have won the business," said Ted O'Brien, vice president, capital markets at Xcoal.

Even energy industry veterans who have experienced major storms were flummoxed by Harvey.

"There should be a stronger word than 'unprecedented,'" said Tom Kloza of the Oil Price Information Service.

Mr. Kloza said wholesale gasoline prices are rising five to 10 cents a gallon throughout the Southeast and other markets that are supplied by Gulf Coast refineries. Consumers will likely pay higher prices at the pump as a result.

The reduced refining capacity is also expected to hit U.S. crude demand. On the New

## FUEL

Continued from the prior page Excel Futures. "I haven't even had a chance to breathe yet this morning. I don't even remember the last time it was this busy walking in the door."

Harvey's path cut right through the heart of U.S. oil infrastructure, with the Texas coast being home to nearly 30% of the country's refining capacity. Exxon Mobil said Monday that a floating roof on a storage tank at its Baytown plant, the second-largest refinery

in the country, was damaged during the storm. If plants sustain more significant damage and need to get new electrical equipment and other parts installed to repair damage from flooding, that could extend downtime significantly.

The market is going to trade from data point to data point," said Mark Benigno, co-director of energy trading at INTL FCStone. "Are more refineries going to shut in? Will they be shut in for longer? Conversely, will they come back sooner? How long will it take ships to get in and out of Houston Ship Channel?"

York Mercantile Exchange, West Texas Intermediate futures lost \$1.30, or 2.7%, to \$46.57 a barrel, closing at a one-month low. Brent crude, the global oil benchmark, declined 52 cents, or 1%, at \$51.89 a barrel.

Harvey had shut in 22% of oil production in the Gulf of Mexico as of Sunday and caused producers in South Texas at the Eagle Ford shale to cut output. However, the storm's effect on demand is likely to be more significant.

—Sarah McFarlane and Dan Molinski contributed to this article.

Amazon has focused on the long term when it enters a new business.

Continued from the prior page

Wal-Mart, no stranger to Amazon's rivalry, is confident in its strategy and is spending billions of dollars to lower prices, spokesman Randy Hargrove said.

The retailer is working to spruce up its stores and offer e-commerce pickup options at 1,100 of its roughly 4,600 stores by year-end. Wal-Mart in the past has moved quickly to meet challenges from Amazon, most recently acquiring a string of e-commerce startups—including a \$3.3 billion deal for Jet.com—and testing same-day deliveries.

"Amazon is really good. We certainly have respect for them, and we have experience competing with Whole Foods," said Steve Schmitt, Wal-Mart's vice president of investor relations, when speaking to shareholders earlier this month.

Executives at Kroger, whose shares are among the hardest hit in recent weeks, say they

haven't changed their strategy following Amazon's push into grocery, but now feel a heightened urgency to invest in technology to better tailor promotions to shoppers and expand online-grocery pickup.

The U.S.'s largest traditional supermarket chain is also sacrificing profits in select markets. "If we have to sell a can of corn for 40 cents, we'll figure out a way to sell a can of corn for 40 cents," said Mike Schlotman, Kroger's chief financial officer, during a recent interview.

Kroger, which reports earnings next month, has lost more than \$7 billion in market valuation since it reported a disappointing financial outlook in June. Its stock is down by 36% since the start

## BUSINESS NEWS

# Stem-Cell Monitoring to Increase

FDA to expand its authority over U.S. facilities, citing the potential dangers

By JONATHAN D. ROCKOFF

The U.S. Food and Drug Administration is stepping up oversight of fledgling medical treatments that aim to harness the potential of stem cells—as well as some businesses that the agency said were selling unapproved and possibly harmful treatments.

The FDA announced it was crafting rules to govern the development of treatments based on the cells. The FDA also said it was cracking down on a company and three clinics that sold stem-cell treatments the agency said were potentially dangerous.

The moves signaled the FDA planned to extend its authority regulating drugs and medical devices to the field known as regenerative medicine, after spending years effectively watching it emerge.

"Our actions today should also be a warning to others who may be doing similar harm," FDA Commissioner Scott Gottlieb said in a statement. "We will take action to ensure Americans are not put at unnecessary risk."

Stem cells develop into many different kinds of cells and naturally replace skin, gut and bone-marrow tissues. Scientists at universities and biotech companies are studying whether stem cells could be used to treat diseases and grow replacement organs.

Though that research is still largely experimental, clinics have popped up, injecting stem cells into people dealing with Lou Gehrig's disease, arthritic knees and other ailments. Often the stem cells are extracted from one part of the patient's body, such as fat or bone marrow, and after purported processing, injected into a different, ailing area.

About 570 clinics operating in the U.S. were advertising the treatments, the journal Cell Stem Cell reported last year. Most of those clinics

aren't selling treatments that have been proven to work, according to Leigh Turner, a bioethicist at the University of Minnesota who co-wrote the journal report.

The proliferating business had triggered a public debate, including hearings held by the FDA last year, about whether the agency should step in and

*The clinics offer injections to people suffering from a wide range of ailments.*

closely regulate it. Clinic operators argue that the agency's oversight of drugs doesn't extend to the use of a patient's own cells.

The FDA said it seized five vials of a smallpox vaccine containing live and dangerous vaccinia virus that belonged to StemImmune Inc. of San Diego, Calif. The agency said the vaccine was used as part of an

"unapproved" and potentially harmful procedure at the California Stem Cell Treatment Centers in Beverly Hills, Calif., and Rancho Mirage, Calif.

The FDA said the clinics were combining the vaccine with stem cells derived from body fat and injecting the concoction into tumors of cancer patients with compromised immune systems, "for whom the vaccine posed a potential harm."

The agency also posted a warning letter to U.S. Stem Cell Clinic of Sunrise, Fla., that the agency alleged was marketing unapproved stem-cell treatments that weren't made according to good manufacturing practices.

Three elderly women lost vision after treatment at U.S. Stem Cell Clinic, according to media reports and an article in the New England Journal of Medicine earlier this year.

U.S. Stem Cell Clinic said it followed strict standards to protect the health and safety of its patients and to follow FDA rules. StemImmune didn't immediately respond to requests for comment.

## BUSINESS WATCH

## ESTÉE LAUDER

**Beauty Company Says It Isn't for Sale**

Estée Lauder Cos. over the weekend shot down rumors that it is considering a sale.

In a letter to employees, Chief Executive Fabrizio Freda and Executive Chairman William P. Lauder addressed news reports that the beauty giant hired advisers to consider a sale amid interest from consumer-products companies.

"There is no truth to these rumors. The Estée Lauder Companies is not for sale," the executives said. "The Lauder Family and our Board place great value in remaining independent."

The Lauder family owns roughly 40% of Estée Lauder's shares outstanding and holds close to 90% of the shareholders'

vote.

The company confirmed the message, which was reviewed by The Wall Street Journal.

—Sharon Terlep

## ALTICE

**Conglomerate Plans To Buy Back Shares**

Altice NV, the telecommunications conglomerate controlled by billionaire Patrick Drahi, said Monday that it plans to repurchase as much as €1 billion, or up to \$1.19 billion, in shares over the next year.

Altice, which owns France's SFR and Cablevision in the U.S., said the repurchases would run through Aug. 31, 2018.

"Going forward, Altice will continue to assess the use of excess cash for either significantly accretive M&A opportunities or

further shareholder returns," the company said.

—Matthew Dalton

## YPF

**CEO Resigns From State-Run Oil Firm**

Ricardo Darré has resigned as chief executive of Argentina's state-run oil and gas producer, YPF, the company said Monday.

Mr. Darré, who had been in the job for just over a year, stepped down for personal reasons, the company said in a statement. YPF's president, Miguel Gutiérrez, will remain in his job, as will the company's other top executives.

YPF said it has created a six-member executive committee aimed at making key strategic decisions and keeping the company's focus on operations man-

agement and future business opportunities.

"With this reorganization, the management team's mission will be to transform YPF into an integrated energy company that offers innovative and sustainable solutions for the country's energy development," the company said.

Members of the new committee include Daniel González, who has been in charge of YPF's finances, and Pablo Bizzotto, who has been lauded for his work building YPF's giant shale oil and gas field in Vaca Muerta, located in the Patagonian province of Neuquén.

Local media have been reporting for months that government officials haven't been impressed with YPF's performance since President Mauricio Macri took office in late 2015.

—Taos Turner

# CBS Plans to Acquire Australia Broadcaster

By MIKE CHERNEY

SYDNEY—U.S. media company CBS Corp. plans to acquire Australian broadcaster Ten Network Holdings Ltd., beating out a bid from Australian media moguls Bruce Gordon and Lachlan Murdoch for the company after it went into receivership.

CBS's bid was favored by receivers for Ten Network, one of Australia's three main broadcasters, over a proposal from Messrs. Gordon and Murdoch, who wanted to run the broadcaster as a joint venture, people familiar with the deal said. Mr. Murdoch is co-chairman of News Corp., which owns Wall Street Journal publisher Dow Jones, while Mr. Gordon controls a company that owns broadcasting licenses across Australia.

Financial terms for the purchase weren't disclosed, but analysts said CBS likely got a favorable deal given the Australian broadcaster in June went into voluntary administration, a process similar to bankruptcy in the U.S. CBS, Ten Network's largest unsecured creditor, supplies content to Ten Network and owns a stake in Ten Network's digital-television channel, Eleven.

Aside from boosting its international-distribution footprint, the deal for Ten Network would give Manhattan-based CBS an existing platform to help it roll out its

CBS All Access subscription service in Australia. CBS is looking to expand the service in global markets, and this month said it would launch it in Canada in the first half of next year. No date has been set for an Australia launch.

"This acquisition not only presents CBS with considerable broadcasting opportunities in Australia, but also allows for further multiplatform distribution and growth," said Armando Nunez, president and chief executive at CBS Studios International, in a written statement.

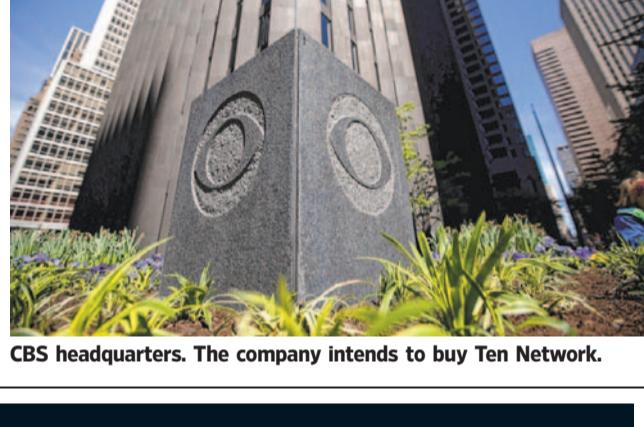
Representatives for Messrs. Murdoch and Gordon declined to discuss what next steps the pair might take.

The proposed deal comes as traditional broadcasters face an audience migration to online streaming services such as Netflix, Amazon and others, threatening advertising revenue. For the quarter ended in June, CBS reported better-than-expected earnings as it received a boost from new initiatives such as the Showtime streaming service.

The deal still needs to win approval from Ten Network creditors, as well as from Australia's Foreign Investment Review Board.

On Monday, Australian Prime Minister Malcolm Turnbull voiced support for the transaction.

—Rob Taylor in Canberra contributed to this article.



CBS headquarters. The company intends to buy Ten Network.

MICHAEL NAGLE/BLOOMBERG NEWS

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## TECHNOLOGY

WSJ.com/Tech

# Samsung Asks Staff to Carry On

BY EUN-YOUNG JEONG

**SEOUL—Samsung Electronics** Co. urged its employees to stay focused on their work after last week's conviction of the company's de facto leader, and punctuated that business-as-usual appeal with a fresh \$2.3 billion investment in semiconductors.

The dual moves on Monday appeared intended to send a message of steadiness and continuity as Samsung, one of the world's biggest technology companies, navigates a precarious period.

The Korean-language message from a Samsung Electronics co-chief executive, Kwon Oh-hyun, urged employees to continue to work hard and not be distracted.

It came just three days after a Seoul court sentenced Lee Jae-yong, the company's vice chairman and the Samsung heir, to five years in prison for bribing South Korea's former president.

The verdict has rocked South Korea, reflecting a new rigor in scrutinizing the traditionally close ties between government and the powerful family-run conglomerates known as *chaebols*.

On Monday, Mr. Lee's lawyers filed an appeal contesting Friday's court verdict.

The brief memo from Mr. Kwon was the first company-wide message since Mr. Lee's conviction.

In the memo, which was posted on the company's internal web bulletin board and reviewed by The Wall Street Journal, Mr. Kwon described Mr. Lee's imprisonment as an "unprecedented challenge" and encouraged employees to continue working hard as they wait for "the truth to come to light."

Mr. Kwon seemed to do just that hours later, when Samsung said its management committee had approved a \$2.3 billion investment to boost its NAND memory-chip facilities in Xi'an, China, part of a new, three-year \$7 billion investment plan, according to a filing with regulators. NAND

chips are memory chips that dictate the amount of data that can be stored in digital devices.

Mr. Kwon, one of three co-chief executives at Samsung Electronics, has been a steady force behind the scenes since Mr. Lee was detained in February, according to people familiar with the matter.

The company, the world's largest maker of smartphones, memory chips and television sets, has continued to fare well even amid the continuing legal process. Samsung shares are near a record high after the company recently posted a record quarterly profit.

But Mr. Lee, the 49-year-old only son of Samsung Chairman Lee Kun-hee, is seen as playing a critical role in approving Samsung's biggest investments and deals.

Monday's announcement seemed designed to send a sign that the company will conduct business as usual despite Mr. Lee's absence.

A Samsung spokeswoman declined to comment on Mr. Kwon's internal memo, but said Samsung Electronics, led by its three co-CEOs, would endeavor to carry out operations without disruptions from the continuing legal matters.

Mr. Lee was found guilty on Friday of offering \$7.9 million as bribes to entities linked to Choi Soon-sil, a friend of South Korea's former President Park Geun-hye. In return for the financial contribution, the court found Ms. Choi colluded with Ms. Park to provide government backing for business deals relating to Mr. Lee's succession over Samsung.

Along with bribery, Mr. Lee was also convicted of embezzlement, hiding assets abroad, concealing criminal profits and perjury.

Ms. Park and Ms. Choi have both denied wrongdoing and are facing charges in a separate trial.

Samsung Electronics' shares fell 2% in Monday trading, far steeper than the broader benchmark's 0.3% decline.

—Timothy W. Martin contributed to this article.



The technology giant is expected to come out with three new iPhones and a smartwatch. Apple phones on display in Buenos Aires.

# Apple Unveiling Draws Near

Newest iPhones set to take the stage on Sept. 12; China sales viewed as key

BY TRIPP MICKLE AND DREW FITZGERALD

**Apple Inc.** has scheduled a product-announcement event on Sept. 12, according to people briefed on its plans, reinforcing expectations that the technology giant will release new iPhones and a smartwatch well ahead of the holiday shopping season.

The company is expected to unveil three iPhones, according to other people familiar with its plans. Those include a showcase iPhone to mark the product's 10th anniversary that is larger and pricier and features an edge-to-edge display and facial-recognition technology, as well as updates to the two iPhone 7 models that started selling last year.

Analysts had widely reported in recent months that production glitches on the newest iPhone could cause it to be delayed. If the event proceeds on

Sept. 12, its timing would be roughly consistent with iPhone launches in previous years, reassuring investors and customers that the device is on track.

Still, it remains to be seen if production shortfalls like those that constrained supplies of the iPhone 6 will crimp sales of the latest handsets. Apple typically begins selling new iPhones about 10 days after unveiling them. Apple declined to comment.

Apple's announcement is scheduled to happen a week after sales start in the U.S. for Samsung Electronics Co.'s Galaxy Note 8. The South Korean company's flagship smartphone features a new dual-lens camera similar to the iPhone 7 and one of the largest smartphone screens on the market. Samsung hopes the device convinces some iPhone owners to switch.

Apple has increased production in recent weeks of the new showcase iPhone and is poised to expand manufacturing from one plant in China to others, according to people familiar with the process. The expansion bodes well for the company's efforts to meet sales demand for the device during the holi-

day shopping season, one of the people said.

Expectations for strong sales of the new iPhones have sent Apple's stock to record levels, increasing its market capitalization by 36% to \$825.71 billion since the start of the year.

"This is a game changer because of the new functionality that will really strengthen ties with consumers," said John Koczara, senior portfolio manager at LaFleur & Godfrey, a Grand Rapids, Mich.-based investment firm that counts Apple among its largest holdings.

Apple also is expected to unveil a new Apple Watch with an LTE cellular chip that allows it to pull data directly from wireless services, easing the device's current dependency on the iPhone to transmit emails, texts and calls.

The new iPhone is expected to feature facial-recognition technology that allows users to unlock the device, and to have augmented-reality capabilities, according to Carolina Milanesi, an analyst with market-research firm Creative Strategies. She said the facial-recognition feature will make Apple Pay faster, while augmented-reality

apps will create opportunities to use the device in new ways such as gaming or decorating a home.

"There's going to be enough in this phone to lay the foundation for the future of computing as Apple thinks about it," said Ms. Milanesi, who said previous iPhone updates were more "iterative."

The iPhone's success will hinge largely on its performance in China, said Katy Huiberty, a Morgan Stanley analyst. Apple has been losing market share in China to local, low-price rivals like Huawei Technologies Co. and BBK Electronics Corp. Sales declined 16% in Greater China, which includes Hong Kong and Taiwan, in the 12 months through June.

To boost sales, though, Apple will have to persuade consumers to pay more for the new high-end model, which analysts expect to cost as much as \$1,000, with higher-memory versions priced at as much as \$1,400. That starting price would be more than 50% more than the base price of the current iPhone 7.

—Joann S. Lublin contributed to this article.

# Fitbit Watch Takes Aim at Rivals

BY YOREE KOH

**Fitbit Inc.** unveiled its long-awaited smartwatch on Monday, elbowing into a crowded market to restart its growth.

Fitbit's smartwatch, called the Ionic, priced at \$299.95, will compete with incumbents such as **Apple Inc.**'s Apple Watch, which starts at \$269.

And while Fitbit is touting the health and fitness features on its device, building on its expertise in fitness trackers,

the Ionic lacks some of the technological capabilities of an expected revamp of Apple Watch.

The smartwatch is going to "be a big part of our growth story," said Fitbit Chief Executive James Park.

He added that the device's ability to marry medical-grade capabilities with the company's mass-market appeal will help position it as an essential product.

The Ionic is scheduled to hit stores in October ahead of

the critical holiday season.

Its fate is pivotal to Fitbit, which last year suffered a lackluster holiday season, driving it to post its first quarterly loss since going public. Sluggish sales led to layoffs.

Analysts say that the watch's success will hinge on whether Fitbit is able to leverage its expertise in health and fitness.

Fitbit is "playing to their wheelhouse," said Ramon Llamas, research manager of

wearables and mobile phones at International Data Corp., a research firm.

Consumers said that health and fitness apps were the most desirable feature in their smartwatches, according to a survey conducted by IDC late last year.

But competitors such as Apple and Samsung Electronics Co. Ltd. have released watches with a variety of features, and "not everybody wants or is using those features," said Mr. Llamas.

Cohler, a partner at Benchmark, are both on the board and five-member CEO search committee. Mr. Kalanick has said the lawsuit is without merit.

The lawsuit, and competing claims and accusations among Uber's shareholders, served as a distraction as the board aimed to complete the CEO search by early September.

If Uber ultimately hires Mr. Khosrowshahi, the search will have taken place in about two months, a relatively short period for a company of Uber's size. Generally it takes three to five months for a company of Uber's size, recruiters say. But Uber is in great need of a new leader after Mr. Kalanick resigned, leaving the company's big decisions to an executive committee of more than a dozen people.

Mr. Khosrowshahi would need to find new executives in a number of top jobs, including chiefs of finance, marketing and operations. Uber is also looking for a new independent chairman.

Before Uber officially announces Mr. Khosrowshahi as CEO, he will still have to negotiate his contract, according to people familiar with the matter. That process can take days or even weeks sometimes, but Uber hopes to fast-track the process to announce the executive to employees this week, one of the people said.

# UBER

Continued from page B1

Uber's board and wishes to have strong input into the company's direction.

Mr. Khosrowshahi, an Iranian-American who has run Expedia for more than a decade, stands to potentially make a fortune at Uber if he can steer the company to a successful public offering. It isn't clear when Uber, valued last year by investors at around \$68 billion, may file for an IPO—but it is first working to shore up its finances to appeal to potential investors.

In 2015, Mr. Khosrowshahi was one of the most highly compensated chief executives in the S&P 500, receiving a pay package valued as much as \$94.6 million in mostly long-term stock options designed to get him to stay for several years.

In Mr. Khosrowshahi, Uber would get a longtime internet executive with deal-making experience and a record of steady growth. He started his career at investment bank Allen & Co., impressing Mr. Diller with his financial acumen. He joined Mr. Diller's company in 1998, became financial chief of IAC, then called USA Networks, in 2002 and took over the CEO job of

Expedia when it was spun off in 2005.

At Uber, Mr. Khosrowshahi would inherit a 15,000-employee global concern that is still deeply unprofitable. It had losses of more than \$3 billion last year and nearly \$1.4 billion in this year's first half. It is still increasing sales, including reporting last week \$1.75 billion in revenue for the second quarter, up 17% from the first quarter. Full-year sales last year were \$6.5 billion.

Expedia, by comparison, had sales of \$8.77 billion last year, up 31% from the year before, with net income of \$281.8 million, which was down by 63% from a year earlier.

The choice of Mr. Khosrowshahi was a surprise given other, bigger candidate names that surfaced in the media. Over the weekend, directors met with Ms. Whitman and General Electric Co. Chairman Jeff Immelt for final presentations detailing their top picks for the company in the top job.

Mr. Immelt removed himself from consideration on Sunday morning after observing disorder and divisions among different factions of Uber's board, according to a person familiar with the matter.

Others said it was a face-saving move after he was advised he would not get the votes necessary to be elected

to Uber's top job.

Ms. Whitman's candidacy was a source of bitter fighting among directors after she stated publicly in July on Twitter and last week in The Wall Street Journal that she wasn't interested in the position. Some directors felt Ms. Whitman's re-emergence was being pushed by Benchmark Capital, which has had a close relationship with her since her time as eBay Inc. CEO.

Benchmark has denied it advocated for Ms. Whitman. The firm earlier this month sued Mr. Kalanick, claiming he knew about misbehavior at the company when he persuaded the venture-capital firm and other shareholders to add three board seats under his control. Mr. Kalanick and Matt



Dara Khosrowshahi, in 2016.

# Facebook Gets Heat From U.N. on Videos

BY DEEPA SEETHARAMAN

**Facebook Inc.** is again in hot water for allowing objectionable videos on its website, this time drawing a rare rebuke from a United Nations agency.

The U.N. migration agency hammered the social network for allowing what it said was a "horrifying" video showing gangs in Libya threatening to harm a group of terrified migrants, many from Somalia and Ethiopia.

One migrant in the video is lying on his chest with a concrete block on his back, and the video shows the faces of some migrants without their consent in a way that they can be identified. The smugglers also are issuing threats to the migrants' families over WhatsApp, a messaging app owned by Facebook, according to Leonard Doyle, spokesman for the International Organization for Migration. Mr. Doyle said the video surfaced in June, after which his organization issued a press release condemning it. He said that should have prompted Facebook to take down the video.

"On what possible grounds can you show these poor, vulnerable people?" he said in an interview, adding that it was very rare that the U.N. agency would specifically criti-



SEUNGJOON CHO/ASSOCIATED PRESS

Kwon Oh-hyun, a co-CEO at Samsung Electronics, in a memo urged employees to continue to work hard and not be distracted.

## FINANCE &amp; MARKETS

# Australian Bank Faces an Ethics Check

Regulators to examine Commonwealth Bank over governance issues and culture

BY ROBB M. STEWART

MELBOURNE, Australia—Commonwealth Bank of Australia Ltd. faces a broad ethics health check by regulators, as the fallout over alleged money-laundering compliance breaches expands.

In an unusual step, the Australian Prudential Regulation Authority on Monday said that it would establish an independent inquiry into the nation's biggest bank, focusing on governance, culture and accountability. The move follows a civil suit brought against the bank by the country's financial-intelligence agency and a review by the securities regulator into compliance by the board and senior executives.

Following a string of scandals, Commonwealth Bank has been a focal point for calls by opposition politicians for a judicial review of the banking industry.

Commonwealth Bank was among several financial institutions in the country to have faced claims of offering poor financial advice in recent years and has also been accused of failing to honor insurance claims. This month, the Australian Transaction Reports and Analysis Centre filed a federal



BRENDON THORNE/BLOOMBERG NEWS

**Commonwealth Bank has been a focal point of calls by opposition politicians for a review of the banking industry.**

court suit alleging the bank contravened the Anti-Money Laundering and Counter-Terrorism Financing Act more than 53,700 times, each carrying a maximum penalty of 18 million Australian dollars (US\$14.3 million).

The goal of the inquiry is to identify possible organizational and cultural shortcomings that may have led to scandals that

have shaken public confidence, said Wayne Byres, chairman of the prudential regulator.

"The Australian community's trust in the banking system has been damaged in recent years, and CBA in particular has been negatively impacted by a number of issues that have affected the reputation of the bank," he said.

The inquiry has Commonwealth Bank's full support, Chief Executive Ian Narev said. "Over the last few years there have [been] a number of highly publicized issues that have hurt public perception. We've been in the news for all the wrong reasons," he said.

The inquiry panel will take about six months to produce a report that will be made pub-

lic, the regulator said.

The inquiry won't specifically address matters that overlap with legal proceedings or reviews by other regulators.

"Australia's banks are well-capitalized, well-regulated and financially sound. However, there have been too many cases and events that have damaged their reputation and standing in the eyes of many

Australians that warrants our regulators taking action now," Australia Treasurer Scott Morrison said. Mr. Morrison recently met with Commonwealth Bank Chairman Catherine Livingstone in the wake of accusations made by the Australian Transaction Reports and Analysis Centre, or Austrac, and made it clear the government would be considering all options to address the matter.

Days after Austrac's case was filed, Mr. Narev said he would step down by mid-2018. The CEO and senior bank executives lost out on short-term bonuses for the last year through June in the wake of the allegations.

Austrac's allegations center on the use of the bank's "intelligent deposit machines," which allow anonymous deposits of up to A\$20,000 in cash at a time to be automatically credited to accounts. Austrac's allegations largely relate to a failure to provide timely reports on transactions above a A\$10,000 threshold for over three years from 2012, as well as accusations it failed to report suspicious transactions on time or at all, and of not monitoring customers even after it became aware of suspected laundering.

The bank has yet to file a response in court but has said a coding error introduced with a software upgrade accounted for most of the reporting failures alleged by the agency.

## Car-Loan Practices Come Under Scrutiny

BY EMILY GLAZER AND ANNAMARIA ANDRIOTIS

Regulators are reviewing some auto-lending procedures, including those related to borrower refunds, at several banks and other financing businesses in the wake of problems at Wells Fargo & Co., according to people familiar with the matter.

The Consumer Financial Protection Bureau and the Office of the Comptroller of the Currency are examining guaranteed-asset-protection products and the refund processes associated with them at these firms, the people said.

It isn't clear whether the regulatory reviews will lead to any action.

Wells Fargo previously had disclosed that during an internal review it discovered issues relating to the administration of so-called GAP products, particularly customer refunds.

The regulatory reviews are happening as many lenders also check up on their internal controls around the GAP products and related refunds.

Capital One Financial Corp., Santander Consumer USA Holdings Inc., and U.S. Bancorp are among banks that are reviewing their GAP product refund policies given the situation at Wells Fargo, according to people familiar with the matter. While reviews occur on a continuing basis, the banks are taking a closer look at procedures meant to ensure borrowers who are entitled to refunds are receiving them, the people said.

GM Financial, Nissan Motor Acceptance Corp., Infiniti Financial Services and Ford Motor Credit Co. are among so-called captive-finance companies checking their internal controls and refunding processes as well, people familiar with the firms said. It isn't clear whether the firms will make changes.

GAP coverage is typically sold to consumers through car dealerships. The products offer consumers additional protection beyond standard auto-in-

surance policies and are often financed as part of the customer's loan.

For instance, if a customer has an accident and the vehicle is totaled, so-called GAP waivers could help pay off the loan balance that isn't covered by the customer's primary insurance. Laws in nine states require that customers receive refunds for unused coverage periods, and the holder of the contract—the lender—often ensures this is done properly.

Some lenders use a third-party provider to oversee the refunding process. Some of those providers, including World Omni Financial Corp., have received questions from lenders following news of Wells Fargo's problems, people familiar with the matter said.

Kenneth Rojc, a lawyer at Chicago-based Nisen & Elliott LLC who manages the law firm's automotive-finance group, said some of his clients are examining whether they have the right procedures in place to implement GAP refunds. That could include how the process works, who provides the refund and whether that firm is doing so in a timely manner, he added. "Every single one of our auto-finance managers here are saying 'What are we doing? Is this something we should be concerned about?'" Mr. Rojc said.

After Wells Fargo cited the problems in a recent quarterly securities filing, The Wall Street Journal and other media reported the San Francisco Federal Reserve made an inquiry about control breakdowns related to GAP refunds. The OCC is also probing Wells Fargo's practices.

Wells Fargo spokeswoman Catherine Pulley said at the time: "During an internal review, we discovered issues related to a lack of oversight and controls surrounding the administration of guaranteed asset protection...products." She added the bank is working to make the customer refund process "more consistent for customers."

GAP coverage is typically sold to consumers through car dealerships. The products offer consumers additional protection beyond standard auto-in-

JOE RAEDLE/GETTY IMAGES  
Ford vehicles sit on a dealership's lot in Miami in May.

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## BUSINESS OPPORTUNITY

**GOVERNMENT OF MAHARASHTRA, INDIA  
P.W. Division No.2, Thane****Notice for Hybrid Annuity Project  
(Online) Tender  
E-Tender Notice No. 20 for 2017-18**

The Public Works Department, Government of Maharashtra, represented by the Executive Engineer, P.W. Division No.2, Thane (the "Authority") 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 following Projects (the "Projects") 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.

**Brief particulars of the Project are as follows:**

Sr. No.	District / State Country	Pack- age No.	Name of Project	Project Length in (km)	Project Cost (Rs.)	Earnest Money/ Bid Security (Rs.)	Duration of the Project	Cost of Tender Fee Document (Rs.)
1)	Thane Maharashtra India	MU-26	A) Improvement to Mokhada Kasara Vashala Dokhamb Tokawade/Vaishakharhe Mhasa Road SH-78 Km 44/00 to 130/540 Tal-Shahapur & Murbad, Dist-Thane. (80.35 km) B) Improvement to Shenva Kinavali Nagaoon Kalambe Dehari Road MDR-64 in Km. 0/000 to 32/400 in Tal-Shahapur & Murbad, Dist-Thane.(30.128 km)	110.478 km	176.10 Crore	1.176 Crore	24 Months	50.000/- Online payment through NEFT/ RTGS
		Total		110.478 km	176.10 Crore	1.76 Crore		

**E-Tender download period** Dt. 21.8.2017 to Dt. 24.10.2017

**Pre-Bid meeting 1** Dt. 13.09.2017 office of the Chief Engineer, Mumbai (P.W.) Region Mumbai at 3.30 pm

**Pre-Bid meeting 2** Dt. 04.10.2017 office of the Chief Engineer, Mumbai (P.W.) Region Mumbai at 3.30 pm

**E-Tender Opening date** Dt. 31.10.2017

All information about the E-tenders is available on following websites.

1) <http://mahapwd.com>  
2) <http://mahatenders.gov.in>

(Changes if any, will be displayed above websites.)

3) Notice board of the Executive Engineer, P.W. Division No.2, Thane

No. PWD No.2/Thane/E-Tender/2017/5830  
Office of the Executive Engineer,  
P.W. Division No.2, Thane,  
Maharashtra (India) - 400601.  
Date:-05/08/2017

Executive Engineer,  
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## ANNOUNCEMENTS

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## BUSINESS OPPORTUNITY

◆ As with all investments, appropriate advice should be obtained prior to entering into any binding contract. ◆

## BUSINESS OPPORTUNITY

**GOVERNMENT OF MAHARASHTRA  
SPECIAL PROJECT DIVISION, AMRAVATI  
NOTICE FOR Hybrid Annuity (Online) Tender  
E-TENDER NOTICE NO 21 FOR 2017-18****Notice Inviting Bid**

Package No. AM - 21

Dated: 18/08/2017

**Subject :- RFP for Improvement of Roads in the Amravati District in Maharashtra State for Two Laning road / Two Laning road with paved shoulders under MRIP Package AM- 21 on Hybrid Annuity Mode**

The Government of Maharashtra had entrusted to the Authority the development, maintenance and management of state highways and Major District Roads of State of Maharashtra. The Authority had resolved to augment the existing road for Improvement to Akola Mahisang Daryapur Road to Joining Akola Dist HQ to Daryapur Taluka HQ (SH 280 & SH 312), Improvement to Daryapur Walgaon Road to Joining Daryapur Taluka HQ to Amravati Dist HQ (SH 47), Improvement to Anjangaon Daryapur Murtizapur Road in Amravati Dist to Joining Anjangaon & Daryapur taluka HQ to NH-6 (SH 282) in the state of Maharashtra by [Two Lanning / Two Lanning with paved shoulders thereof] (the "Project") on design, build, operate and transfer (the "DBOT Annuity" or "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.

**Brief particulars of the Project are as follows:**

Name of the State Highway Major District Road	Length (in Km)	Estimated Project Cost (In Rs.Cr)
Improvement to roads A) Improvement to Akola Mahisang Daryapur Road to Joining Akola Dist HQ to Daryapur Taluka HQ (SH 280 & SH 312)	134.955 Km	₹ 354.82
B) Improvement to Daryapur Walgaon Road to Joining Daryapur Taluka HQ to Amravati Dist HQ (SH 47)		
C) Improvement to Anjangaon Daryapur Murtizapur Road in Amravati Dist to Joining Anjangaon & Daryapur taluka HQ to NH-6 (SH 282)		

The complete BID document can be viewed / downloaded from e-procurement portal of [<https://maharashtra.etenders.in>] from Dt. 28.08.2017 to Dt. 30.10.2017 (up to 23.00 Hrs. IST) Bid must be submitted online only at [<https://maharashtra.etenders.in>] during the validity of registration with the [Maharashtra Government e-Tendering Portal] being managed by portal / website, i.e. [<https://maharashtra.etenders.in>] on or before 30.10.2017 (upto 23.00 hours IST). Technical submissions of the Bids received online shall be opened on Dt. 06.11.2017(at 11.30 Hrs) to Dt. 10.11.2017 (at 18.00 Hrs IST).

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 06.11.2017 (at 11.00 hours IST). Please note that the Authority reserves the right to accept or reject all or any of the BIDs without assigning any reason whatsoever.

Thanking you,

Yours faithfully,  
**(A.M. Jawanjal)**  
Executive Engineer  
Special Project (P.W.) Division No.2  
Daryapur

DGIPR/2017-2018/2488

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EUROPE

## MARKETS DIGEST

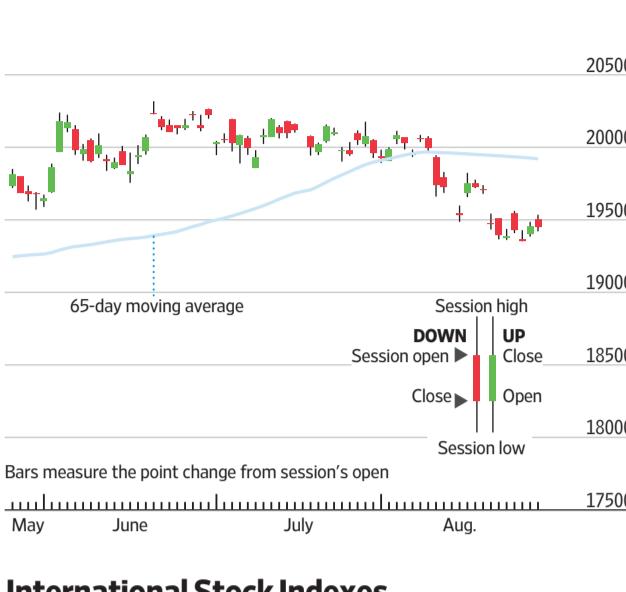
**Nikkei 225 Index**

19449.90 ▼2.71, or 0.01%

High, low, open and close for each trading day of the past three months.

Year-to-date  
52-wk high/low  
All-time high

1.76%

20230.41 16251.54  
38915.87 12/29/89

Bars measure the point change from session's open

May June July Aug. 2017

**STOXX 600 Index**

372.29 ▼1.78, or 0.48%

High, low, open and close for each trading day of the past three months.

Year-to-date  
52-wk high/low  
All-time high

3.01%

396.45 328.80  
414.06 4/15/15

## FINANCE &amp; MARKETS



Anwar Gargash, the U.A.E.'s minister of state for foreign affairs, has criticized Qatar's policies.

## Fitch Downgrades Qatar's Debt

BY NICOLAS PARASIE

DUBAI—Confidence in Qatar's creditworthiness took another hit, as Fitch Ratings downgraded the country's debt, citing concerns that the economic blockade imposed by Arab neighbors was unlikely to be lifted soon.

The move on Monday was the latest sign of worry from credit-rating firms that a diplomatic dispute between Doha and a Saudi Arabia-led bloc of countries has taken a toll on Qatar's economy and that the situation could continue to deteriorate.

Fitch lowered the energy-rich Persian Gulf nation's long-term issuer rating by one notch, to AA-minus from AA, noting that the negotiating positions between Qatar and its adversaries "remain far apart" as international efforts to resolve the diplomatic standoff make little progress.

Saudi Arabia, the United

Arab Emirates, Bahrain and Egypt accuse Qatar of promoting extremist groups and meddling in their domestic affairs, charges Doha denies. Qatar's adversaries also issued a list of 13 demands, including shutting down news broadcaster Al Jazeera and curbing ties with Tehran.

Doha has refused to agree to the demands. Last week, tensions rose further when Qatar restored full diplomatic relations with Iran. Majority Shiite Muslim Iran is Sunni Saudi Arabia's main rival for power in the Middle East.

Qatar's policy amounts to "crisis management of burning bridges," the U.A.E.'s minister of state for foreign affairs, Anwar Gargash, said following that move. "The wisdom we wished for is completely absent."

Fitch and the other ratings firms Moody's Investors Service and Standard & Poor's worry that the conflict will

pressure Doha's finances. Lower credit ratings could push up Qatar's borrowing costs.

Monday's downgrade underlines the mounting costs for Qatar since the diplomatic crisis erupted in June, when the Saudi-led bloc severed diplomatic ties and closed all air, land and sea borders shared with Qatar.

S&P said Sunday that the boycott will slow down Qatar's economy, keeping its AA-minus rating and negative outlook on the country's long-term prospects despite removing Qatar from negative CreditWatch. Moody's last month lowered its Qatar rating outlook to negative.

Until now, Qatar has weathered the initial impact of the blockade by tapping its vast reserves. But there are signs of the toll it has taken. Food prices have risen, and domestic banks have been hit by deposit outflows.

## OPEC Extension Weighed

BY SUMMER SAID  
AND BOEN FAUCON

Saudi Arabia and Russia are pushing to extend a deal to limit crude-oil output for another three months, which would leave the agreement between OPEC and non-OPEC producers in place through the end of June, people familiar with the matter said.

Saudi Arabia's energy minister, Khalid al-Falih, discussed the proposal with his Russian counterpart, Alexander Novak, in July at a meeting in St. Petersburg about compliance with the production cap, according to two of the people familiar with the matter.

The two ministers, who are the most powerful figures among the producing countries participating in the cut,

have been lobbying for support from other countries since the St. Petersburg meeting, the people said.

Neither minister responded to a request for comment.

The Organization of Petroleum Exporting Countries joined forces with 11 non-OPEC nations late last year to reach a production deal aimed at ending a global glut that has weighed on oil prices and shaken the economies of countries dependent on crude.

But so far, the pact has failed to lift oil prices to levels desired by OPEC, in part because American shale producers ramped up output. The deal also has been undermined by relatively low compliance by some producers.

An OPEC official confirmed that a three-month extension

was discussed at the St. Petersburg meeting and is being considered by OPEC leaders.

OPEC and other major oil-producing nations agreed to withhold about 1.8 million barrels a day, or about 2% of global daily output. On Monday, oil for October delivery dropped 2.7%, to \$46.57 a barrel, on the New York Mercantile Exchange as Tropical Storm Harvey knocked out refining operations along the Texas coast, which is expected to reduce refining capacity and hit U.S. crude demand. Brent crude, the global benchmark, fell 1%, to \$51.89.

The proposal to extend the deal also was discussed with other Persian Gulf producers who are part of OPEC, according to that official and another person.

## FINANCE WATCH

## REAL ESTATE

## China Evergrande's Profit Takes Off

**China Evergrande Group** said first-half net profit soared from a year earlier, partly due to an increase in the fair value of investment properties and higher property sales.

The Hong Kong-listed developer said net profit for the six months ended June 30 rose to 18.83 billion yuan (\$2.83 billion) from 2.02 billion yuan a year earlier. Revenue more than doubled to 187.98 billion yuan from 87.50 billion yuan.

—Chester Yung

## CIMB GROUP

## Lender Is Upbeat About Economy

**CIMB Group Holdings** Bhd. reported a 26% year-over-year jump in net profit for the second quarter, mainly because of higher net interest income, and earnings from Islamic banking operations.

Net profit rose to 1.10 billion ringgit (\$258.4 million) from 872.83 million ringgit in the year-earlier quarter.

CIMB, Southeast Asia's fifth-largest bank by assets, spent the past decade expanding in Southeast Asia, which has lately

been struggling with softer economic growth.

But things have turned positive in the region this year, especially at home in Malaysia, which reported faster-than-expected second-quarter economic growth of 5.8%, a pace last seen in the first quarter of 2015.

"We feel cautiously optimistic for the second half of 2017, given the strong [gross domestic product] growth for Malaysia and Indonesia, and the expected gradual improvement in Singapore and Thailand, all of which signal increased regional activity and improved capital markets," Chief Executive Zafrul Aziz said.

—Yantoultra Ngui

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# MARKETS

## Floor Traders Make a Last Stand

An era is ending in Hong Kong as exchange operator shuts once-busy hall

By STEVEN RUSSOLILLO

HONG KONG—The Hong Kong stock exchange's 31-year-old trading hall is set to close this fall, but not without some pushback from its remaining tenants.

Stock-exchange operator Hong Kong Exchanges & Clearing Ltd. said earlier this month it would shut the trading floor, one of the few remaining such venues in major global markets, in October. It plans to convert the venue into an exhibition area.

Only about 30 people now work in the trading hall on a normal day, according to HKEx, compared with nearly 1,000 during its heyday in the 1980s and 1990s. Almost all trading there is conducted electronically, the same way brokers buy and sell stocks from an external location.

Yet many brokers are struggling to accept the decision. In a letter sent to Hong Kong's government earlier this month, reviewed by The Wall Street Journal, a group of 30 remaining floor traders decried the closure, as well as the long-term difficulties faced by independent brokers.

"As Hong Kong's economy took off, the HKEX also became one of the world's most famous securities exchanges, and we all felt proud for being a member of it," a translation of the letter said.

"There are still a group of observant and conscientious people who aspire to reignite the lights here. Why can't we be of one mind and make concerted efforts to rekindle the past glory?" it said.

The rise of electronic trading since the 1990s has led to the steady demise of traditional floor trading globally, making



Nearly a thousand people worked in the trading hall, shown in 1992, in its heyday. Only about 30 work there on a normal day now.

obsolete big, open spaces where shouting and hand signals were typically used to make trades. Better technology has made trading far cheaper, allowing big players to lower the commissions they charge to clients, in turn hurting smaller brokers who are unable to withstand lower margins.

The trading floor at the New York Stock Exchange remains a rare holdout, although it has significantly pared down the number of active traders there in recent years.

"There are very few trading floors left around the world where there are substantial amounts of volume done," said Andy Nybo, a director at Burton-Taylor International Consulting. "The vast majority of cash equity trading is done electronically."

Hong Kong's stock exchange

played host to 906 trading booths at its peak, with each able to accommodate two traders. Today, there are only 62 active desks: In two trips to the exchange last week, there were only about a dozen people on the floor each time, with the ambience more akin to a library than a loud, energetic trading floor.

In the letter, the group of floor traders lamented what they see as a lack of support they have received to counter the long-term decline in brokerage fees and commissions, their main source of revenue, in the face of stiff competition from larger banks and brokerages.

"The Hong Kong exchange and the Hong Kong government have been turning a blind eye to our plight, or even didn't lift a finger to save us, using the excuse that 'Hong Kong is a free

market' to get rid of any responsibilities," the letter said. "The reason that there are fewer and fewer floor traders at the exchange was caused by the existing malignant system, and all of their contribution has been obliterated and sacrificed."

In response, HKEx said it had been working hard with market practitioners to strengthen the competitiveness of the Hong Kong financial market.

"Local brokers and other participants are important to us and we appreciate their contribution to the market," the exchange said.

Christopher Cheung Wah-fung, chief executive of Christ-fund Securities, which has a trading desk at the exchange, said although he is sad about the exchange closing its trading hall, he understands the

reasoning.

"We always told ourselves that one day this would end," he said. "We are not surprised, but we have deep feelings about this place and hope that it can still exist....Every day, we sat together and the mood was very infectious. But that feeling of solidarity is lost if we were scattered and trade from different places."

His one final wish: to get as many traders as possible back together in red jackets for a final group picture the night before the trading hall officially closes.

"That will help cement the last memory of the [trading hall] as well as show respect for all the past contributions from small traders like us," he said.

—Yifan Xie contributed to this article.

## European Shares Notch A Loss

By AKANE OTANI AND CARLA MOZEE

Strength in the euro dragged down European stocks Monday, while the S&P 500 was little changed as declines in the energy sector offset gains in shares of health-related companies.

The Stoxx Europe 600 index fell 0.5% to 372.29, logging its sixth decline in eight trading sessions as the euro held onto gains made Friday in response to a speech by Mario Draghi, president of the European Central Bank. Markets in the U.K. were closed.

In the U.S., energy stocks fell as investors struggled to gauge the fallout from Tropical Storm Harvey, which has disrupted oil-and-gas-sector operations in Texas. Anadarko Petroleum and Helmerich & Payne, a drilling company, were each down about 3% in late afternoon trading.

Shares of property-and-casualty insurers were lower as well. Travelers Cos. fell 2.6%, the biggest percentage loss among companies in the Dow Jones Industrial Average.

The Dow industrials fell 5.27 points, or less than 0.1%, to 21808.40. The S&P 500 rose less than 0.1% and the Nasdaq Composite added 0.3%.

Elsewhere, Gilead Sciences shares were up 1.5% in late trade after the biotech firm said it agreed to pay about \$11 billion to acquire Kite Pharma.

Japan's Nikkei Stock Average ended down less than 0.1%, with shares of exporters weighed down by the stronger yen. The Shanghai Composite Index gained 0.9%.

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

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## Harvey's Lessons for U.S. Energy



The U.S. imports about 25% less oil than it did a decade ago.

For more than 40 years, the U.S. has worried about the security of its oil supply. Hurricane Harvey is another reminder that the infrastructure that processes and delivers oil is in many ways more important.

After the Arab oil embargo, the U.S. began filling its Strategic Petroleum Reserve, which holds enough oil to offset 94 days of imports, according to the Energy Department. Yet it is a case of the generals fighting the last war. The U.S. imports about 25% less oil than it did a decade ago and exports over a million barrels a day, up from virtually nothing.

Harvey's hitting the Gulf Coast of Texas highlighted another potentially significant change. The U.S. relies on fewer facilities, run closer to their physical limits, to turn that crude into fuel and get it to consumers.

The U.S. has 141 operable oil refineries today, which is 79 fewer than 30 years ago. Those refineries have nearly 30% more capacity and are used much more heavily,

about 90% on average over the past 12 months. The heaviest concentration is along the Gulf Coast, where the industry has deep roots. Harvey, now downgraded to a tropical storm, has temporarily knocked out about 15% of U.S. refining capacity.

Moving the refined product to customers also falls disproportionately on a few pieces of infrastructure. The Colonial Pipeline carries over 2.5 million barrels a day, or

about half the refined product consumed along the entire East Coast. Last year saw severe disruptions to gasoline supply in the Southeast due to construction accidents along one of its sections.

Natural gas, America's main heating and power-generation fuel, is prone to disruption, too. In the aftermath of hurricanes Rita and Katrina, it was discovered that storm surges had damaged treatment plants along

the Gulf Coast. Prices hit a high a few months later, in December 2005, and supplies weren't back to normal until six months after the storm.

There is good news, too. Greater trade in oil, motor fuels and natural gas means that the market can respond more quickly to disruptions. European and Asian refiners already are scrambling to take advantage of northeastern U.S. gasoline price spikes. Meanwhile, vulnerable offshore facilities produce a much smaller share of American oil and natural gas than a decade ago, as a result of the fracking revolution.

Yet these are all happy side effects of market and geological developments, not by design. The profit motive mostly means that, in the interest of efficiency, more energy passes through fewer, busier pieces of infrastructure. Building more redundancy into the system might be costly, but failing to do so will seem foolish if a truly epic catastrophe leaves America with empty tanks and in the dark.

—Spencer Jakab

## OVERHEARD

If the use of its network as a bully pulpit by the president of the United States can't save Twitter, then what will? Maybe stopping its use as a bully pulpit.

President Donald Trump's tweets have made it the go-to place for news from the White House. He has sent out over 35,000 tweets and has nearly as many followers as two nemeses, CNN and Oprah Winfrey.

But Valerie Plame Wilson, the CIA agent famous for allegedly being "outed" by the George W. Bush administration, has been raising money to buy a "controlling interest" in Twitter for \$1 billion to kick Mr. Trump off.

It seems like a quixotic quest, in part because she had raised only \$65,000 by Friday afternoon on her GoFundMe page and because \$1 billion would buy her less than 8% of the much-diminished company at current prices.

## Evergrande Ramps Up Risky Wager

A gigantic bet on China's housing market by its biggest property developer seems to have paid off, but only by it putting off a day of reckoning once again.

**China Evergrande Group** on Monday reported a nine-fold jump in its first-half net profit, with a major boost coming from its decision to retire \$17 billion of expensive perpetual securities during the period. Interest payments on those perpetual securities had wiped out almost two-thirds of Evergrande's net income last year.

Evergrande's sales also doubled in the first half. The developer has gobbled up land in the past few years by loading up on debt, a strategy that is paying off. Despite the strong results, Evergrande's borrowing is still rising, with its net debt increasing 17% to \$61 billion since December.

Evergrande has benefited from continuing to delay full recognition of its interest expenses by capitalizing them onto its balance sheet.

Most Chinese developers do something similar, but most don't face such a big interest bill: Evergrande capitalized \$3.2 billion of interest expenses—over 80% of its bill—in the first half, equivalent to more than the net profit it made during the period.

They will eventually have to be recognized, eating into future earnings.

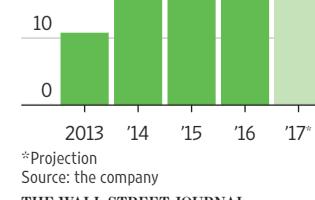
Meanwhile, there are signs that China's housing market has reached an inflection point.

Evergrande's stock has risen fivefold this year, but the shaky foundations underpinning that surge are starting to show.

—Jacky Wong

## Gilead Has Earned Benefit of the Doubt on Deal Making

### Shot in the Arm



\*Projection  
Source: the company

THE WALL STREET JOURNAL.

cancer. However, the therapy is commercially unproven, because it hasn't received regulatory approval and entails a complex manufacturing process not required for typical drugs. The company also faces significant competition from rivals. Gilead said the deal would dilute earnings for three years.

But for CEO John Milligan, standing pat was no longer a realistic option. Gilead's hepatitis C franchise, once the envy of the industry, is facing a steep decline. The company forecasts an 18% drop in total revenue this year, and Gilead's shares trade at less than seven times last year's

earnings, a significant discount to large biotech peers.

Then there was the matter of its bulging war chest. Gilead had \$36.6 billion in cash and securities on its balance sheet at the end of June.

Analyst questions about a new acquisition had become an incessant focus of earnings conference calls in recent years.

But Gilead was patient until Monday, and there is little doubt that this management team has earned investors' trust as a savvy buyer.

Gilead's acquisition in 2011 of Pharmasset, which focuses on hepatitis C, came at a 90% premium to Pharmasset's market price and sparked worry that Gilead

had overpaid, but it turned out to be one of the most successful biotech deals of all time.

It is unrealistic for investors to expect similarly great results with the Kite acquisition, but it won't necessarily be Gilead's last one. While the hepatitis C business had fallen out of favor with investors, it still generates significant amounts of cash flow. Gilead is well-positioned to make other deals if it chooses.

A bright future isn't priced into Gilead's stock. Taking the other side of that trade is a worthy idea for investors.

—Charley Grant